

SPAN-AMERICA MEDICAL SYSTEMS, INC.
COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS
CHARTER
Adopted February 11, 2004

I. PURPOSE

The primary function of the Compensation Committee (the “Committee”) of Span-America Medical Systems, Inc. (the “Company”) is to assist the Board of Directors in fulfilling its oversight responsibilities relating to officer and director compensation.

The Committee’s primary duties and responsibilities are to:

- Oversee the development and implementation of the compensation policies, strategies, plans, and programs for the Company’s executive officers and outside directors;
- Review and determine the compensation of the executive officers of the Company; and
- Oversee the selection and performance of the Company’s executive officers and succession planning for key members of the Company’s management.

The Committee shall fulfill these responsibilities by carrying out the activities set forth in Section IV of this Charter.

II. COMPOSITION

The Committee shall be comprised of three or more directors as determined by the Board. Each member of the Committee shall:

- be independent, as defined by Rule 4200(a)(15) of The NASDAQ Stock Market, Inc. Marketplace Rules or any successor rule;
- be free from any relationship that, in the opinion of the Board, would interfere with the exercise of his or her independent judgment as a member of the Committee;
- qualify as a “non-employee director” within the meaning of Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) or any successor provision; and
- qualify as an “outside director” within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended (“Section 162(m)”) or any successor provision.

The members of the Committee shall be elected by the Board at its first meeting after each annual meeting of the Company’s shareholders and shall serve until their successors shall be duly elected and qualified. Unless the Board elects a Chairperson, the

members of the Committee may designate a Chairperson by a majority vote of the full Committee membership. Vacancies occurring for any reason in the membership of the Compensation Committee shall be filled by the Board of Directors.

III. MEETINGS

The Committee shall meet at least once a year or more frequently as necessary to carry out its responsibilities. The Committee may request that any officer or employee of the Company attend a meeting of the Committee or meet with any members of, or consultants or advisors to, the Committee. At its sole discretion, the Committee may meet separately with members of management or with outside advisors to discuss any matters that the Committee believes are appropriate. The Committee may also exclude from its meetings any persons it deems appropriate in order to carry out its responsibilities.

IV. RESPONSIBILITIES AND DUTIES

To fulfill its responsibilities and duties the Committee shall, to the extent it deems necessary or appropriate:

Compensation for Executive Officers and Directors

1. Review at least annually and approve the Company's compensation strategy, corporate goals and objectives relevant to management compensation, and compensation policies with a goal of establishing and maintaining compensation programs that support business objectives, create shareholder value in both the long and short term, retain key executive talent, link compensation with business performance, and comply with applicable regulatory requirements. The Committee may also consider such other factors as it deems appropriate, including, without limitation, compensation policies and practices of any relevant peer group of competitors.
2. Oversee and guide the development and implementation of compensation and benefit plans (including stock-based compensation plans but excluding broad-based benefit plans such as group health, dental, and life insurance plans) applicable to the Company's directors and executive officers, including, without limitation, recommending that the Board of Directors adopt and amend such equity and other compensation plans as the Committee deems necessary or appropriate (or where the compensation plan permits the Committee alone to amend such plan, amend that plan as the Committee deems necessary or appropriate) and take such steps as the Committee deems necessary or appropriate in order to qualify compensation payable under such plans as "performance-based compensation" under Section 162(m) or any successor provision.

3. Review at least annually and determine the measures of performance, both qualitative and quantitative, with respect to the Company's Chief Executive Officer. The Committee shall evaluate at least annually the Chief Executive Officer's performance in light of these measures and, based upon this evaluation, shall determine the Chief Executive Officer's compensation package. The meeting at which this evaluation and approval occurs shall be held in executive session.
4. Review at least annually and determine the measures of performance, both qualitative and quantitative, with respect to the Company's other executive officers. The Committee shall evaluate at least annually each such executive officer's performance in light of these measures and, based upon this evaluation, shall determine the compensation package for each executive officer.
5. Oversee management's decisions concerning the performance and compensation of other Company officers and key employees.
6. Review and determine compensation for non-employee members of the Board of Directors. Such compensation may include, among other things deemed advisable by the Committee, a retainer, meeting fees, committee fees, committee chair fees, equity or stock compensation, benefits, and perquisites.
7. Review and make recommendations to the Board of Directors with respect to insurance coverage for directors and officers.
8. Oversee the development of plans for succession of key members of management and make recommendations to the Board with respect to issues of management succession.
9. Approve separation packages and severance benefits for executive officers to the extent these packages are outside the ordinary plan limits.
10. Determine policies and procedures pertaining to expense accounts of senior executives.

Incentive and Equity-Based Compensation Plans

11. Review and make recommendations to the Board of Directors with respect to the Company's incentive-compensation plans and any equity-based plans.
12. Establish criteria for the granting of options, stock grants, and other discretionary awards under the Company's stock option and other equity incentive plans to directors and "officers" of the Company, as that term is

used in Rule 16b-3 promulgated under the Exchange Act, or any successor provision, and make and approve stock option grants, incentive stock grants, and other discretionary awards in accordance with such criteria.

13. Make recommendations to the Board of Directors regarding reservation of shares for issuance under Company's employee and director benefit plans.
14. Review and monitor the Company's employee pension, profit sharing, and benefit plans.
15. Perform any other activities consistent with this Charter, the Company's Bylaws, and governing law as the Committee or the Board deems necessary or appropriate.

Reports

16. Prepare for inclusion in the Company's proxy statement a Compensation Committee Report on Executive Compensation that complies with the requirements of Section 402(k) of Regulation S-K promulgated under the Exchange Act, or any successor provision.
17. Report regularly to the Board of Directors.
18. Review and reassess, at least annually, the adequacy of this Charter and recommend to the Board of Directors any improvements to this Charter that the Committee deems necessary or valuable.
19. Maintain minutes or other records of meetings and activities of the Committee.

V. POWERS

1. In discharging its duties, the Committee is empowered to investigate any matter within the scope of its responsibilities.
2. The Committee shall have the authority, without seeking Board approval, to obtain such data, engage such professionals and advisors, and use such other internal and external resources as it determines are necessary or desirable to fulfill its responsibilities and duties. Such authority shall include, without limitation, the authority to consult with the Company's management and corporate staff, incur administrative expenses, obtain external reports, published salary surveys, and other materials, and to engage outside advisors, including compensation consultants, accountants, and independent counsel, as it determines are necessary or desirable to carry out its duties.

3. The Committee shall have sole authority to approve fees and other terms of engagement for any advisors, including any compensation consultants, retained by the Committee. The Company must provide for appropriate funding, as determined by the Committee, for the payment of compensation to any advisors employed by the Committee pursuant to this paragraph and ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.
4. Where legally permissible, the Committee shall have the authority to delegate such of its responsibilities as the Committee may deem necessary or appropriate in its sole discretion.