

**SPAN-AMERICA MEDICAL SYSTEMS, INC.  
COMPENSATION & MANAGEMENT DEVELOPMENT COMMITTEE  
OF THE BOARD OF DIRECTORS**

**CHARTER**

**Adopted December 19, 2016**

**I. PURPOSE**

The primary function of the Compensation & Management Development Committee (the “*Committee*”) of **Span-America Medical Systems, Inc.** (the “*Company*”) is to assist the Board of Directors (the “*Board*”) 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.

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 affirmatively determined by the Board to be independent, as defined by Rule 5605(a)(2) of The NASDAQ Stock Market LLC Listing 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.

In affirmatively determining the independence of any director who will serve on the Committee, the Board must consider all factors specifically relevant to determining whether a director has a relationship to the Company which is material to that director's ability to be independent from the Company's management in connection with the duties of a Committee member, including, but not limited to:

- (i) the source of compensation of such director, including any consulting, advisory or other compensatory fee paid by the Company to such director; and
- (ii) whether such director is affiliated with the Company, a subsidiary of the Company or an affiliate of a subsidiary of the Company.

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 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. The Committee shall meet in executive session at least once each year.

### **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 meetings at which this review, evaluation and approval occurs shall be held in executive session (without the Chief Executive Officer present).
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. Together with the Nominating and Governance Committee, ensure that processes are in place for the independent directors of the Board to annually approve performance objectives, evaluation of performance and compensation changes for the Company's senior management.
7. Review and recommend to the Board compensation for non-employee members of the Board. 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.

8. Assess the adequacy of the Company's directors' and officers' insurance coverage and make recommendations to the Board regarding such coverage.
9. Review and approve, and when appropriate, recommend to the Board for approval, any employment agreements and severance arrangements or plans, including any benefits to be provided in connection with a change in control, for the Chief Executive Officer and other senior executive officers, which includes the ability to adopt, amend and terminate such agreements, arrangements or plans.
10. Determine policies and procedures pertaining to expense accounts of senior executives.
11. Review at least annually the Company's compensation programs for the purpose of assessing whether risks arising from the design and implementation of those programs are reasonably likely to have a material adverse effect on the Company.
12. Monitor the Company's compliance with the requirements under the Sarbanes-Oxley Act of 2002 relating to loans to directors and officers, and with all other applicable laws affecting employee compensation and benefits.
13. Keep abreast of current trends, developments and emerging issues in executive compensation outside of the Company.

### **Incentive and Equity-Based Compensation Plans**

14. Review and make recommendations to the Board of Directors with respect to the Company's incentive-compensation plans and any equity-based plans.
15. 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.
16. Make recommendations to the Board of Directors regarding reservation of shares for issuance under Company's employee and director benefit plans.
17. Review and monitor the Company's employee pension, profit sharing, and benefit plans. The Committee shall not serve or otherwise act as a fiduciary for any such plans.

18. 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**

19. Prepare for inclusion in the Company's proxy statement a Compensation Committee Report that complies with the requirements of Section 407(e)(5) of Regulation S-K promulgated under the Exchange Act, or any successor provision.
20. Review and recommend to the Board for approval the frequency with which the Company will conduct shareholder advisory votes on executive compensation ("say-on-pay"), taking into account the results of the most recent shareholder advisory vote on the frequency of say-on-pay required by Section 14A of the Exchange Act, and review and evaluate the proposals regarding say-on-pay and the frequency of say-on-pay to be included in the Company's proxy statement.
21. Select, monitor and revise, as appropriate, the peer groups of companies against which the Company is compared in the stock performance chart set forth in each Annual Report on Form 10-K of the Company.
22. Report regularly to the Board of Directors.
23. 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.
24. Conduct at least annually an assessment of the Committee's own performance in fulfilling its duties and responsibilities under this Charter and assess the adequacy of the reporting and information provided to the Committee by the Company's management.
25. 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, in its sole discretion and 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 legal counsel, as it determines in its sole discretion are necessary or desirable to carry out its duties. 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:

- 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 that are designed to prevent conflicts of interest;
- 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, other adviser or the person employing the adviser with an Executive Officer of the Company;

provided, however, that the Committee is not required to conduct an independence assessment for a compensation adviser that acts in a role limited to the following activities for which no disclosure is required under Item 407(e)(3)(iii) of Regulation S-K: (a) consulting on any broad-based plan that does not discriminate in scope, terms, or operation, in favor of executive officers or directors of the Company, and that is available generally to all salaried employees; and/or (b) providing information that either is not customized for a particular issuer of securities or that is customized based on parameters that are not developed by the adviser, and about which the adviser does not provide advice.

While the Committee is required to conduct the independence assessment outlined in this section V(2) with respect to any compensation consultant,

legal counsel or other adviser that provides advice to the Committee, other than in-house legal counsel, nothing in this section V(2) requires a compensation consultant, legal counsel or other compensation adviser to be independent, only that the Committee consider the enumerated independence factors before selecting, or receiving advice from, a compensation adviser. The Committee may select, or receive advice from, any compensation adviser they prefer, including ones that are not independent, after considering the six independence factors outlined above.

3. The Committee shall have sole authority to appoint, oversee the work of and approve the 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.

**End.**