

## COMMUNICATIONS SYSTEMS, INC.

### CHARTER OF THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS<sup>1</sup>

#### PURPOSE

The purpose of the Compensation Committee (the “Committee”) of the Board of Directors (the “Board”) of Communications Systems, Inc. (the “Company”) shall be to oversee all significant aspects of the Company’s compensation policies, plans and programs and to prepare and review the Committee report included in the Company’s annual proxy statement in accordance with applicable rules and regulations of the Securities and Exchange Commission (the “SEC”). The term “compensation” shall include salary, long-term incentives, bonuses, perquisites, equity incentives, severance arrangements and other related benefits and benefit plans.

#### COMPOSITION

The Committee shall be composed of at least two (2) members of the Board 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. All members of the Committee shall also satisfy the independence requirements applicable to compensation committee members set forth in (1) the listing standards of The NASDAQ Stock Market (“NASDAQ”); (2) the rules of the SEC, including rules under Section 16b-3 of the Securities Exchange Act of 1934; and (3) Section 162(m) of the Internal Revenue Code of 1986, all as amended from time to time.

The members of the Committee shall be appointed by and serve at the discretion of the Board, and the Chair of the Committee shall also be appointed by the Board. Any vacancy occurring on the Committee shall be filled by the Board.

#### MEETINGS AND MINUTES

The Committee shall hold such meetings as its members deem necessary or appropriate, but in any event not less than twice annually. Minutes of each meeting will be prepared and distributed to each member of the Board and the Secretary of the Company. The Chair of the Committee will report to the Board from time to time, or whenever so requested by the Board.

#### RESPONSIBILITIES

The Committee shall be charged with the following duties and responsibilities:

1. Overall Compensation Strategy. The Committee shall review, modify as needed, and approve the overall compensation strategy and policies of the Company. The Committee shall, as appropriate, advise the Board regarding its decisions in regard to such strategy and policies, and the Board retains the authority to modify such compensation strategy and policies as it, in its discretion, determines.

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<sup>1</sup> Adopted May 29, 2004; as amended to June 1, 2008.

2. Compensation and Evaluation of the Chief Executive Officer. The Committee shall review and approve the compensation and other terms of employment of the Company's Chief Executive Officer, subject to final approval by the Board of Directors. The Chief Executive Officer shall not be present during deliberations or voting on compensation of the Chief Executive Officer. In determining the long-term incentive component of the Chief Executive Officer's compensation, the Committee shall consider the Company's performance and relative stockholder return, the value of similar incentive awards given to chief executive officers of comparable companies, the awards given to the Company's Chief Executive Officer in past years, and such other criteria as the Committee deems advisable.

3. Compensation of Other Officers; Directors Fees. The Committee shall oversee the establishment of performance goals and objectives for the Company's other executive officers and recommend to the entire Board the compensation and the other terms of employment of these officers. The Committee shall make recommendations to the Board regarding the amount of directors' fees for Board members, including retainer, Board meeting, committee and committee chair fees and stock option grants or awards.

4. Incentive and Equity Based Compensation. The Committee will administer the Company's incentive- or equity- based compensation plans and shall periodically consider and recommend changes in existing plans or the adoption of other or additional equity- based compensation plans. The Committee approval of awards under the equity- based compensation plans shall be final, except to the extent Board approval of some or all grants is required under SEC or NASDAQ rules.

5. Employee Benefit Plans. The Committee shall periodically review and approve the Company's 401(k) Plan and ESOP, and any similar ERISA plans, including such matters as available investment options, performance, participation and administration. The Committee shall also review and approve generally the cost and scope of the Company's other employee benefit plans.

6. Proxy Statement Report. The Committee shall prepare and review any report required by the applicable SEC rules and regulations to be included in the Company's annual proxy statement.

7. Committee Self-Assessment. The Committee shall review, discuss and assess at least annually its own performance under this Charter. In addition, the Committee shall evaluate whether this Charter appropriately addresses the matters that are or should be within its scope. The Committee shall deliver to the Board the results of its evaluation, including any recommended amendments to this Charter.

## **SCOPE OF AUTHORITY AND OUTSIDE ADVISERS**

The Committee has the authority to take action and conduct or authorize inquiries into any matter within the Committee's charter and may retain, at the Company's expense, such independent counsel or other advisers as it deems necessary to carry out its responsibilities.