

COMMUNICATIONS SYSTEMS, INC.

CHARTER OF THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS¹

1. PURPOSE

The Compensation Committee (the “Committee”) of the Board of Directors (the “Board”) of Communications Systems, Inc. (the “Company”) will oversee all significant aspects of the Company’s compensation policies, plans and programs and 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” includes salary, short-term and long-term incentive compensation, bonuses, perquisites, equity incentives, severance arrangements and other related benefits and benefit plans.

2. COMPOSITION

The Committee will be composed of at least two 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 must also satisfy the independence requirements applicable to compensation committee members set forth in

- a. the continued listing standards of The NASDAQ Stock Market (“NASDAQ”) including Rule 5605(a)(2);
- b. the rules of the SEC, including rules under Section 16 of the Securities Exchange Act of 1934; and
- c. Section 162(m) of the Internal Revenue Code of 1986,

all as amended from time to time.

Committee members will be appointed by and serve at the discretion of the Board, and the Committee Chair will also be appointed by the Board. Any vacancy occurring on the Committee will be filled by the Board. In determining whether a director is eligible to serve on the Committee, the Board must consider whether the director is affiliated with the Company, a subsidiary of the Company or an affiliate of a subsidiary of the Company to determine whether this affiliation would impair the director’s judgment as a member of the Committee.

3. MEETINGS AND MINUTES

The Committee will 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.

¹ Adopted May 29, 2004; as amended through March 7, 2014.

4. RESPONSIBILITIES

The Committee will have the following duties and responsibilities:

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

b. Compensation of Named Executive Officers. The Committee will review and approve the compensation and other terms of employment of the Company's Chief Executive Officer, the Company's Chief Financial Officer and the Company's other "named executive officers" under Item 402 of SEC Regulation S-K (collectively the "Named Executive Officers"),² subject to final approval by the Board of Directors. No Named Executive Officer may be present during deliberations or voting on his or her compensation. In determining incentive compensation of Named Executive Officers, the Committee will consider, along with other relevant factors, the Company's performance and relative shareholder return, the value of similar incentive awards given to executive officers of comparable companies and the awards given to Named Executive Officers in past years.

c. Compensation of Other Officers. The Committee will oversee and make determinations, as it deems appropriate, regarding compensation, performance goals and objectives, and other terms of employment for other officers and key employees of the Company and its subsidiaries (collectively, together with the Named Executive Officers, the "Senior Executives").

d. Director Compensation. The Committee, from time to time, will make recommendations to the Board regarding the amount and type of compensation for non-employee Board members, including retainer, Board meeting, committee and committee chair fees, and stock option grants or other equity awards.

e. Incentive and Equity Based Compensation. The Committee will administer the Company's incentive- or equity-based compensation plans and 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 will be final, except to the extent Board approval of some or all grants is required under SEC or NASDAQ rules.

f. Employee Benefit Plans. The Committee will periodically review and, as deemed desirable, recommend to the Board changes to 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 will also review and approve generally the cost and scope of the Company's other employee benefit plans.

² The term "Named Executive Officers" refers to each individual whose compensation must be disclosed under as a "named executive officer" under Item 402 of SEC Regulation S-K.

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

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

5. FUNDING

The Company must provide appropriate funding, as determined by the Committee, for payment of reasonable compensation to any compensation consultant, legal counsel or other adviser retained by the Committee.

6. SCOPE OF AUTHORITY; OUTSIDE ADVISERS

The Committee has the authority to take action and conduct or authorize inquiries into any matter reasonably related to its purpose and responsibilities as described in this Charter.

The Committee may delegate authority with respect to the specific compensation of Senior Executives (other than the Named Executive Officers) below a specified pay grade to a committee consisting solely of Named Executive Officers and members of the Company's Board of Directors (the "Internal Compensation Committee"). The Internal Compensation Committee shall report on its decisions as requested by the Committee and its decisions shall at all times be subject to the oversight and authority of the Committee.

The Committee may, in its sole discretion, retain or obtain the advice of a compensation consultant, legal counsel or other adviser, and the Committee will be directly responsible for the appointment, compensation and oversight of the work of any compensation consultant, legal counsel and other adviser retained by the Committee. The Committee may select, or receive advice from, a compensation consultant, legal counsel or other adviser to the Committee, other than in-house legal counsel, only after taking into consideration the following factors:

- a. the provision of other services to the Company by the person that employs the compensation consultant, legal counsel or other adviser;
- b. the amount of fees received from the Company by the person that employs the compensation consultant, legal counsel or other adviser, as a percentage of the total revenue of the person that employs the compensation consultant, legal counsel or other adviser;
- c. the policies and procedures of the person that employs the compensation consultant, legal counsel or other adviser that are designed to prevent conflicts of interest;
- d. any business or personal relationship of the compensation consultant, legal counsel or other adviser with a member of the Committee;
- e. any stock of the Company owned by the compensation consultant, legal counsel or other adviser; and,

f. any business or personal relationship of the compensation consultant, legal counsel, other adviser or the person employing the adviser with a Named Executive Officer of the Company.

This Charter's requirement regarding consideration of these six factors may not be construed (i) to require the Committee to implement or act consistently with the advice or recommendations of any compensation consultant, legal counsel or other adviser to the Committee; or (ii) to affect the ability or obligation of the Committee to exercise its own judgment in fulfillment its duties. Further, the assessment process described does not impose a requirement that a compensation consultant, legal counsel or other compensation adviser be independent, only that the Committee consider these six factors before selecting, or receiving advice from, a compensation adviser. The Committee may select, or receive advice from, any compensation adviser its prefers, including ones that are not independent, after considering the six factors outlined above.

7. LIMITATIONS ON COMPENSATION OF COMMITTEE MEMBERS

Committee members may not accept directly or indirectly any consulting, advisory or other compensatory fee from the Company or any Company subsidiary. The term "compensatory fee" does not include:

- a. fees received as a member of the Committee, the Board or any other committee of the Board; or
- b. the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the Company (provided that this compensation is not contingent in any way on continued service).