EVERGREEN UTILITIES & HIGH INCOME FUND
Form N-CSRS
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSRS

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-21507

Evergreen Utilities and High Income Fund

(Exact name of registrant as specified in charter)

200 Berkeley Street Boston, Massachusetts 02116

(Address of principal executive offices) (Zip code)

Michael H. Koonce, Esq. 200 Berkeley Street Boston, Massachusetts 02116

(Name and address of agent for service)

Registrant's telephone number, including area code: (617) 210-3200

Date of fiscal year end: August 31

Date of reporting period: February 28, 2009

Item 1 - Reports to Stockholders.

Evergreen Utilities and High Income Fund

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The fund will file its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The fund's Form N-Q will be available on the SEC's Web site at http://www.sec.gov. In addition, the fund's Form N-Q may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the Public Reference Room may be obtained by calling 800.SEC.0330.

A description of the fund's proxy voting policies and procedures, as well as information regarding how the fund voted proxies relating to portfolio securities during the most recent 12-month period ended June 30, is available by visiting our Web site at EvergreenInvestments.com or by visiting the SEC's Web site at http://www.sec.gov. The fund's proxy voting policies and procedures are also available without charge, upon request, by calling 800.343.2898.

Mutual Funds:

Evergreen Investment Management Company, LLC is a subsidiary of Wells Fargo & Company and is an affiliate of Wells Fargo & Company's other Broker Dealer subsidiaries.

LETTER TO SHAREHOLDERS

April 2009

W. Douglas Munn

President and Chief Executive Officer

Dear Shareholder:

We are pleased to provide the Semiannual Report for Evergreen Utilities and High Income Fund for the six-month period ended February 28, 2009 (the "period").

During the latter half of 2008, one of the worst periods in the history of the financial markets developed as the crises in housing and credit forced the economy into recession, and as a result, the financial markets fell into turmoil. Previously venerable financial institutions fell as distrust prevailed and counter-party risk, whether real or imagined, escalated. Inter-bank lending ceased to exist, and the credit markets froze.

In early 2009, layoff announcements accelerated, further pressuring personal consumption and business investment. The equity markets continued to suffer, as weakness in economic data and corporate profits persisted. In addition, investors in all markets were trying to grasp the ramifications of a variety of federal proposals to combat the recession and the financial crisis. International markets were hit hard as economies in both developed and emerging countries remained weak. In the fixed income markets, high yield bonds recovered from the extreme weakness experienced last year and municipal securities also climbed higher.

During this period of unprecedented events, the management of Evergreen Utilities and High Income Fund maintained an emphasis on the pursuit of a high level of current income and moderate capital growth for investors. The management invested in both common stocks and convertible securities, while also keeping a substantial allocation to high yield corporate bonds.

As we look back over the extraordinary series of events during the period, we believe it is vitally important for all investors to keep perspective and remain focused on their long-term strategies. We continue to urge investors to pursue fully diversified strategies in order to participate in future market gains and limit the risks of potential losses. If they haven't already done so, we encourage individual investors to work with their financial advisors to develop a diversified, long-term strategy. Investors should keep in mind that the economy and the financial markets have had long and successful histories of adaptability, recovery, innovation and growth. Proper asset allocation decisions can have significant impacts on the returns of long-term portfolios.

LETTER TO SHAREHOLDERS continued

Please visit us at **EvergreenInvestments.com** for more information about our funds and other investment products available to you. Thank you for doing business with Evergreen Investments.

Sincerely,

W. Douglas Munn

President and Chief Executive Officer

Evergreen Funds

LETTER TO SHAREHOLDERS continued

Notices to Shareholders:

- On December 31, 2008, Wachovia Corporation merged with and into Wells Fargo & Company ("Wells Fargo"). As a result of the merger, Evergreen Investment Management Company, LLC ("EIMC"), Tattersall Advisory Group, Inc., First International Advisors, LLC, Metropolitan West Capital Management, LLC, Evergreen Investment Services, Inc. and Evergreen Service Company, LLC, are subsidiaries of Wells Fargo.
- Effective January 1, 2009, W. Douglas Munn became President and Chief Executive Officer of the Evergreen Funds.

FINANCIAL HIGHLIGHTS

(For a share outstanding throughout each period)

	Six Months Ended February 28, 2009 (unaudited)	Year Ended August 31,				
		2008	2007	2006	2005	2004[1]
Net asset value, beginning of period	$ 17.50	$ 24.05	$23.16	$25.43	$19.76	$19.10[2]
Income from investment operations						
Net investment income (loss)	0.31[3]	2.49[3]	2.81[3]	4.07[3]	1.80	0.77
Net realized and unrealized gains or losses on investments	(7.12)	(4.18)	2.37	(0.51)	5.64	0.34
Distributions to preferred shareholders from[3]						
Net investment income	0	(0.33)	(0.30)	(0.39)	(0.15)	(0.02)
Net realized gains	0	0	(0.20)	(0.02)	(0.04)	0
Total from investment operations	(6.81)	(2.02)	4.68	3.15	7.25	1.09
Distributions to common shareholders from						
Net investment income	(1.14)	(2.76)	(3.79)	(2.76)	(1.58)	(0.30)
Net realized gains	0	(1.77)	0	(2.67)	0	0
Total distributions to common shareholders	(1.14)	(4.53)	(3.79)	(5.43)	(1.58)	(0.30)
Offering costs charged to capital for						

Common shares	0	0	0	0	0	(0.04)
Preferred shares	0	0	0	0.01 [3,4]	0	(0.09)
Total offering costs	0	0	0	0.01	0	(0.13)
Net asset value, end of period	$ 9.55	$ 17.50	$24.05	$23.16	$25.43	$19.76

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Market value, end of period	$ 9.17	
All directors and executive officers as a group (12 persons)	1,910,272(15)	22.5%

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* Indicates less than one percent ownership.
A Director or a Named Executive Officer of the Company.

(1) Includes 1,065,079 shares owned by Mr. Curtis A. Sampson directly, 7,000 shares held indirectly in a 1989 irrevocable trust, 16,323 shares owned by his spouse, as to which beneficial ownership is disclaimed, 11,124 shares held by the Sampson Family Foundation, a charitable foundation of which Mr. Sampson is the sole trustee, 6,000 shares that may be purchased within 60 days from the date hereof pursuant to outstanding stock options, and 537,268 shares owned by the Communications Systems, Inc. Employee Stock Ownership Plan (CSI ESOP) of which Mr. Sampson is a Trustee. Mr. Sampson disclaims any beneficial ownership of shares owned by the CSI ESOP in excess of the 41,354 shares allocated to his CSI ESOP account as of December 31, 2009.

(2) Includes 81,669 shares owned by Mr. Hanson directly, 1,411 shares owned by Mr. Hanson s spouse, as to which Mr. Hanson disclaims beneficial ownership, 537,268 shares owned by the CSI ESOP, of which Mr. Hanson is a Trustee. Mr. Hanson disclaims any beneficial ownership of shares owned by the CSI ESOP in excess of the 23,198 shares allocated to his CSI ESOP account as of December 31, 2009.

(3) The aggregate number of shares held by Dimensional Fund Advisors LP (Dimensional) is owned by four investment companies and certain other commingled group trusts and separate accounts. Dimensional possesses investment and/or voting power over the securities as reported on the most recent Schedule 13G filed with the Securities and Exchange Commission on March 8, 2010.

(4) Includes 19,051 shares owned by Mr. Berg directly, 537,268 shares owned by the CSI ESOP, of which Mr. Berg is a Trustee. Mr. Berg disclaims any beneficial ownership of the shares owned by the CSI ESOP in excess of the 20,697 allocated to his CSI ESOP account as of December 31, 2009.

(5) The aggregate number of shares listed above includes shares owned by Albert Investment Associates, L.P., shares owned by Ira Albert personally, and shares owned by accounts over which Ira Albert has discretionary voting and dispositive authority, as reported on the most recent Schedule 13G/A filed with the Securities and Exchange Commission on September 17, 2008.

(6) The aggregate number of shares listed above are held by Putnam, LLC and Putnam Advisory Company, LLC, a wholly-owned subsidiary of Putnam, LLC, as reported on the most recent Schedule 13G/A filed with the Securities and Exchange Commission on February 14, 2003.

(7) The aggregate number of shares indicated includes shares owned by Gabelli Funds, LLC, by GAMCO Asset Management, Inc., by Teton Advisors, Inc. and by Mario J. Gabelli. Mario J. Gabelli is deemed to have beneficial ownership of the securities owned by each of the foregoing persons according to the most recent Schedule 13D filed with the Securities and Exchange Commission on March 6, 2010.

(8) Includes 9,267 shares owned by Mr. Freeman directly, 2,100 shares owned by his spouse, as to he disclaims beneficial ownership, and 30,000 shares that may be purchased pursuant to currently exercisable stock options.

(9) Includes 6,400 shares owned directly by Ms Goldberg, and 30,000 shares that may be purchased pursuant to currently exercisable stock options.

(10) Includes 3,000 shares that may be purchased by Mr. Lacey pursuant to currently exercisable stock options.

(11) Includes 1,000 shares owned directly by Mr. Pint and 30,000 shares that may be purchased pursuant to currently exercisable stock options.

(12) Includes 32,524 shares owned by Mr. Randall Sampson directly, 28,300 shares owned by his children, and 30,000 shares that may be purchased pursuant to currently exercisable stock options. Mr. Randall D. Sampson is the son of Mr. Curtis A. Sampson.

(13) Includes 1,655 shares owned by Mr. McGraw directly and 4,775 shares allocated to his CSI ESOP account.

(14) Consists of 4,236 shares allocated to Mr. Schultz s CSI ESOP account.

(15) Includes 1,186,157 shares owned by officers and directors as a group directly, 46,723 shares held by their respective spouses and children, 11,124 shares held by the Sampson Family Foundation, a charitable foundation of which Mr. Sampson is the sole trustee, 129,000 shares that may be purchased by directors and officers within sixty days from the date hereof pursuant to outstanding stock options, and shares owned by the CSI ESOP. Messrs. Curtis A. Sampson, Jeffrey K. Berg and Paul N. Hanson serve as Trustees of the CSI ESOP; Messrs. Berg, C. Sampson and P. Hanson disclaim beneficial ownership of the 537,268 shares held by the CSI ESOP, except for shares allocated to their respective accounts

* Indicates less than one percent ownership.

Section 16(a) Beneficial Ownership Reporting Compliance

The Company officers, directors and beneficial holders of 10% or more of the Company s securities are required to file reports of their beneficial ownership with the Securities and Exchange Commission on Forms 3, 4 and 5. According to the Company s records, all reports required to be filed during this period pursuant to Section 16(a) were timely filed.

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Performance Evaluation

The graph below compares the total cumulative shareholders' return on the Company's Common Stock for the period from the close of the NASDAQ Stock Market -- U.S. Companies on December 31, 2004 to December 31, 2009, with the total cumulative return on the CRSP Total Return Index for the Nasdaq Stock Market-U.S. Companies (the "CRSP Index") and the CRSP Index for Nasdaq Telecommunications Stocks (the "Peer Index") over the same period. The index level for the graph and table was set to $100 on December 31, 2004 for the Common Stock, the CRSP Index and the Peer Index and assumes the reinvestment of all dividends.

EXECUTIVE COMPENSATION AND RELATED INFORMATION

Role of the Compensation Committee and the Board

A primary responsibility of the Compensation Committee appointed by the Company s Board of Directors is to review and approve or recommend for Board approval the compensation and other terms of employment of the Company s Chief Executive Officer, other executive officers and other key employees. The Compensation Committee carries out its responsibilities pursuant to a written charter adopted by the Board. The Compensation Committee s charter is available on the Company s website, www.commsystems.com , by following the Investor Resources link to the Corporate Governance link under which there is a link to Committee Composition and Committee Charters.

The charter of the Compensation Committee requires that the Committee consist of no fewer than two board members who are not employees of or consultants to the Company and otherwise independent of the management of the Company and free of any relationship that, in the opinion of the Board, would interfere with their exercise of independent judgment as a Committee member. The charter also requires and, on an annual basis the Company s Board of Directors determines, that each member of the Compensation Committee is:

independent as defined by NASDAQ;
a non-employee director under Section 16b-3 of the Securities Exchange Act of 1934, and

an outside director within the meaning of Section 162(m) of the Internal Revenue Code.

Under the Compensation Committee s charter, the Committee has the authority to retain, at the Company s expense, such independent counsel or other advisers as it deems necessary to carry out its responsibilities. Additional information regarding the primary responsibilities of the Compensation Committee and its current members is provided above under the caption Corporate Governance and Board Matters the Board, Board Committees and Meetings.

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The Board retains the authority to modify compensation strategy and policies as it determines in its discretion, to give final approval to the compensation and other terms of employment of the Company s Chief Executive Officer and Chief Financial Officer based upon the recommendation of the Compensation Committee, and to review and adopt, or modify the recommendation of, the Compensation Committee regarding the compensation of other Named Executive Officers, as well as other executives of the Company or its subsidiaries Two of the three directors serving on the Compensation Committee also serve on the Board s Governance and Nominating Committee, which also reviews the performance of the Company s Chief Executive Officer, so that these individuals have the benefit of the Governance and Nominating Committee s evaluation in setting the Chief Executive Officer s compensation.

In recommending to the Board the compensation of the Named Executive Officers and other executives, the Compensation Committee solicits the advice and recommendations from the Company s CEO, CFO and Vice President for Human Resources regarding compensation to be paid to executives other than themselves. However, no executive officer of the Company has final authority with respect to determining the amount or form of compensation paid to any Named Executive Officer or other executives or non-employee directors, and the determination of compensation paid to the Named Executive Officers, other executives and to non-employee directors is entirely with the purview of the Compensation Committee and the Board of Directors as described above. In determining or recommending to the full Board compensation payable to the Named Executive Officers and other executives, the Compensation Committee also uses executive compensation surveys as one point of reference, along with others, in making a judgment as to whether cash compensation paid by the Company is competitive with compensation paid by companies of a similar size and in comparable industries. In addition, in connection with determining 2010 base salary compensation of the Named Executive Officers and other executives, the Compensation Committee was advised by W. J. Flynn & Associates, an independent consulting firm.

Compensation Philosophy and Overview of Executive Officer Compensation

The Company s philosophy with respect to the compensation of the Company s executive officers is based upon the following objectives:

- Establish compensation at levels that will attract, retain and motivate executives that possess superior leadership and management abilities; and
- Structure the forms of compensation paid in order that their interests will be closely aligned with Company s in achieving superior financial performance.

With these objectives in mind, total compensation paid to executive officers currently consists of the following material elements:

- base salary,
- eligibility for bonus compensation,
- eligibility for long-term cash incentive compensation under the Company s PUP Plan discussed below,
- contributions to CSI s Employee Stock Ownership Plan and matching contributions to CSI s 401(k) Plan.

The Compensation Committee believes these forms of compensation provide an appropriate combination of fixed and variable pay and incentives for short-term operational performance balanced with incentive to achieve long-term growth in the Company s revenues and profitability.

Discussion of Elements of Executive Officer Compensation

Base Salaries. Base salaries of the Company s executive officers are generally established by reference to average base salaries paid to executives in similar positions with similar responsibilities. Base salaries are reviewed annually in December of each year and adjustments are made effective as of January 1 of the following year. In addition to seeking to offer compensation that is competitive, consideration is given by the Compensation Committee to both measurable financial factors, as well as subjective judgments regarding factors such as development and execution of strategic plans, changes in areas of responsibility, potential for assuming greater responsibility and the development and management of employees. The Compensation Committee does not, however, assign specific weights to these various quantitative and qualitative factors in reaching its decisions.

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Short-Term Incentive Plan. Following each year, cash awards (bonuses) are paid based upon a plan that has been informally used for the last several years based on parameters set at the beginning of the year. These bonuses are intended to provide executive officers with an opportunity to receive additional cash compensation, but only if justified by superior financial performance. In 2009, the performance measures used to determine bonuses for each executive officer were

- revenues (weighted 25%),
- profits (weighted 65%),
- average age of receivables (weighted 5%), and
- inventory turns (weighted 5%).

The bonuses paid to those officers leading the entire enterprise, rather than a specific business unit, including the Company s Chief Executive Officer, and Chief Financial Officer (the Corporate Officers), were determined based on applying these performance measures to the Company s consolidated performance. The bonus paid to business unit leaders was based on each respective business unit s performance under each of these performance measures. The potential target amount of an executive officer s bonus is a percentage of base pay ranging from 25% to 70%.

Prior to the beginning of each year a target bonus opportunity is established for each executive officer, and, based on the Company s budget, targets for revenue, profit, average age of receivables and inventory turns are established by the Committee in its discretion for each quarter and for the entire year. One-half of each executive officer s bonus is determined based upon how well actual quarterly results of the entire enterprise or the business unit, as applicable, in the four areas being measured compare to the quarterly targets for these performance measures, and one half of each executive officer s bonus is determined based upon how well twelve-month results of the entire enterprise or the business unit, as applicable, in the four areas being measured compare to the annual targets for these performance measures. Accordingly, at the end of each of the four quarters, quarterly results are evaluated in comparison to targets under each of the four performance measures described above and bonuses are determined as follows:

- for Corporate Officers, a bonus is paid with respect to a performance measure if quarterly performance on a consolidated basis is at least 60% of the target for that performance measure, and
- for business unit leaders a bonus is paid with respect to a performance measure if quarterly performance of the business unit is at least 80% of the target for that performance measure.

Similarly, following the end of the year, twelve-month results are evaluated in comparison to annual targets under each of the four performance measures described above and bonuses are determined as follows:

- for Corporate Officers, a bonus is paid with respect to a performance measure if annual performance on a consolidated basis is at least 60% of the annual target for that performance measure, and
- for business unit leaders a bonus is paid with respect to a performance measure if annual performance of the business unit is at least 80% of the target for that performance measure. The bonus plan may be changed, suspended, or terminated at any time in the discretion of the Board of Directors.

Long-Term Incentive Compensation.

The Company offers executive officers and management (the Participants) the opportunity to earn long-term cash incentive compensation under its Performance Unit Plan (PUP Plan) that was implemented January 1, 2004 and amended effective January 1, 2006 and January 1, 2008. Beginning in 2004, the performance measure selected to reward superior long-term performance under the PUP Plan had been return on total assets less cash and cash equivalents (Return on Assets) as this was regarded as an important measure of whether management is building shareholder value. In 2008 the PUP Plan was modified to include performance measurements of operating income growth and revenue growth for executives. The performance targets for managers remained Return on Assets.

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Annual target growth rates are set each year by the Committee prior to the start of the plan year. For executives 50% of the annual award is based on Return on Assets, 25% of the award on achievement of operating income growth and 25% of the award on achievement of revenue growth. Additionally the revenue growth target is a four-year cumulative target. This part of the award is only earned if the compounded target is attained by the end of the four year period. Under the PUP Plan, at the beginning of each even-numbered year (e.g., 2006, 2008, etc.) Participants receive awards that cover a four- year performance period. The potential value of each award is determined based on the Participant s position, and in each case the award represents the opportunity to earn cash incentive compensation if financial performance as measured by actual measurements is attained within a range of specified goals that the Committee regards as superior financial performance for each of the four years. Accordingly, each award includes an annual goal for each of the performance measurements for each Participant. Return on Assets, operating income growth and revenue growth are each calculated separately, with a minimum threshold of 80% achievement and a maximum of 150%. Specifically, in the 2009 PUP plan, each part of the award is then weighted 50% Return on Assets, 25% operating income growth and 25% revenue growth for executives or 100%. Return on Assets for other managers. This achievement is calculated for each of the four years covered by the award. Under the PUP Plan, the executive officers earn the right to incentive compensation if these goals are achieved on a consolidated basis. Other Participants earn the right to receive incentive compensation based on both their respective business units achieving the performance goals for that unit (weighted 75%) and the consolidated enterprise (weighted 25%). Performance goals are set by the Committee in its discretion, and different goals are set for the entire enterprise and each business unit based on unique factors applicable to each. Annually, following the completion of the fiscal year, achievement of the performance goals is measured for each participant and to the extent actual performance falls within the range of goals applicable to that participant, the participant is deemed to have earned the level of compensation that corresponds to that level of achievement. However, payment of the amount earned during the first three years of the award is deferred to the end of the four-year period of the award, and at the end of the four-year period; participating employees receive cash payments that were earned in each of the four years. Participating employees that resign before the termination of a four-year performance period forfeit any entitlement to cash payments for that period.

Retirement Plans. The Company has established an Employee Stock Ownership Plan and Trust (ESOP) and Savings Plan and Trust (401(k) Plan). Executive officers, including the Named Executive Officers, participate in the ESOP and 401(k) Plan on the same basis as all other employees of the Company. Under the ESOP, the Company makes contributions on an annual basis to the ESOP to enable it to purchase a block of Company Stock which is then allocated to all eligible employees based on their compensation as a percentage of total payroll. Under the 401(k) Plan, the Company matches 50% of each employee s contribution to the 401(k) Plan up to the first 6% the employee may contribute as a percentage of his or her compensation.

Other Compensation. The Company does not offer forms of compensation other than those described above. In particular the Company does not provide for personal benefits or perquisites (perks) as a significant element of compensation of the Named Executive Officers, in particular, or employees of the Company generally.

Summary Executive Compensation Table

The following table presents information regarding compensation earned in 2009 and 2008 for services in all capacities by (i) the Company s Chief Executive Officer, and (ii) the two other most highly compensated executive officers of the Company in 2009 (together referred to as the Named Executive Officers).

Name and Current Position	Year	Salary ($)	Short Term	Non-Equity Incentive	All Other	Total ($)

			Incentive Plan Awards ($)(1)	**Plan Compensation ($) (2)**	**Compensation ($) (3)**	
Jeffrey K. Berg	2009	371,423	285,369	190,152	14,656	861,600
President and Chief Executive Officer	2008	347,769	261,124	282,365	13,443	904,701
David T. McGraw	2009	230,885	139,379	62,183	14,202	446,649
Chief Financial Officer	2008	221,808	130,831	93,484	13,631	459,754
William Schultz	2009	178,685	95,465	50,920	14,832	339,902
General Manager, Transition Networks	2008	164,304	107,082	75,518	12,446	359,350

(1) Represents compensation earned in the years indicated under the short-term incentive plan described above.
(2) Represents amounts earned in 2009 and 2008 under the Company s Long-Term Incentive Compensation Plan described above for services performed in those years and accrued in the Company s 2009 and 2008 financial statements.
(3) See Other Compensation table below.

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Other Compensation.

The following table sets forth the elements of Other Compensation.

Name	Year	Contributions To Defined Contribution Plan[(a)]	Non-Elective Contribution to CSI Defined Contribution Plan[(b)]	Total
Jeffrey K. Berg	2009	7,258	7,398	14,656
	2008	6,543	6,900	13,443
David T. McGraw	2009	7,258	6,944	14,202
	2008	6,543	7,088	13,631
William Schultz	2009	7,258	7,574	14,832
	2008	6,543	5,903	12,446

(a) Represents the contribution for the Named Executive Officer to the Company s Employee Stock Ownership Plan and Trust.
(b) Represents the Company match of Named Executive Officer s contribution to the CSI s 401(k) Plan.

Outstanding Equity Awards at Fiscal Year-End

None of the Named Executive Officers were granted any option in 2009 and none of these executives had any outstanding options at December 31, 2009. No stock options or other equity awards have been granted to the Named Executive Officers, or other employees generally, since December 2004.

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DIRECTOR COMPENSATION

Each non-employee member of the Board of Directors is currently paid a monthly fee of $1,000 plus $1,400 for each Board meeting attended and $1,200 for each Board Committee meeting attended in person and $500 for each Board or committee meeting attended by phone. In addition, the chairs of each of the standing committees of the Board (Ms. Goldberg; Messrs. Freeman, Pint and R. D. Sampson) receive an annual fee of $1,000, and Messrs. Freeman and Pint each receive a monthly retainer of $250 for serving on the Board s Executive Committee. In addition to compensation paid for the committee meetings she attended, Ms Goldberg received $ 4,800 for services she provided in connection with leading a Board-approved project assigned to the Governance and Nominating Committee.

Under the Company s Stock Plan, new non-employee directors receive an option to purchase 3,000 shares of the Company s Common Stock upon their election to the Board, and, on the date of the Company s annual shareholders meeting, each non-employee director standing for re-election or continuing in office receives an option to purchase 3,000 shares of the Company s Common Stock. All such options granted to non-employee directors vest six months after the date of grant and are exercisable over a ten-year period. The purchase price of the shares of Common Stock that may be acquired upon exercise of these options is the fair market value of Common Stock on the date the options are granted.

Jeffery K. Berg, the Company s Chief Executive Officer, receives no additional compensation for his service on the Board. Paul J. Anderson retired as a director at the 2009 Annual Meetings of Shareholder.

The following table presents for 2009, the cash and other compensation paid by us to each of the Company s Board members other than Mr. Berg, whose compensation is reported in the Summary Executive Compensation Table above.

Name	**Fees Earned or Paid in Cash ($)** (1)	**Option Awards ($)** (2)	**Total ($)**
Paul J. Anderson	11,000	0	11,000
Edwin C. Freeman	36,200	5,262	41,462
Luella G. Goldberg	44,500	5,262	49,762
Roger H. D. Lacey	22,900	5,262	28,162
Gerald D. Pint	32,900	5,262	38,162
Curtis A. Sampson	24,400 (3)	5,262	29,662

Randall D. Sampson	27,200	5,262	32,462

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(1) Represents cash retainer and meeting fees as described above.
(2) Values expressed represent the actual compensation costs recognized by the Company during fiscal 2009 for equity awards granted in 2009 as determined pursuant to SFAS 123R utilizing the assumptions discussed in Note 1, Summary of Accounting Policies, in the notes to consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2009.
(3) Mr. Curtis Sampson is the former Chief Executive Officer of the Company. In addition to the compensation reported in this table, Mr. Sampson received cash compensation of $130,000 for consulting services in 2009. The agreement regarding consulting services by Mr. Sampson became effective on May 18, 2008, and is subject to review and requires renewal on an annual basis beginning in May 2009.
In 2009 Mr. Sampson was paid the cash and option compensation reported in the table above for service as a director on the same basis as other non-employee directors.

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PROPOSAL 2 Ratification of independent registered public accounting firm

Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates have been the Company s independent registered public accounting firm since 1982. The Board of Directors, upon recommendation of the Audit Committee, is requesting shareholder ratification of the appointment of Deloitte & Touche LLP to serve as the independent registered public accounting firm for the Company for the current fiscal year ending December 31, 2010. A representative of Deloitte & Touche LLP is expected to be present at the Annual Meeting of Shareholders and will have an opportunity to make a statement and will be available to respond to appropriate questions.

Independent Registered Public Accounting Firm Fees and Services

The following is a summary of the fees billed to the Company by the Deloitte & Touche LLP for professional services rendered for the fiscal years ended December 31, 2009 and December 31, 2008 The Audit Committee considered and discussed with the Deloitte & Touche LLP the provision of non-audit services to the Company and the compatibility of providing such services with maintaining its independence as the Company s auditor. Tax work for the Company is provided by RSM McGladrey.

Fee Category		**2009**		**2008**
Audit Fees	$	341,000	$	351,000
Audit-Related Fees		79,000		28,000
Tax Fees		111,000		148,000
All Other Fees				
Total Fees	**$**	**531,000**	**$**	**527,000**

Audit Fees. This category consists of fees billed for professional services rendered for the audit of the Company s annual financial statements and review of financial statements included in our quarterly reports.

Audit-Related Fees. This category consists of fees billed for assurance and related services, such as the Company s employee benefit plan audits, that are reasonably related to the performance of the audit or review of the Company s financial statements and are not otherwise reported under Audit Fees.

Tax Fees. This category consists of fees billed for professional services for tax compliance, tax advice and tax planning. These services include assistance regarding federal and state tax compliance and acquisitions. Since August of 2008, these services have been provided to the Company by RSM McGladrey.

Audit Committee Pre-approval Policies and Procedures

In addition to approving the engagement of the independent registered public accounting firm to audit the Company s consolidated financial statements, it is the policy of the Committee to approve all use of the Company s independent registered public accounting firm for non-audit services prior to any such engagement. To minimize relationships that could appear to impair the objectivity of the independent registered public accounting firm, it is the policy of the Committee to restrict the non-audit services that may be provided to the Company by the Company s independent registered public accounting firm primarily to tax services and merger and acquisition due diligence and integration services and any other services that can clearly be designated as non-audit services, as defined by regulation.

Vote Required

The affirmative vote of a majority of the outstanding shares of the Company s Common Stock voting at the meeting in person or by proxy is required for approval.

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AUDIT COMMITTEE REPORT

The Audit Committee of the Board of Directors is responsible for independent, objective oversight of the Company s financial accounting and reporting by overseeing the system of internal controls established by management and monitoring the participation of management and the independent registered public accounting firm in the financial reporting process.

The Audit Committee held five meetings in fiscal year 2009. The meetings were designed to facilitate and encourage private communication between the Audit Committee and the Company s independent registered public accounting firm, Deloitte & Touche LLP.

During the meetings, the Audit Committee reviewed and discussed the Company s financial statements with management and Deloitte & Touche LLP. Management represented to the Audit Committee that the Company s consolidated financial statements were prepared in accordance with generally accepted accounting principles, and the Audit Committee has reviewed and discussed the consolidated financial statements with management and the independent accountants. The discussions with Deloitte & Touche LLP also included the matters required by Statement on Auditing Standards (SAS) No. 61 (Communication with Audit Committees), as amended by SAS 89 and 90 (Audit Committee Communications).

Deloitte & Touche LLP provided to the Audit Committee the written disclosures and the letter regarding its independence as required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and this information was discussed with The Deloitte & Touche, LLP.

Based on the discussions with management and Deloitte & Touche LLP, the Audit Committee s review of the representations of management and the report of the Deloitte & Touche, LLP , the Audit Committee recommended to the Board that the audited consolidated financial statements be included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009, filed with the Securities and Exchange Commission.

Submitted by the Audit Committee of the Company s Board of Directors

Edwin C. Freeman (Chair) Luella Gross Goldberg Randall D. Sampson

The preceding report shall not be deemed incorporated by reference by any general statement incorporating by reference this proxy statement into any filing under the Securities Act of 1933 (the 1933 Act) or the Securities Exchange Act of 1934 (the 1934 Act), except to the extent the Company specifically incorporates this information by reference, and shall not otherwise be deemed filed under the 1933 Act or the 1934 Act.

other information

Contacting the Board of Directors

Any shareholder who desires to contact our Board of Directors may do so by writing to the Board of Directors, generally, or to an individual Director at: Communications Systems, Inc., 10900 Red Circle Drive, Minnetonka, Minnesota 55343. Communications received electronically or in writing are distributed to the full Board of Directors, a committee or an individual Director, as appropriate, depending on the facts and circumstances outlined in the communication received. For example, a complaint regarding accounting, internal accounting controls or auditing matters will be forwarded to the Chair of the Audit Committee for review. Complaints and other communications may be submitted on a confidential or anonymous basis.

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Shareholder Proposals for 2011 Annual Meeting

The proxy rules of the Securities and Exchange Commission permit shareholders of a company, after timely notice to the Company, to present proposals for shareholder action in the Company s proxy statement where such proposals are consistent with applicable law, pertain to matters appropriate for shareholder action and are not properly omitted by Company action in accordance with the Commission s proxy rules. The next annual meeting of the shareholders of Communications Systems, Inc. is expected to be held on or about May 20, 2011 and proxy materials in connection with that meeting are expected to be mailed on or about April 5, 2011. Shareholder proposals prepared in accordance with the Commission s proxy rules to be included in the Company s Proxy Statement must be received at the Company s corporate office, 10900 Red Circle Drive, Minnetonka, Minnesota 55343, Attention: President, by December 6, 2010, in order to be considered for inclusion in the Board of Directors Proxy Statement and proxy card for the 2011 Annual Meeting of Shareholders. Any such proposals must be in writing and signed by the shareholder.

The Bylaws of the Company establish an advance notice procedure with regard to (i) certain business to be brought before an annual meeting of shareholders of the Company and (ii) the nomination by shareholders of candidates for election as directors.

Properly Brought Business. The Bylaws provide that at the annual meeting only such business may be conducted as is of a nature that is appropriate for consideration at an annual meeting and has been either specified in the notice of the meeting, otherwise properly brought before the meeting by or at the direction of the Board of Directors, or otherwise properly brought before the meeting by a shareholder who has given timely written notice to the Secretary of the Company of such shareholder s intention to bring such business before the meeting. To be timely, the notice must be given by such shareholder to the Secretary of the Company not less than 45 days nor more than 75 days prior to a meeting date corresponding to the previous year s annual meeting. Notice relating to the conduct of such business at an annual meeting must contain certain information as described in Section 2.9 of the Company s Bylaws, which are available for inspection by shareholders at the Company s principal executive offices pursuant to Section 302A.461, subd. 4 of the Minnesota Statutes. Nothing in the Bylaws precludes discussion by any shareholder of any business properly brought before the annual meeting in accordance with the Company s Bylaws.

Shareholder Nominations. The Bylaws provide that a notice of proposed shareholder nominations for the election of directors must be timely given in writing to the Secretary of the Company prior to the meeting at which directors are to be elected. To be timely, the notice must be given by such shareholder to the Secretary of the Company not less than 45 days nor more than 75 days prior to a meeting date corresponding to the previous year s annual meeting. The notice to the Company from a shareholder who intends to nominate a person at the meeting for election as a director must contain certain information as described in Section 3.7 of the Company s Bylaws, which are available for inspection by shareholders as described above. If the presiding officer of a meeting of shareholders determines that a person was not nominated in accordance with the foregoing procedure, such person will not be eligible for election as a director.

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Other Matters; Annual Report

Management knows of no other matters that will be presented at the meeting. If any other matters arise at the meeting, it is intended that the shares represented by the proxies in the accompanying form will be voted in accordance with the judgment of the persons named in the proxy.

The Company is transmitting with this Proxy Statement its Annual Report for the year ended December 31, 2009. Shareholders may receive, without charge, a copy of the Company s Annual Report on Form 10-K for fiscal 2009, as filed with the Securities and Exchange Commission, by writing to Secretary, Communications Systems, Inc., 10900 Red Circle Drive, Minnetonka, Minnesota 55343.

By Order of the Board of Directors,

David T. McGraw,
Secretary

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COMMUNICATIONS SYSTEMS, INC.

ANNUAL MEETING OF SHAREHOLDERS

May 18, 2010

10:00 a.m. Central Daylight Time

Communications Systems, Inc.

10900 Red Circle Drive

Minnetonka, Minnesota

COMMUNICATIONS SYSTEMS, INC. **proxy**
THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON MAY 18, 2010.

The undersigned hereby appoints Jeffrey K. Berg, Luella G. Goldberg and Edwin C. Freeman, or any of them, as proxies, with full power of substitution, to vote all the shares of common stock that the undersigned would be entitled to vote if personally present at the Annual Meeting of Shareholders of Communications Systems, Inc., to be held May 18, 2010, at 10:00 a.m. Central Daylight Time at the offices of Communications Systems, Inc., 10900 Red Circle Drive, Minnetonka, Minnesota, or at any adjournment thereof, upon any and all matters that may properly be brought before the meeting or adjournment thereof, hereby revoking all former proxies.

See reverse for voting instructions.

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COMMUNICATIONS SYSTEMS, INC.

Shareowner Services[SM]
P.O. Box 64945
St. Paul, MN 55164-0945

COMPANY #

Vote by Internet, Telephone or Mail
24 Hours a Day, 7 Days a Week

Your phone or Internet vote authorizes the named proxies to vote your shares in the same manner as if you marked, signed and returned your proxy card.

INTERNET www.eproxy.com/jcs
Use the Internet to vote your proxy until 12:00 p.m. (CT) on May 17, 2010.

PHONE 1-800-560-1965
Use a touch-tone telephone to vote your proxy until 12:00 p.m. (CT) on May 17, 2010.

MAIL Mark, sign and date your proxy card and return it in the postage-paid envelope provided.

If you vote your proxy by Internet or by Telephone, you do NOT need to mail back your Proxy Card.

Please detach here

The Board of Directors Recommends a Vote FOR the nominees below and Proposal 2.

1. Election of directors:	01 Curtis A. Sampson 02 Gerald D. Pint	o	Vote FOR all nominees (except as marked)	o	Vote WITHHELD from all nominees

(Instructions: To withhold authority to vote for any indicated nominee,
write the number(s) of the nominee(s) in the box provided to the right.)

2.	Ratification of the appointment of Deloitte & Touche LLP as independent registered public accounting firm for the year ended December 31, 2010.	o	For	o	Against	o	Abstain
3.	The proxies are authorized to vote in their discretion upon any other matters as may properly come before the meeting.						

UNLESS OTHERWISE SPECIFIED, THE SHARES REPRESENTED BY THIS PROXY WILL BE VOTED FOR THE ELECTION OF THE DIRECTORS NAMED UNDER ELECTION OF DIRECTORS ABOVE AND FOR PROPOSAL 2.

Address Change? Mark Box Indicate changes below: o Date ,2010

Signature(s) in Box

Please date and sign exactly as your name(s) appears below indicating, where proper, official position or representative capacity in which you are signing. When signing as executor, administrator, trustee or guardian, give full title as such; when shares have been issued in names of two or more persons, all should sign.

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COMMUNICATIONS SYSTEMS, INC.	Shareowner Services[SM] P.O. Box 64945 St. Paul, MN 55164-0945	**COMPANY #**

COMMUNICATIONS SYSTEMS, INC.

ANNUAL MEETING OF SHAREHOLDERS

Tuesday, May 18, 2010
10:00 a.m. Central Daylight Time

Communications Systems, Inc.

10900 Red Circle Drive
Minnetonka, Minnesota

Directions to the Communications Systems, Inc. Annual Meeting are available in the proxy statement which can be viewed at www.ematerials.com/jcs.

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to be Held on May 18, 2010.

Notice is hereby given that the Annual Meeting of Shareholders of Communications Systems, Inc. will be held at 10900 Red Circle Drive, Minnetonka, Minnesota on May 18, 2010 at 10:00 a.m. Central Daylight Time.

This communication presents only an overview of the more complete proxy materials that are available to you on the Internet. We encourage you to access and review all of the important information contained in the proxy materials before voting.

The Proxy Statement and Annual Report/10K are available at www.ematerials.com/jcs

If you want to receive a paper copy or an e-mail with links to the electronic materials, you must request one. There is no charge to you for requesting a copy. Please make your request for a copy as instructed on the reverse side of this notice on or before May 6, 2010 to facilitate timely delivery.

Matters intended to be acted upon at the meeting are listed below.

1. Election of Directors
2. Ratification of the appointment of Deloitte & Touche LLP as independent registered public accounting firm for the year ended December 31, 2010.
3. The proxies are authorized to vote in their discretion upon any other matters as may properly come before the meeting.

THIS IS NOT A FORM FOR VOTING

You may immediately vote your proxy on the Internet at:

www.eproxy.com/jcs

Use the Internet to vote your proxy 24 hours a day, 7 days a week, until 12:00 p.m. (CT) on May 17, 2010.

Please have this Notice and the last four digits of your Social Security Number or Tax Identification Number available. Follow the instructions to vote your proxy.

Your Internet vote authorizes the Named Proxies to vote your shares in the same manner as if you marked, signed and returned your proxy card.

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To request paper copies of the proxy materials, which include the proxy card, proxy statement and annual report, please contact us via:

Internet Access the Internet and go to www.ematerials.com/jcs. Follow the instructions to log in, and order copies.
Telephone Call us free of charge at 866-697-9377 in the U.S. or Canada, using a touch-tone phone, and follow the instructions to log in and order copies.
Email Send us an email at ep@ematerials.com with jcs Materials Request in the subject line. The email must include:

The 3-digit company # and the 11-digit control # located in the box in the upper right hand corner on the front of this notice.
Your preference to receive printed materials via mail ***-or-*** to receive an email with links to the electronic materials.
If you choose email delivery you must include the email address.
If you would like this election to apply to delivery of material for all future meetings, write the word Permanent and include the last 4 digits of your Tax ID number in the email.