

IMAGE SENSING SYSTEMS, INC.
COMPENSATION AND STOCK OPTION COMMITTEE CHARTER

The compensation and stock option committee (the "Committee") will be responsible for developing and recommending to the board of directors (the "Board") the total annual remuneration of the chairman of the board, the president and CEO, taking into account their performance appraisal. The performance appraisal for the above will be done by the Committee on an annual basis in conjunction with the non-executive members of the Board. Total annual remuneration shall include annual salary, bonuses or any other incentive pay, stock options, fringe benefits and vacation time for the executive officers in addition the Committee recommends the annual retainer monthly fees and stock options for outside directors.

The Committee will also be responsible for reviewing the remuneration for all Vice Presidents as recommended to the Committee by the CEO.

The committee will establish a process to review the total annual remuneration of each Executive Director, Chairman, CEO and President to make certain the total package reflects the competence of the individual and is competitive with the market conditions. Furthermore, extraordinary activities by individual executives or board members that contribute to the increase of shareholder value may be additionally compensated upon recommendation by the Committee to the Board.

The committee will also set overall macro policies on items such as general raise guidelines and hiring practices.

In addition, the Committee shall administer the Company's Stock Option Plan (the "Plan") in accordance with Section 3 of the Plan and make recommendations to the Board. A copy of the Plan is attached and is herein incorporated by reference.

Charter approved: July 25, 2002