

COMMUNICATIONS SYSTEMS, INC.

CHARTER OF THE AUDIT AND FINANCE COMMITTEE¹

I. Purpose.

The purpose of the Audit and Finance Committee (“Committee”) of the Board of Directors (“Board”) of Communications Systems, Inc. (“Company”) is to represent and assist the Board of Directors in its oversight of:

A. The integrity of the financial reporting of the Company, the independence, qualifications, and performance of the Company’s independent registered public accounting firm (“independent auditor”), the performance of the Company’s internal auditor and the Company’s compliance with legal and regulatory requirements (“*Financial Reporting and Compliance*”); and

B. The Company’s financial policies, strategies, and asset management structure (“*Finance and Asset Management*”).

In furtherance of these purposes, the Committee shall have the authority and responsibilities further described below.

II. Composition.

A. The Committee shall consist of a minimum of three directors. The Chair of the Committee and its other members shall be appointed by the Company’s Board. Any member of the Committee may be removed by the Board in its discretion.

B. The Committee shall be composed of directors who are independent of the management of the Company and are free of any relationship that, in the opinion of the Board, would interfere with their exercise of independent judgment as a Committee member.

C. The composition, responsibilities, and authority of the Committee shall meet the applicable rules and regulations of The NASDAQ Stock Market (“NASDAQ”). In addition, each member of the Committee shall be “independent” under Rule 10A-3 of the Rules and Regulations of the Securities and Exchange Commission (the “Commission”) under the Securities Exchange Act of 1934, as amended (“Exchange Act”), and under Rule 5605(a)(2) of the NASDAQ Manual (the “NASDAQ Rules”) and shall not have participated in the preparation of the financial statements of the Company or any current subsidiary of the Company at any time during the previous three years.

D. All members of the Committee shall have a basic understanding of finance and accounting and be able to read and understand fundamental financial statements, and at least one

¹ Adopted by the Board of Directors on November 13,2014

member of the Audit Committee shall have accounting or related financial management expertise. If required by the Commission or NASDAQ, the Board of Directors will designate at least one member of the Audit Committee as an “Audit Committee Financial Expert” as defined by the then applicable rules and regulations.

III. **Authority and Responsibilities of the Committee.**

A. With respect to Financial Reporting and Compliance:

1. The Committee shall have the sole authority and responsibility to select, oversee, evaluate and, if necessary, replace the independent auditor and the independent auditor shall be solely accountable to the Committee. The Committee shall have the sole authority to approve all audit engagement fees and terms and the Committee, or the Chair of the Committee, must pre-approve any non-audit service provided to the Company by the independent auditor. The Committee shall have the sole authority and responsibility to resolve disagreements between management and the independent auditor regarding financial reporting.

2. The Internal Auditor shall be accountable to the Committee and shall report directly to the Chair of the Committee, it being recognized that, as appropriate, the Internal Auditor shall also advise and consult with the Chief Financial Officer so long as it does not compromise the Internal Auditor’s independence or the direct reporting relationship to the Chair of the Committee.

3. The Committee shall discuss with management and the independent auditor annual audited financial statements and quarterly financial statements, including matters required to be reviewed under applicable legal, regulatory or NASDAQ requirements, and to recommend the annual audited financial statements to be included in the Company’s Annual Report on Form 10-K.

4. The Committee shall discuss with management and the independent auditor, as appropriate, earnings press releases and financial information and earnings guidance, if any, provided to analysts, to rating agencies, or to the public.

5. The Committee shall discuss with management and the independent auditor, as appropriate, any audit problems or difficulties and management’s response.

6. The Committee shall discuss with management and the independent auditor, as appropriate, the Company’s risk assessment and risk management policies in the areas of financial reporting, internal controls, and compliance with legal and regulatory requirements, including the Company’s major financial risk exposure and steps taken by management to monitor and mitigate this exposure.

7. The Committee shall review the Company’s financial reporting and accounting standards and principles, critical accounting policies and practices, significant changes in such standards, principles or practices or in their application and the key accounting decisions affecting the Company’s financial statements, including alternatives to, and the rationale for, the decisions made.

8. The Committee shall review the Company's internal system of audit and financial controls, and the results of internal audits.

9. The Committee shall review significant litigation and regulatory proceedings in which the Company is or may be involved for analysis of potential impact on the Company's financial statements, including receiving reports from the Company's legal counsel regarding any dispute, litigation, regulatory matter or proceeding or any material violation of securities laws or breach of fiduciary duty or similar violation by the Company or any agent of the Company.

10. The Committee shall prepare and publish a report of the Committee to shareholders in the Company's annual proxy statement.

11. The Committee shall oversee the Company's compliance with the Foreign Corrupt Practices Act.

10. The Committee shall receive on an annual basis a written statement from the independent auditor summarizing all relevant matters required by applicable law, including rules adopted by the Public Company Accounting Oversight Board ("PCAOB").

11. The Committee shall review the Company's relationship with and services performed by the independent auditor, including the type and extent of non-audit services performed, and shall actively engage in a dialogue with the independent auditor with respect to any disclosed relationships or services that may affect the independent auditor's objectivity or independence, and shall take or recommend the full Board take whatever action, if any, that is appropriate to oversee the independence of the independent auditor.

B. With respect to Finance and Asset Management:

1. The Committee shall review and approve the Company's annual business and capital expenditure plan and related operating budgets.

2. The Committee shall review, provide guidance to, and have the authority to direct management regarding:

- Company policies relating to cash management, management of accounts receivable, inventory and working capital, stock repurchase plans and investment vehicles;
- Policies for managing interest rate, foreign exchange, and investment risk;
- Policies with respect to financial risk assessment and financial risk management;

- Material proposed acquisitions, divestitures, capital expenditures, and strategic investments;
- Policies regarding travel, employee benefits, and perquisites and employee expense reimbursement;
- Policies regarding approval of material (as determined by the Committee) expenditures not contemplated by the annual plan and expenditures not in the ordinary course; and
- Other transactions or financial issues that management desires to have reviewed by the Committee or that the Committee determines require Board level oversight..

3. The Committee shall interface with the Compensation Committee with respect to implementing compensation policies that support the Company's annual business plan.

C. The Committee shall establish procedures for (i) receipt, retention and treatment of complaints received by the Company with respect to accounting, internal auditing controls or auditing matters, and (ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

D. The Committee shall have authority to retain such outside legal counsel, experts and other advisors as the Committee may, in its sole discretion, deem appropriate to fulfill its responsibilities under this Charter, the listing standards of NASDAQ and SEC Rule 10A-3(b) under the Exchange Act. The Committee shall have sole authority to approve fees incurred under this Section III, paragraph E. and related contracts with such legal counsel, experts and other advisors and the Company shall pay all such fees and expenses as determined appropriate and necessary by the Committee in carrying out its duties.

E. While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to conduct audits or to determine that the Company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles, which is the responsibility of management and the independent auditor. It is also the responsibility of management to ensure compliance with laws and regulations and the Company's corporate policies, with oversight by the Committee in the areas covered by this Charter.

IV. **Key Practices.**

A. The Committee shall meet separately at least four times each year with management and the Company's independent auditor. With respect to any meeting (including telephone meetings), a majority of the Committee shall constitute a quorum for conducting business. The Committee shall provide minutes of Committee meetings for the full Board and shall, as appropriate, report at meetings of the Board regarding Committee activities and decisions.

B. The Committee shall meet privately in executive session at least annually with management, the independent auditor, and as a committee to discuss any matters that the Committee or each of these groups believe should be discussed.

C. The Committee shall review at least annually the adequacy of this Charter and recommend any proposed changes to the Board for approval.

D. The Committee affirms as its policy the “Policies and Procedures for Pre-Approval of Independent Registered Public Accounting Firm Services” adopted by the Audit Committee on May 8, 2013 and shall, as appropriate, adopt (and periodically review and revise, as appropriate) a statement of other key practices it shall follow in discharging its duties under this Charter.