

About Communications Systems, Inc.

Communications Systems, Inc. is a global company with design, production and distribution facilities around the world that provides a growing family of physical and electronic connectivity infrastructure and services for voice, data and video communications. The Company's product families include a broad range of copper-based and fiber optic connection devices, digital subscriber line filters and connection devices, structured wiring systems that support Local Area Networks, media conversion devices and switches.

FINANCIAL HIGHLIGHTS

(in thousands except per share amounts)

	2007	2006	2005
Sales from Continuing Operations	\$ 121,243	\$ 115,440	\$ 115,382
Gross Margin from Continuing Operations	42,886	38,587	37,521
Operating Income from Continuing Operations	10,263	5,025	5,870
Income from Continuing Operations	7,511	4,495	4,590
Net Income	7,511	4,495	4,470
Basic Net Income (Loss) per Share:			
Continuing Operations	\$.86	\$.52	\$.53
Discontinued Operations			(.01)
	\$.86	\$.52	\$.52
Diluted Net Income (Loss) per Share:			
Continuing Operations	\$.85	\$.51	\$.52
Discontinued Operations			(.01)
	\$.85	\$.51	\$.51
Average Dilutive Shares Outstanding	8,831	8,807	8,716
Working Capital	\$ 68,999	\$ 68,956	\$ 67,048
Total Assets	100,760	92,723	92,883
Stockholders' Equity	84,931	82,545	79,851

A Message from the CFO



David T. McGraw

First of all, I am honored to have been appointed to the position of CFO of Communications Systems, Inc. After several years in operational management I am looking forward to applying my background and experience, as well as earlier experience in accounting and finance, to my new role as CFO. My staff and I will do our best to uphold the very high standards that have been passed on to me from my predecessor, Paul Hanson.

In early 2008 we have been working closely with both our outside auditors and Sarbanes-Oxley consultants to finalize our 2007 financial statements and work on SOX compliance. We are also gathering as much information as possible from both Mr. Hanson and Mr. Charles Braun (our former Corporate Controller) who is also retiring from CSI following 20 plus years of outstanding service.

The finance team at CSI is committed to bringing you the same level of dedication and service as you have come to expect under the guidance of Mr. Hanson, and we appreciate your support.



A Message from Curtis A. Sampson, Chairman

PASSING THE TORCH

Effective June 2007 the role of CEO of Communications Systems, Inc. was passed on smoothly to Jeffrey K. Berg. Through many years of management roles, Jeff demonstrated he was the person to lead CSI into the future. The Company's progress and evolution since then has proven to exceed expectations, which bodes well for the future. Jeff earned the right to lead the Company and clearly has the admiration and respect of the entire CSI team, Board of Directors and Shareholders.

A LOOK BACK

Communications Systems, Inc. was founded in Hector, Minnesota in 1970 by eleven investors who were well aware of the communications business opportunity their \$325,000 of equity was making possible. Three initial employee investors (Jack Ortman, Jim Ericson and I) remain as significant shareholders today. We believed the previous fifteen years spent building a very successful communications business headquartered in Hector provided the experience and courage to launch CSI. Four of the non-employee investors were Hector professional people who were close friends, and who had witnessed the prior success. Three of the eight original "outside" investors are Paul Anderson, currently a CSI director, and former CSI directors Joseph Parris and William B. McCallum.

During the 37 years I served as Chairman & CEO, CSI's success created three highly successful public companies and numerous other business enterprises. Two companies were spun off and later sold for \$231 million net to CSI shareholders, or \$33 for each CSI share. The many public offerings, spin offs, acquisitions, divestitures, business unit consolidations, stock splits and years of cash dividends were only possible due to our dedicated employees and directors, many of whom continue in key roles today.

Paul Hanson and Chuck Braun, former CFO and Corporate Controller, respectively, other retiring personnel and I have stepped aside for the new management team, which has been in key roles and closely associated with the success CSI has enjoyed. We are confident all CSI shareholders will be well served into the future.

I'd like to take this opportunity to express my gratitude to all CSI employees, directors and shareholders, who have continually shown their support to me and our Company.

To Our Shareholders

2007 IN REVIEW

2007 was a very exciting year for Communications Systems with changes in management, a new building, new products, a new facility in China and ever changing technology. We realized that we are beginning a new era. As we enter this new era, our primary goal is to build on the existing solid foundation, while transforming Communications Systems and our business units into a company recognized as an outstanding partner for our customers, a consistently strong financial performer and a great place to work. I believe we began making significant strides in each of these areas in 2007 and will continue in 2008 and beyond. We also reaffirmed our commitment to the highest standards of ethics and integrity.

All four of our business units – Austin Taylor, JDL Technologies, Suttle and Transition Networks reported profitable results in 2007. Additional comments on each of the business units are covered later in the Annual Report by each of the business unit leaders, as well as comments by CSI's Corporate staff.

STRONG FINANCIAL POSITION

Communications Systems continues to generate cash closing the year at \$29,430,000 even though we used approximately \$6.7 million cash in 2007 to repurchase our stock and for part of the funds used to purchase and build-out our new building in Minnetonka. The current ratio continues at a lofty 7 to 1. Shareholders' equity at December 31, 2007, was \$84,931,000. During the year, the Company paid a cash dividend of \$.42 compared to \$.34 in 2006.

RESULTS OF OPERATIONS

Net income increased 67% to \$7,511,000 or \$.85 per diluted share for the twelve months ending December 31, 2007, compared to \$4,495,000 or \$.51 per diluted share in the same period in 2006. Sales in 2007 increased 5% to \$121,243,000 from \$115,440,000 in 2006. For the year ending December 31, 2007, operating income increased 104% to \$10,263,000 compared to \$5,025,000 in 2006. Our 2007 results include a \$834,000 profit on the sale of a 34,500 square foot building no longer needed when we purchased our new 105,000 square foot building in Minnetonka, Minnesota.

A SPECIAL THANK YOU

2007 saw the retirements of the only Chief Executive Officer and the only Chief Financial Officer Communications Systems has had in its 37 year history. Curtis Sampson, founder of CSI retired as CEO in June, and will continue as Chairman of the Board of Directors. Paul Hanson, CFO since 1982, announced his retirement effective December 31, 2007. All of us at CSI thank them both for all the years of support, direction, leadership and, most of all, the care shown to each one of us as part of the CSI family. We will continue to rely on their vast experience and knowledge in the future.

POSITIVE OUTLOOK FOR 2008

Communications System's solid history provides us with a strong foundation on which to build the next generation of innovation, leadership and forward thinking processes. This is truly an exciting time to be part of CSI. We have made excellent progress in strengthening our organization and laying the groundwork for sustainable, improved performance. While there is a lot more to do, we believe we have the right strategy in place and the right people to make it happen. We look forward to the opportunities ahead. With continued efforts, CSI "THE NEXT GENERATION" will launch us into even greater success. Thank you to all our employees for your support and actions, to our Board of Directors for your continued dedication, counsel and support, and to our shareholders for the trust you have placed in us. We look forward to sharing this exciting journey with you!

Sincerely,



Curt A. Sampson



Jeffrey K. Berg



HUMAN RESOURCES



Karen Nesburg Bleick
Director of
Human Resources

The Human Resources group for Communications Systems, Inc. strives to contribute value at every level of the organization, assisting in the growth and on-going success of each business unit and CSI as a whole. In 2007, we supported the successful transition of internal and external candidates into many management and executive positions.

Initiatives going forward include heightened training initiatives for managers, expanded Company communications across all divisions, improved reporting on relevant HR metrics and continued responsiveness to employees and managers on a wide variety of topics to assist them in being successful within the organization.

With a focus on a CSI family of companies, we strive to communicate a consistent vision at the corporate level while still encouraging an individualized culture at each business unit.

NEW COMMUNICATIONS SYSTEMS, INC. WORLD CORPORATE HEADQUARTERS

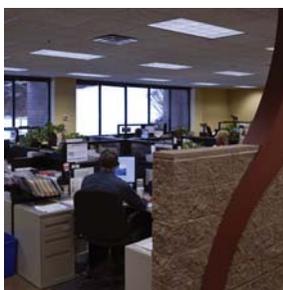
CSI began consolidation of its Twin Cities operations into a single facility in 2007. In July CSI purchased a 105,000 square foot facility on Red Circle Drive in Minnetonka and began the process of renovation. Moving the operations of CSI Corporate, JDL, Suttle and Transitions Networks to the new facility began in early January 2008 and was completed in February 2008.

The integration of all CSI Twin City metro functions into a single building will facilitate increased operational efficiencies and greater levels of Company and personnel interactions. The acquisition of the new facility is more than about facility consolidation. As our new world headquarters, the facility will play an important role in achieving our next generation objectives.



Pete Nelson

All of us at Communications Systems would like to thank Pete Nelson for leading the effort which made the build-out and move very smooth and successful.



Special Thanks

CURTIS SAMPSON



After 37 years leading Communications Systems, Inc., Curtis A. Sampson (“Curt” to everyone who knows him) retired as Chief Executive Officer in June 2007. Curt was the principal founder of CSI and his efforts over many years of building a prosperous company brought jobs to Minnesota, Illinois, Puerto Rico, Costa Rica, California and North Wales, UK, to name a few places.

His background in finance and attention to detail made CSI a financially strong company from the beginning. In addition to his tremendous contributions to making CSI the company it is today, Curt is very generous with his time and knowledge by belonging to many boards and associations, while always having time for everyone he comes into contact with on a daily basis. As our only CEO until last year, he set the bar very high for all who follow. Curt is continuing as Chairman of the Board of Directors and will be consulting with the current CSI management team on business development and acquisition opportunities.

All past and present employees, shareholders and customers thank Curt and wish him well as he devotes more time to his family and his many interests, which include vacation homes, Thoroughbred racing and his latest accomplishment of becoming a private pilot.

PAUL HANSON

Paul N. Hanson decided to retire from Communications Systems as its Chief Financial Officer and Vice President of Finance position effective December 31, 2007. Paul joined CSI on April 28, 1982 and served as the first and only Chief Financial Officer and Vice President of Finance until his retirement. We are all very grateful for Paul’s distinguished and dedicated service. His enormous contributions over the years have helped make Communications Systems financially strong and a great place to work. In the future, Paul will serve on the Company’s Finance Committee allowing the company to benefit from his years of experience and knowledge.

We wish Paul well as he devotes more time to his family, his new home in Arizona and his many other interests, including golf. He will be missed.





Michael K. Griffith
Managing Director

Austin Taylor remained profitable through 2007 despite a 10% decrease in revenues. Improved gross margins from 21% in 2006 to 24% in 2007 were achieved.

Revenues suffered when a metal cabinet customer migrated to a polycarbonate design product and were also adversely affected by quality issues experienced by one of our off-shore manufacturers. Both of the above issues have been addressed, and management expects to see growth in its metal cabinet facility in 2008.

These actions, combined with the introduction of new product offerings from off-shore manufacturers, the introduction of new catalogs, and a new web site will result in a modest growth in Revenues and profitability in 2008.



In 2007 we were able to concentrate on organizing the Company for profitability. Mid year we shed three money-losing JDL businesses. In addition, we changed our business development focus from pursuing business nationwide (many times in areas where JDL had no presence or known contractors) to a geographical focus with our South Florida office as the epicenter. To date, that effort has included new business from Miami-Dade County Public Schools. We are also evaluating diversification outside the K-12 market segment for our products and services.

JDL's business with the U.S. Virgin Islands Department of Education (VIDOE) continues to be challenging. On March 25, 2008, we received Funding Decision Commitment letters for our WAN and Internet services for funding Year 10 (July 2007 – June 2008). JDL has consistently provided all contracted services during this period but was unable to bill and get paid for the services until VIDOE received the Funding Decision Commitment letter. We are also pleased that an investigation by the Department of Justice relating to our work for VIDOE that consumed time and resources in 2006 was largely quiet in 2007.

Thanks to our dedicated South Florida, Virgin Islands and corporate team members, JDL returned to profitability in 2007.



Michael J. Skucius
Vice President &
General Manager

SUTTLE



Bruce C. Blackwood
Vice President &
General Manager

Suttle continues to build on its successful initiative of delivering service provider customers with “best in class” Customer Premise Equipment (CPE) for enhanced network deployments. Year 2007 saw the anticipated shift of Suttle products from traditional voice products to structured cabling products sold in telco Fiber-To-The-Home (FTTH) initiatives, as well as for Multiple System Operators (MSOs) voice and data networks.

In 2008 the Suttle SOHO Access (Small Office Home Office) product family of structured cabling solutions continues to be the standard for the three major telco providers as they set their sights on multi-family housing opportunities as a result of the single family home building slow down. Year 2008 also brings growing interest and opportunities with the Independent Local Exchange Carrier (ILEC) telephone companies. This is in addition to international activity for the SOHO Access line with deployments into both MSO and telco triple play networks in the Canadian market. Suttle also continues to manage its Traditional, Corroshield, and DSL product lines to maximize profitability in the maturing voice market.

TRANSITION **NETWORKS®**

In 2007 Transition Networks experienced a challenging start, but had a rebound in revenues in the middle of the year. While the Company did not achieve the revenue growth targeted for 2007, lowering expenses and product costs provided a strong year over year growth in profitability. Growth in targeted geographical areas, such as South America, Southeast Asia and Eastern Europe, were also a highlight of the year.

The growth in these geographic areas and key vertical markets, such as service provider, industrial, and security, will carry the positive momentum into 2008. Transition Networks has a solid base in the enterprise market in the United States, will continue to grow in the new vertical markets and will make further investments in growth outside the United States.

The new facility in Shanghai, China became fully operational in 2007. It is staffed with a team of engineers to augment Transition Networks current engineering resources. Further investments in engineering and other operations will be made in 2008 to facilitate the development and sales of new products in Asia and around the world.



William G. Schultz
Vice President &
General Manager



From left to right; Bruce C. Blackwood, William G. Schultz, Jeffrey K. Berg, Michael J. Skucius & David T. McGraw

OFFICERS



- Curtis A. Sampson***Chairman of the Board
 - Jeffrey K. Berg***President and Chief Executive Officer
 - David T. McGraw***Chief Financial Officer
 - Michael J. Skucius**Vice President and General Manager – JDL Technologies
 - William G. Schultz**Vice President and General Manager – Transition Networks
 - Bruce C. Blackwood**Vice President and General Manager – Suttle
 - Michael K. Griffith**Managing Director – Austin Taylor
 - Ramon L. Burton**Controller
 - Karen Nesburg Bleick**Director of Human Resources
- *Corporate Officer

BOARD OF DIRECTORS

- Curtis A. Sampson**Chairman of the Board
- Jeffrey K. Berg**President and Chief Executive Officer
- Paul J. Anderson**Private Investor
- Edwin C. Freeman**Vice President and General Manager, Bro-Tex, Inc.
- Luella Gross Goldberg**Director of several corporations
- Gerald D. Pint**Retired Vice President, Telecom Systems, Group, 3M Company
- Randall D. Sampson**President and Chief Executive Officer, Canterbury Park Holding Corporation

CORPORATE INFORMATION

Corporate Headquarters

Communications Systems, Inc.
10900 Red Circle Drive
Minnetonka, Minnesota 55343
952-996-1674

Transfer Agent and Registrar

Wells Fargo Bank, N.A.
South St. Paul, Minnesota

Independent Auditor

Deloitte & Touche LLP
Minneapolis, Minnesota

Corporate Counsel

Lindquist & Vennum P.L.L.P.
Minneapolis, Minnesota

The Company maintains a website at www.commsystems.com. Our annual reports on Form 10-K, our quarterly reports on Form 10-Q and our periodic reports on Form 8-K (and any amendments to these reports) are available free of charge by linking from our website to the Securities & Exchange Commission website.

COMMON STOCK INFORMATION

The Company's common stock is traded on the American Stock Exchange ("AMEX") under the trading symbol JCS.

The table below presents the range of high and low trading prices for the Company's stock for 2007 and 2006 as reported by AMEX.

Quarter	2007		2006	
	High	Low	High	Low
First	\$11.33	\$9.51	\$12.29	\$10.30
Second	11.47	9.41	11.54	9.34
Third	11.65	9.79	10.82	8.72
Fourth	12.02	9.50	10.70	8.65

COMMUNICATIONS SYSTEMS, INC ANNUAL MEETING OF SHAREHOLDERS

Wednesday, May 21, 2008
10:00 a.m. Central Daylight Time
Communications Systems, Inc.
10900 Red Circle Drive
Minnetonka, MN 55343

DIVIDEND INCREASES

CSI continued its plan to increase dividends as the Board declared a cash dividend of \$.10 paid January 1, 2007, April 1, 2007 and July 2, 2007, and \$.12 paid October 1, 2007. At the Board meeting held March 6, 2008 a dividend of \$.12 per share was declared for payment on 4/1/08.

Forward Looking Statements

From time to time, in this report and otherwise, the Company makes "forward looking statements" concerning possible or anticipated future financial performance, business activities, plans, resolution of pending claims, investigations, or litigation, which are typically preceded by the words "believes", "expects", "anticipates", "intends" or similar expressions. For such forward-looking statements the Company claims the protection of the safe harbor for forward-looking statements contained in federal securities laws. Shareholders and the investing public should understand that such forward looking statements are subject to risks and uncertainties which could cause actual performance, activities, anticipated results, outcomes or plans to differ significantly from those indicated in the forward-looking statements, including those risks and uncertainties described under Item 1A of the enclosed Annual Report on Form 10-K.