

## **IMAGE SENSING SYSTEMS, INC. COMPENSATION COMMITTEE CHARTER**

### **Purpose**

The Compensation Committee (the “Committee”) of Image Sensing Systems, Inc. (the “Company”) is responsible for (a) developing and recommending to the Company’s board of directors (the “Board”) the compensation programs for the Company’s executive officers; (b) recommending to the Board equity awards for the Company’s executive officers, including awards under the Company’s stock award programs, and any changes to the Company’s equity plans or the adoption of new equity plans; (c) recommending to the Board the cash and non-cash compensation policies for the Company’s non-employee directors; and (d) preparing any annual or other report of the Committee on executive compensation required under the rules of the Securities and Exchange Commission (the “SEC”) or The NASDAQ Stock Market LLC (“NASDAQ”). For purposes of this Charter, the term “executive officers” means those officers covered in Rule 16a-1(f) under the Securities Exchange Act of 1934 (the “Exchange Act”).

### **Members; Chairman**

The Committee shall be composed of at least three members of the Board who satisfy the independence requirements of NASDAQ’s applicable rules. In particular, each member of the Committee must: (i) be an “Independent Director” as defined in Rule 5605(a)(2) of the NASDAQ Listing Rules or other applicable NASDAQ rule; and (ii) not accept directly or indirectly any consulting, advisory or other compensatory fee from the Company or any subsidiary of the Company. Compensatory fees shall not include fees received as a member of the Committee, the Board or any other committee of the Board; or the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the Company (provided that such compensation is not contingent in any way on continued service). In determining whether a director is eligible to serve on the Committee, it should also be determined whether the director is affiliated with the Company, a subsidiary of the Company or an affiliate of a subsidiary of the Company and whether such affiliation would impair the director’s judgment as a member of the Committee. In addition, each member of the Committee shall be a “non-employee director” for purposes of Rule 16b-3 under the Exchange Act and an “outside director” for purposes of Section 162(m) of the Internal Revenue Code. The Board shall appoint (and may remove) the members of the Committee. The Board shall designate one member of the Committee as Chairman of the Committee or delegate authority to the Committee to designate a Chairman.

### **Duties and Responsibilities**

The duties and responsibilities of the Committee shall include:

- Overseeing the Company’s compensation philosophy and strategy for its executive officers;
- at least annually, reviewing the Company’s compensation philosophy for its executive officers and overall compensation trends, including reviewing the relationship of executive compensation to corporate performance, and reporting on such review to the Board;

- at least annually, reviewing the Company's executive compensation programs, including equity-based annual and long-term incentive plans; reviewing and recommending to the Board the goals and objectives relevant to the compensation of the Company's executive officers; and reviewing and recommending to the Board the total compensation of the Company's executive officers based on the executive officers' achievement of these goals (which compensation may include annual salary, incentive-based compensation, equity awards, fringe benefits and vacation time); provided, that the executive officers' base salary shall be reviewed and approved only by the Committee;
- at least annually, providing the Company's chief executive officer with performance feedback, including an evaluation;
- at least annually, reviewing and recommending to the Board all compensation for non-employee members of the Board, including annual retainers, meeting fees and grants of equity awards;
- review and approve and employment agreements, severance, separation or retirement agreements or arrangements and change-in-control agreements or provisions covering any current or former executive officers of the Company;
- reviewing and recommending to the Board any and all special compensation programs for the Company's executive officers, including packages for new executive officers, change-in-control and retirement agreements, severance and termination packages and other supplemental benefits;
- reviewing and making recommendations to the Board concerning the Company's equity-based compensation plans, including any amendments to such plans;
- reviewing any compensation-related proposals properly brought forth to the Company by its shareholders and recommending action to the Board;
- reviewing with the Company's management the discussion of the compensation of the Company's executive officers set forth in the Company's proxy statement and, based on such review and discussion, recommending to the Board the inclusion of such discussion in the Company's proxy statement;
- preparing any annual or other report of the Committee on executive compensation required under the rules of the SEC or NASDAQ;
- at least annually, determining that the members of the Committee meet the independence requirements set forth in the paragraph of this Charter entitled "Members; Chairman";
- performing any other activities consistent with this Charter or as may be delegated to it by the Board; and
- evaluating its own performance and this Charter on an annual basis.

#### **Meetings and Operation of the Committee**

The Committee shall meet as often as it deems necessary or appropriate in its judgment, but at least three times annually, at such times and in such places as the Committee shall determine. The Chair of the Committee may schedule additional meetings of the Committee as appropriate. A majority of the Committee members present at a Committee meeting will constitute a quorum for each meeting.

Subject to the rules of the SEC and NASDAQ, the Committee may request the presence of any officer or employee of the Company, the Company's outside legal counsel or a consultant to the Company to attend the meeting, and, in any deliberations to determine the compensation of executive officers other than the Company's chief executive officer, the Committee may invite the chief executive officer to be present but not vote. The Company's chief executive officer may not be present during the Committee's voting or deliberations on the chief executive officer's compensation.

The Committee may, in its sole discretion, retain or obtain the advice of a compensation consultant, legal counsel or other adviser. The Committee shall 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 Company must provide for appropriate funding, as determined by the Committee, for payment of reasonable compensation to a compensation consultant, legal counsel or any 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 any in-house legal counsel, only after taking into consideration the following factors: (i) the provision of other services to the Company by the person that employs the compensation consultant, legal counsel or other adviser; (ii) 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; (iii) the policies and procedures of the person that employs the compensation consultant, legal counsel or other adviser; (iv) any business or personal relationship of the compensation consultant, legal counsel or other adviser with a member of the Committee; (v) any stock of the Company owned by the compensation consultant, legal counsel or other adviser; and (vi) any business or personal relationship of the compensation consultant, legal counsel or other adviser or the person employing the adviser with an "executive officer" of the Company, as the term "executive officer" is defined in the applicable NASDAQ Listing Rules. There is no requirement for a compensation consultant, legal counsel or other compensation adviser to be independent, only that the Committee consider the independence factors enumerated in this paragraph before selecting, or receiving advice from, a compensation adviser; and the Committee is not required to implement or act consistently with the advice or recommendations of the compensation consultant, independent legal counsel or other adviser to the Committee.

The Committee shall keep written minutes of its meetings and deliver copies of the minutes to the Company's corporate secretary for inclusion in the corporate records. The Committee shall regularly report to the Board on the deliberations, actions and recommendations of the Committee taken or adopted since the last report of the Committee to the Board. All actions of the Committee shall be subject to final approval of the Board of Directors.

Adopted by the Board of Directors of Image Sensing Systems, Inc. on May 30, 2013.