

CHARTER OF THE AUDIT COMMITTEE OF COMMUNICATIONS SYSTEMS, INC.¹

Composition

The Audit Committee of the Board of Directors of Communications Systems, Inc. (“Company”) shall consist of a minimum of three directors. The members of the Committee and the Chair of the Committee shall be appointed by the Board of Directors. Any member of the Committee may be removed by the Board of Directors in its discretion. 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 of Directors, would interfere with their exercise of independent judgment as a Committee member. The composition and function of the Audit Committee shall meet the applicable rules and regulations of The NASDAQ Stock Market (“NASDAQ”). Each member of the Audit 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 and under Rule 4200(a) (15) 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.

All members of the Audit Committee shall be able to read and understand fundamental financial statements, including the Company’s balance sheet, income statement and cash flow statement, as required by the NASDAQ Rules. Additionally, at least one member of the Audit Committee shall be financially sophisticated as a result of past employment experience in finance or accounting, requisite professional certification, accounting or any other comparable experience or background, including, but not limited to being or having been a chief executive officer, chief financial officer, other senior officer with financial oversight responsibility or an active participant on one or more public company audit Committees.

Purpose

The purpose of the Audit Committee shall be to oversee the accounting and financial reporting processes of the issuer and the audits of the financial statements of the issuer, including oversight of:

- the integrity of the financial statements of the Company,
- the independence and qualifications of the independent auditor,
- the performance of the Company’s internal audit function and independent auditors, and
- risk management in the areas of financial reporting, internal controls, and compliance with legal and regulatory requirements.

¹ Adopted effective March 29, 2004; as amended through August 8, 2011.

Authority and Responsibility

A. 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 Audit 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.

B. The Audit Committee shall have the authority and responsibility:

1. To 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.
2. To discuss with management and the independent auditor, as appropriate, earnings press releases and financial information and earnings guidance provided to analysts and to rating agencies.
3. To discuss with management and the independent auditor, as appropriate, any audit problems or difficulties and management's response.
4. To 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 such exposure.
5. To 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.
6. To review the Company's internal system of audit and financial controls, and the results of internal audits.
7. To 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.

8. To prepare and publish a report of the Committee to shareholders in the Company's annual proxy statement.
9. To obtain and review at least annually a formal written report from the independent auditor delineating: the auditing firm's internal quality-control procedures; any material issues raised within the preceding five years by the auditing firm's internal quality-control reviews, by peer reviews of the firm, or by any governmental or other inquiry or investigation relating to any audit conducted by the firm.

C. The Committee shall have authority and responsibility to receive on an annual basis a written statement from the independent auditor detailing all relationships between the independent auditor and the Company, consistent with requirements of the Independence Standards Board Standard 1. 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 impact 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 outside auditor.

D. The Audit 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.

E. The Audit 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) (2), (3), (4) and (5) under the Securities Exchange Act of 1934, as amended. The Committee shall have sole authority to approve fees incurred under this 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 Audit Committee in carrying out its duties.

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 auditors. It is also the responsibility of management to assure compliance with laws and regulations and the Company's corporate policies, with oversight by the Committee in the areas covered by this Charter.

Key Practices

The Committee shall meet separately at least four (4) times each year with management and the Company's independent auditors. With respect to any meeting, 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.

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

The Committee shall adopt (and periodically review and revise, as appropriate) a statement of other key practices it shall follow in discharging its duties under this Charter.