UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended MARCH 31, 2004

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________________ to ______________________

Commission File Number: 001-31588

COMMUNICATIONS SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

MINNESOTA	41-0957999
(State or other jurisdiction of incorporation or organization)	(Federal Employer Identification No.)

213 South Main Street, Hector, MN	55342
(Address of principal executive offices)	(Zip Code)

(320) 848-6231
Registrant's telephone number, including area code

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES [X] NO [ ]

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). YES [ ] NO [X]

APPLICABLE ONLY TO CORPORATE ISSUERS:
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

CLASS	Outstanding at April 30, 2004
Common Stock, par value $.05 per share	8,229,209

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES

Item 1. Financial Statements

CONSOLIDATED BALANCE SHEETS
(unaudited)

Assets:	March 31 2004	December 31 2003
Current assets:		
Cash	$ 19,035,064	$ 14,941,254
Trade receivables, net	21,644,633	22,647,129
Related party receivables	467,445	387,411
Inventories	23,607,400	24,354,041
Deferred income taxes	3,163,869	2,682,869
Other current assets	1,093,947	1,197,027
Total current assets	69,012,358	66,209,731
Property, plant and equipment	34,173,100	32,331,619
less accumulated depreciation	(27,127,852)	(26,499,908)
Net property, plant and equipment	7,045,248	5,831,711
Other assets:		
Excess of cost over net assets acquired	5,253,793	5,253,793
Deferred income taxes	1,252,757	1,252,757
Other assets	575,383	547,966
Total other assets	7,081,933	7,054,516
Total Assets	$ 83,139,539	$ 79,095,958
Liabilities and Stockholders' Equity:		
Current liabilities:		
Accounts payable	$ 5,229,276	$ 2,194,560
Accrued compensation and benefits	2,742,302	3,013,533
Other accrued liabilities	1,905,381	1,885,000
Dividends payable	327,415	327,397
Income taxes payable	1,333,209	837,703
Total current liabilities	11,537,583	8,258,193
Stockholders' Equity	71,601,956	70,837,765
Total Liabilities and Stockholders' Equity	$ 83,139,539	$ 79,095,958

See notes to consolidated financial statements.

COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(unaudited)

Three Months Ended March 31

	2004	2003
Sales	$ 25,249,164	$ 26,575,150
Costs and expenses:		
Cost of sales	17,312,371	19,169,361
Selling, general and administrative expenses	6,815,881	6,221,891
Total costs and expenses	24,128,252	25,391,252
Operating income	1,120,912	1,183,898
Other income and (expense):		
Investment income	33,505	22,574
Interest expense		(33,401)
Other income (expense), net	33,505	(10,827)
Income before income taxes	1,154,417	1,173,071
Income taxes	430,000	450,000
Net income	724,417	723,071
Other comprehensive income (loss):		
Foreign currency translation adjustment	50,865	(59,513)
Comprehensive income	$ 775,282	$ 663,558
Basic net income per share	$ .09	$ .09
Diluted net income per share	$ .09	$ .09
Average Basic Shares Outstanding	8,219,410	8,160,931
Average Dilutive Shares Outstanding	8,272,003	8,171,868

See notes to consolidated financial statements.

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COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Cumulative Other Comprehensive Income (Loss)	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE AT DECEMBER 31, 2002	8,142,716	$ 407,135	$ 27,613,163	$ 40,920,358	$ (69,378)	$ 68,871,278
Net income				2,717,481		2,717,481
Issuance of common stock under Employee Stock Purchase Plan	23,172	1,159	122,503			123,662
Issuance of common stock to Employee Stock Ownership Plan	32,000	1,600	253,440			255,040
Issuance of common stock under Employee Stock Option Plan	1,700	85	11,645			11,730
Purchase of common stock	(14,217)	(711)	(46,115)	(51,122)		(97,948)
Shareholder dividends				(1,308,233)		(1,308,233)
Other comprehensive gain					264,755	264,755

BALANCE AT DECEMBER 31, 2003	8,185,371	$ 409,268	$ 27,954,636	$ 42,278,484	$ 195,377	$ 70,837,765
Net income				724,417		724,417
Issuance of common stock to Employee Stock Ownership Plan	33,000	1,650	262,724			264,374
Issuance of common stock under Employee Stock Option Plan	7,455	373	53,316			53,689
Purchase of common stock	(197)	(10)	(673)	(1,056)		(1,739)
Shareholder dividends				(327,415)		(327,415)
Other comprehensive gain					50,865	50,865
BALANCE AT MARCH 31, 2004	8,225,629	$ 411,281	$ 28,270,003	$ 42,674,430	$ 246,242	$ 71,601,956

See notes to consolidated financial statements.

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COMMUNICATIONS SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Three Months Ended March 31	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 724,417	$ 723,071
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	573,441	663,551
Changes in assets and liabilities net of effects of the purchase of Image Systems Corporation:		
Trade receivables	1,664,564	(2,457,451)
Inventories	1,506,729	(4,896,469)
Other current assets	131,790	217,783
Accounts payable	1,841,939	1,327,906
Accrued expenses	(124,195)	491,736
Income taxes payable	495,506	(717,173)
Net cash provided by (used in) operating activities	6,814,191	(4,647,046)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(316,637)	(424,081)
Other assets	(169,283)	(182,151)
Purchase of Image Systems Corporation	(1,803,357)	
Net cash used in investing activities	(2,289,277)	(606,232)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of notes payable		(7,000,000)
Dividends paid	(327,397)	(325,714)
Proceeds from issuance of common stock	53,689	
Purchase of common stock	(1,739)	(675)
Net cash (used in) financing activities	(275,447)	(7,326,389)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH	(155,657)	(12,621)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,093,810	(12,592,288)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	14,941,254	19,816,328
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 19,035,064	$ 7,224,040

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Income taxes (refunded) paid	$ (65,506)	$ 1,159,892
Interest paid		53,188
Dividends declared not paid	327,415	326,947

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - CONSOLIDATED FINANCIAL STATEMENTS

The consolidated balance sheet as of March 31, 2004 and the related consolidated statements of income and comprehensive income, consolidated statements of changes in stockholders' equity and the consolidated statements of cash flows for the three-month periods ended March 31, 2004 and 2003 have been prepared by Communications Systems, Inc. and Subsidiaries (the Company or we) without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations, and cash flows at March 31, 2004 and 2003 and for the three months then ended have been made.

Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been condensed or omitted. It is suggested these condensed consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's December 31, 2003 Annual Report to Shareholders and form 10-K. The results of operations for the periods ended March 31 are not necessarily indicative of the operating results for the entire year.

In February 2004 the Company issued 33,000 shares of the Company's common stock to the Employee Stock Ownership Plan in payment of its 2003 obligation. In a noncash transaction, the Company recorded additional stockholders' equity of $262,724 (reflecting the market value of the stock at the time of the contribution) and reduced accrued expenses by the same amount.

The Company has adopted the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," but applies APB Opinion No. 25, "Accounting for Stock Issued to Employees" for measurement and recognition of stock-based transactions with its employees and accordingly no stock-based employee compensation cost is reflected in net income. If the Company had elected to recognize compensation cost for its stock based transactions using the method prescribed by SFAS No. 123, pro forma net income and net income per share would have been as follows:

	Quarter Ended March 31	
	2004	2003
Net Income		
As reported	$ 724,400	$ 723,000
Compensation expense, net of tax	$ 70,400	$ 50,300
Pro forma	$ 654,000	$ 672,700
Earnings Per Share-Basic		
As reported	$. 09	$ .09
Pro forma	$. 08	$ .08
Earnings Per Share-Diluted		
As reported	$. 09	$ .09
Pro forma	$. 08	$ .08

NOTE 2 - ACQUISITIONS

Effective March 24, 2004, the Company acquired substantially all the outstanding shares of Image Systems Corporation (Pinksheets: IMSG) for a cash purchase price per share of $.643 or approximately $2,800,000 in total consideration. Image Systems Corporation (Image Systems), located in Minnetonka, Minnesota designs, manufactures and markets high-resolution display solutions and accessories for customers in the medical imaging market or for other customers who have stringent and or unique display requirements. In addition, Image Systems has been a premier developer of video graphics products since 1988. The proforma effects of the Image Systems Corporation acquisition on our consolidated financial statements were not material to the Company's consolidated financial statements. The acquisition and operations of Image Systems are included in the Company's financial results from the purchase date March 24, 2004. In the acquisition, the estimated fair value of the following assets were acquired and liabilities assumed:

Property, plant and equipment	$ 1,434,000
Accounts receivable	576,297
Inventory	716,999
Cash	103,625
Other assets	508,770
Accounts payable	(180,162)
Accrued expenses	(254,221)
Total purchase price	2,905,308
Less cash acquired	(103,625)
Payment for purchase of Image Systems Corp., net of cash acquired	$ 2,801,683

The allocation of purchase price is preliminary and is subject to adjustment as additional information becomes available.

NOTE 3 - INVENTORIES

Inventories summarized below are priced at the lower of first-in, first-out cost or market:

	March 31 2004	December 31 2003
Finished goods	$ 15,506,180	$ 14,531,725
Raw and processed materials	8,101,220	9,822,316
Total	$ 23,607,400	$ 24,354,041

NOTE 4 - EXCESS OF COST OVER NET ASSETS ACQUIRED (GOODWILL)AND OTHER INTANGIBLE ASSETS

Goodwill represents the amount by which the purchase price and transaction costs of business the Company has acquired exceed the estimated fair value of the net tangible assets and separately identifiable assets of these businesses. The Company adopted Statement of Financial Accounting Standards (SFAS) No. 142 "Goodwill and Other Intangible Assets" on January 1, 2002. Under SFAS No. 142, goodwill and intangible assets with indefinite useful lives are not amortized, but are tested at least annually for impairment. We reassess the value of our business units and related goodwill balances at the beginning of the first

quarter of each fiscal year and at other times if events have occurred or circumstances exist that indicate the carrying amount of goodwill may not be recoverable. Accordingly, we have determined that there was no impairment as of January 1, 2004 and no events occurred during the quarter ended March 31, 2004 that indicated our remaining goodwill was not recoverable. As of March 31, 2004 the Company had net goodwill of $5,254,000. Intangible assets with definite useful lives (consisting of a royalty agreement) will continue to be amortized over its remaining life of five years. Amortization included in costs and expenses was $11,000 for the quarter ended March 31, 2004.

NOTE 5 - WARRANTY

We provide reserves for the estimated cost of product warranties at the time revenue is recognized. We estimate the costs of our warranty obligations based on our warranty policy or applicable contractual warranty, historical experience of known product failure rates, and use of materials and service delivery costs incurred in correcting product failures. Management reviews the estimated warranty liability on a quarterly basis to determine its adequacy.

The following table presents the changes in the Company's warranty liability for the three months ended March 31, 2004 and 2003, the majority of which relates to a five-year obligation to provide for potential future liabilities for network equipment sales.

	2004	2003
Beginning Balance	$ 659,684	$ 662,672
Actual warranty costs paid	(28,870)	(77,726)
Amounts charged to expense	26,499	430,229
Ending balance	$ 657,313	$ 1,015,175

NOTE 6 - SEGMENT INFORMATION

The Company classifies its businesses into five segments: Suttle, which manufactures U.S. standard modular connecting and wiring devices for voice and data communications; Austin Taylor, which manufactures British standard line jacks, patch panels, wiring harness assemblies, metal boxes, distribution cabinets and distribution and central office frames; Transition Networks and MiLAN Technology which designs and markets data transmission ,computer network and media conversion products and print servers; and JDL Technologies, (JDL), which provides telecommunications network design, specification and training services to educational institutions; Other includes Image Systems Corporation (substantially all assets purchased March 24, 2004) which designs, manufactures and markets high-resolution display solutions and accessories for customers in the medical imaging market and non allocated corporate general and administrative expenses. Information concerning the Company's continuing operations in the various segments is as follows:

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	Suttle	Austin Taylor	Transition Networks/MiLAN	JDL Technolgies	Other	Consolidated
Three Months Ended March 31, 2004						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Sales	$ 9,310,352	$ 2,741,993	$ 12,226,815	$ 970,004	$ -	$ 25,249,164
Cost of sales	7,128,927	2,390,054	7,244,009	549,381		17,312,371
Gross profit	2,181,425	351,939	4,982,806	420,623		7,936,793
Selling, general and administrative expenses	1,291,143	333,745	3,967,679	771,722	451,592	6,815,881
Operating income (loss)	$ 890,282	$ 18,194	$ 1,015,127	$ (351,099)	$ (451,592)	$ 1,120,912
Depreciation and amortization	$ 350,843	$ 91,011	$ 67,710	$ 30,000	$ 33,877	$ 573,441
Assets	$ 34,678,834	$ 6,131,888	$ 26,560,033	$ 4,837,794	$ 10,930,990	$ 83,139,539
Capital expenditures	$ 122,602	$ 19,380	$ 103,075	$ 11,580	$ 60,000	$ 316,637
Three Months Ended March 31, 2003						
Sales	$ 8,142,850	$ 1,574,111	$ 12,381,343	$ 4,476,846	$ -	$ 26,575,150
Cost of sales	6,678,963	1,660,585	7,803,336	3,026,477		19,169,361
Gross profit	1,463,887	(86,474)	4,578,007	1,450,369		7,405,789
Selling, general and administrative expenses	1,200,702	324,367	3,419,585	891,002	386,235	6,221,891
Operating income (loss)	$ 263,185	$ (410,841)	$ 1,158,422	$ 559,367	$ (386,235)	$ 1,183,898
Depreciation and amortization	$ 417,570	$ 80,172	$ 79,291	$ 45,180	$ 41,338	$ 663,551
Assets	$ 38,988,611	$ 5,085,054	$ 25,312,068	$ 7,388,535	$ 6,557,859	$ 83,332,127
Capital expenditures	$ 263,207	$ 61,302	$ 19,318	$ 78,873	$ 1,381	$ 424,081

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NOTE 7 - INCOME TAXES

In the preparation of the Company's consolidated financial statements, management calculates income taxes based upon the estimated effective rate applicable to operating results for the full fiscal year. This includes estimating the current tax liability as well as assessing temporary differences resulting from different treatment of items for tax and book accounting purposes. These differences result in deferred tax assets and liabilities, which are recorded on the balance sheet. These assets and liabilities are analyzed regularly and management assesses the likelihood that deferred tax assets will be recovered from future taxable income.

NOTE 8 - NET INCOME PER SHARE

Basic net income per common share is based on the weighted average number of common shares outstanding during each year. Diluted net income per common share takes into effect the dilutive effect of potential common shares outstanding. The Company's only potential common shares outstanding are stock options, which resulted in a dilutive effect of 52,593 shares and 10,937 shares for the periods ended March 31, 2004 and 2003, respectively. The Company calculates the dilutive effect of outstanding options using the treasury stock method. The total number of non-dilutive stock options was 1,089,962 at March 31, 2004 and 1,399,447 at March 31, 2003.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Three Months Ended March 31, 2004 Compared to Three Months Ended March 31, 2003

Consolidated sales in 2004 decreased 5% to $25,249,000 compared to $26,575,000 in 2003. Consolidated operating income in 2004 decreased slightly to $1,121,000 compared to $1,184,000 in the first quarter of 2003. The sales decrease was attributable primarily to the Company's JDL Technologies business segment (network design and training services for educational institutions) compared to the previous year. Their delays for the year 6 government technology funding (Federal E-Rate program) adversely affected CSI's revenue and profit for the first quarter of 2004.

Suttle sales increased 14% in the first quarter of 2004 to $9,310,000 compared to $8,143,000 in the same period of 2003. Sales to the major telephone companies (the Regional Bell Operating Companies ("RBOCs") increased 7% to $4,599,000 in 2004 compared to $4,320,000 in 2003. Sales to these customers accounted for 49% and 53% of Suttle's U.S. customer sales in 2004 and 2003 respectively. Contract manufacturing sales totaled $1,158,000 in the first quarter of 2004 compared to $1,164,000 in 2003. Suttle's gross margins increased in the first quarter of 2004 to $2,181,000 compared to $1,464,000 in the same period of 2003. Gross margin percentage increased to 23% in 2004 from 18% in 2003. The gross margin percentage increase was due to cost reduction measures implemented in 2003 and higher business volumes in 2004. The Company has continued to outsource more manufacturing in Asia, shifted manufacturing to the lower cost plant in Costa Rica and effective May 31, 2003 closed the final building in Puerto Rico with 25 employees. These actions all contributed to improved gross margin and operating income. Selling, general and administrative expenses increased $90,000 or 8% in the first quarter of 2004 compared to the same period in 2003. Suttle's operating income was $890,000 in the first quarter of 2004 compared to operating income of $263,000 in 2003.

Austin Taylor's sales increased 74% to $2,742,000 in 2004 compared to $1,574,000 for the three months ended March 31, 2003. Austin Taylor's gross margin increased by $438,000 in 2004 compared to the same period in 2003. Gross margin as a percentage of sales increased to 13% in 2004 compared to a negative 5% in 2003. Selling, general and administrative expenses increased to $334,000 in 2004 compared to $324,000 in 2003. The Company has implemented a 30% reduction in the Austin Taylor workforce in 2003 which has improved gross margin and has aligned overhead costs and production with existing volumes. Operating income increased by $429,000 in 2004 compared to the first quarter of 2003.

JDL Technologies, Inc. reported 2004 first quarter sales of $970,000 compared to $4,477,000 in 2003. Delays for the year 6 government technology funding (Federal E-Rate program) adversely affected JDL's sales and operating income in the first quarter of 2004. JDL completed several large educational institutional projects in the first quarter of 2003 consisting of hardware and software sales as well as design and network management services. JDL gross margins decreased by $1,030,000 in the first quarter of 2004 compared to the same period in 2003. Gross margin as a percentage of sales in 2004 increased to 43% in 2004 from 32% in 2003 due to a higher percentage of higher margin consulting and training sales in 2004 compared to 2003. Hardware and software sales were $167,000 in 2004 compared to $2,324,000 in 2003. Sales of consulting, connectivity and training services decreased in 2004 to $803,000 from $2,144,000 in 2003. Selling, general and administrative expenses decreased by 13% in 2004 to $772,000 compared to $891,000 in 2003. JDL reported an operating loss of $351,000 in the first quarter of 2004 compared to operating income of $559,000 in the first quarter of 2003.

Transition Networks / MiLAN Technology segment sales decreased by 1% to $12,227,000 in the first quarter of 2004 compared to $12,381,000 in the same period in 2003. The demand for media conversion and related products has remained strong in the first quarter of 2004 and is expected to remain a growth market for some time. Gross margin increased to $4,982,000 in 2004 from $4,578,000 in 2003 due to product mix. Gross margin as a percentage of sales increased to 41% in 2004 compared to 37% in 2003. Selling, general and administrative expenses increased to $3,968,000 in 2004 compared to $3,420,000 in 2003 due to increased sales and marketing costs. Operating income decreased slightly to $1,015,000 in 2004 compared to $1,158,000 in 2003.

Consolidated investment income was $34,000 in 2004 compared to $23,000 in 2003 due to increased cash and investment balances. Interest expense decreased by $33,000 in 2004 compared to 2003. The Company paid in full the balance of the line of credit of $7,000,000 in March of 2003 and has had no subsequent borrowings since that time. Income before income taxes decreased slightly to $1,154,000 in 2004 compared to $1,173,000 in 2003. The Company's effective income tax rate was 37% in 2004 compared to 38% in the first quarter of 2003. Distributions by Suttle Caribe, Inc. to the parent company of income earned prior to December 31, 2000 are subject to a tollgate tax at rates which, depending on various factors, range from 3.5% to 10%. The Company has provided for and prepaid tollgate taxes at a 1.75% rate on its Puerto Rico earnings for each year since 1993. The Company has recognized tollgate tax expense at the 3.5% rate on earnings from years prior to 1993 only to the extent distributions were received from Suttle Caribe, Inc. Net income was $724,000 in 2004 compared to $723,000 in 2003.

Liquidity and Capital Resources

At March 31, 2004, the Company had approximately $19,035,000 of cash and cash equivalents compared to $14,941,000 of cash and cash equivalents at December 31, 2003. The Company had working capital of approximately $57,475,000 and a current ratio of 6.0 to 1 compared to working capital of $57,952,000 and a current ratio of 8.0 to 1 at December 31, 2003.

Net cash provided by operating activities was approximately $6,814,000 in the first three months of 2004 compared to net cash used in operating activities of $4,647,000 in the same period in 2003. The increase was due primarily to a reduction of accounts receivable and inventory levels and an increase in trade and income tax payables.

Net cash used in investing activities was $2,289,000 in the first three months in 2004 compared to $606,000 in the same period in 2003. In March 2004, the Company acquired substantially all the outstanding shares of Image Systems Corporation (Pinksheets: IMSG) for a cash purchase price per share of $.643 or approximately $2,800,000 in total consideration net of cash acquired. In 2004 cash investments in new plant and equipment totaled $317,000 compared to $424,000 in 2003. Plant and equipment purchases in both years were financed by internal cash flows. The Company expects to spend $1,200,000 on capital additions in 2004.

Net cash used in financing activities was $275,000 in 2004 compared to net cash used in financing activities in 2003 of $7,326,000. In March 2003, the Company paid in full the balance of the line of credit, which was $7,000,000. The Company purchased and retired 197 shares of its stock in open market transactions during the 2004 period. At March 31, 2004 Board authorizations are outstanding to purchase an additional 283,270 shares. Cash dividends paid in the first quarter of 2004 was $327,000. There were no additional borrowings on the line of credit during the first quarter of 2004.

In the opinion of management, based on the Company's current financial and operating position and projected future expenditures, sufficient funds are available to meet the Company's anticipated operating and capital expenditure needs.

Critical Accounting Policies

Our critical accounting policies, including the assumptions and judgements underlying them, are discussed in our 2003 Form 10-K in Note 1 Summary of Significant Accounting Policies included in our Consolidated Financial Statements. There were no significant changes to our critical accounting policies during the three months ended March 31, 2004. These policies have been consistently applied in all material respects and disclose such matters as allowance for doubtful accounts, sales returns, inventory valuation, warranty expense, income taxes, revenue recognition, asset and goodwill impairment recognition and foreign currency translation. On an ongoing basis, we evaluate our estimates based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the result of which form the basis for making judgements about the carrying value of assets and liabilities that are not readily apparent from other sources. Results may differ from these estimates due to actual outcomes being different from those on which we based our assumptions. Management on an ongoing basis reviews these estimates and judgements.

Recently Issued Accounting Pronouncements

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity", which provides standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. The Statement is effective for financial instruments entered into or modified after May 31, 2003 and for pre-existing instruments as of the beginning of the first interim period beginning after June 15, 2003. The adoption of this standard did not have a material effect on our consolidated financial position or results of operations.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" (VIE), an Interpretation of ARB No. 51 , which requires all VIEs to be consolidated by the primary beneficiary. The primary beneficiary is the entity that holds the majority of the beneficial interests in the VIE. In addition, the interpretation expands disclosure requirements for both VIEs that are consolidated as well as VIEs from which the entity is the holder of a significant amount of the beneficial interests, but not the majority. In October 2003, the FASB agreed to defer the effective date so that a public company would not need to apply the provisions of the interpretation to VIE interests acquired before February 1, 2003, until the end of the first interim or annual period ending after December 15, 2003. Because we believe we have no variable interest entities, we do not expect that the adoption of this new standard will have a material effect on our consolidated financial position or results of operations.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

The Company has no freestanding or embedded derivatives. All contracts that contain provisions meeting the definition of a derivative also meet the requirements of, and have been designated as normal purchases or sales. The Company's policy is to not use freestanding derivatives and to not enter into contracts with terms that cannot be designated as normal purchases or sales.

The vast majority of our transactions are denominated in U.S. dollars; as such, fluctuations in foreign currency exchange rates have historically not been material to the Company. At March 31, 2004 our bank line of credit carried a variable interest rate based on the London Interbank Offered Rate (Libor) plus 2%. The Company's investments are money market type of investments that earn interest at prevailing market rates and as such do not have material risk exposure.

Based on the Company's operations, in the opinion of management, no material future losses or exposure exist relative to market risk.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

The Company's Chief Executive Officer, Curtis A. Sampson, and Chief Financial Officer, Paul N. Hanson, have evaluated the Company's disclosure controls and procedures as of the end of the period covered by this report. Based upon that review, they have concluded that these controls and procedures are effective in ensuring that material information related to the Company is made known to them by others within the Company.

(b) Changes in Internal Control over Financial Reporting

There have been no significant changes in internal control over financial reporting that occurred during the fiscal quarter covered by this report that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

PART II. OTHER INFORMATION

Items 1 - 4. Not Applicable

Item 5. Exhibits and Reports on Form 8-K.

(a) The following exhibits are filed herewith:

- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rules 13a-14 and 15d-14 of the Exchange Act).
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rules 13a-14 and 15d-14 of the Exchange Act).
- 32. Certifications pursuant Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C.ss.1350).

(b) Reports on Form 8-K.

On March 10, 2004, the Company filed a current report on Form 8-K with the Securities and Exchange Commission, reporting under Items 7 and 12 its fourth quarter 2003 earnings release to shareholders.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereto duly authorized.

Communications Systems, Inc.

By /s/ Curtis A. Sampson

Curtis A. Sampson
Chairman and
Chief Executive Officer

Date: May 12, 2004

/s/ Paul N. Hanson

Paul N. Hanson
Vice President and
Chief Financial Officer

Date: May 12, 2004

Exhibit 31.1

Certification

I, Curtis A. Sampson certify that:
1. I have reviewed this Form 10-Q of Communications Systems, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By /s/Curtis A. Sampson

Curtis A. Sampson
Chief Executive Officer

Date: May 12, 2004

Exhibit 31.2

Certification

I, Paul N. Hanson, certify that:

1. I have reviewed this Form 10-Q of Communications Systems, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By /s/Paul N. Hanson

Paul N. Hanson
Chief Financial Officer

Date: May 12, 2004

Exhibit 32

Certification

The undersigned certify pursuant to 18 U.S.C.ss.1350, that:

(1) The accompanying Quarterly Report on Form 10-Q for the period ended March 31, 2004 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 12, 2004

/s/ Curtis A. Sampson

Chief Executive Officer

Date: May 12, 2004

/s/ Paul N. Hanson

Chief Financial Officer