

CYALUME TECHNOLOGIES HOLDINGS, INC

CHARTER OF THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS

I. PURPOSE

The Compensation Committee (the “Committee”) of Cyalume Technologies Holdings, Inc (the “Company”) shall discharge certain responsibilities of the Board of Directors (the “Board”) of the Company related to the compensation of the Company’s officers and related matters.

II. COMMITTEE MEMBERSHIP

The Committee shall be comprised of three or more members of the Board, each of which shall meet the independent requirements and standards established by the Security and Exchange Commission (the “SEC”).

The members of the Committee shall be appointed by the Board and continue to be members until their successors are elected and qualified or until their earlier resignation or removal. Any member of the Committee may be removed, with or without cause, by the Board at any time.

The Board may appoint one member to be the Chairman. If the Board fails to appoint a Chairman, the members of the Committee shall elect a Chairman by majority vote of all members. The Chairman will chair all regular sessions of the Committee and set the agendas for Committee meetings.

III. COMMITTEE MEETINGS; ACTION BY THE COMMITTEE

The Committee shall establish a regular meeting schedule, shall regularly meet at least semi-annually, and shall meet more frequently as the members deem appropriate and as circumstances dictate. The Chairman of the Committee shall have the authority to schedule all regular meetings of the Committee; provided that any member of the Committee may call a special meeting of the Committee by notice given to all members. A meeting of the Committee may be held by means of such telephonic, electronic or other communication facilities as permit all persons participating in the meeting to communicate with each other simultaneously and instantaneously and participation in such a meeting shall constitute presence in person at such meeting. A majority of the members of the Committee shall constitute a quorum sufficient for the taking of any action by the Committee; provided that such majority includes the Chairman of the Committee. The Committee shall act by vote of a majority of the votes cast of a duly convened meeting of the Committee.

The Committee shall also meet separately, on at least an annual basis, with the chief executive officer (“CEO”), any executive vice president of human resources (or similar position) and any other officers as the Committee deems appropriate to discuss and review the performance criteria and compensation levels of officers. However the Committee shall not, in any event, discuss the specific compensation level or performance of any officer in any meeting at which such officer is present.

The Committee may form and delegate any of its responsibilities to a subcommittee so long as such subcommittee is solely comprised of members of the Committee. The requirements for action by a subcommittee shall, except as otherwise provided by act of the Committee, be the same as applicable to the Committee.

The Committee may invite to its meetings any director, member of management of the Company and such other persons as it deems appropriate in order to carry out its responsibilities. The Committee may also exclude from its meetings any persons it deems appropriate in order to carry out its responsibilities; provided that any such exclusion shall not contravene the observation and information rights provided in the Company’s By-laws.

IV. RESPONSIBILITIES AND AUTHORITY

The responsibilities of the Committee are set forth below. The Committee shall also carry out any other responsibilities assigned to it by the Board from time to time.

In fulfilling its responsibilities, the Committee is empowered to investigate any matter brought to its attention. The Committee has the power to retain outside counsel or other advisors for this purpose and will receive adequate funding from the Company to engage such advisors. In particular, the Committee may appoint, terminate, and oversee compensation and benefit consultants and may negotiate and approve such consultants’ fees and terms of engagement, or the Committee may delegate such matter to management subject to its oversight and review.

Compensation Arrangements

1. Establish and review the overall compensation philosophy of the Company.
2. Annually review market data to assess the Company's competitive position for each significant component of officer compensation by review market data, compiled by third party consultants, for appropriate peer companies.
3. Review corporate goals and objectives relevant to CEO and other officers' compensation, including annual performance objectives, and recommend those goals and objectives for approval by the Board; provided that the Committee itself shall approve goals and objectives for awards intended by the Committee to qualify for an exemption under Section 162(m) of the Internal Revenue Code of 1986, as amended ("Performance-Based Executive Compensation").
4. Evaluate the CEO's and other officers' performance against those corporate goals and objectives, and recommend to the Board the compensation level for each such person based on this evaluation; provided that the Committee itself shall determine all Performance-Based Executive Compensation.
5. Administer awards and compensation programs and plans intended by the Committee to qualify as Performance-Based Executive Compensation, including determining performance measures and goals; setting thresholds, targets, and maximum awards; reviewing performance compared to goals; and certifying goal attainment and approving incentive programs.
6. Review the Company's officer compensation programs to determine whether they are properly coordinated and achieving their intended purpose(s) and make or recommend any appropriate modifications, including the establishment of new such programs.
7. Review and recommend to the Board for approval any changes in any officer compensation plans or equity-based compensation plans of the Company or any of its subsidiaries. For the avoidance of doubt, the Committee shall review and approve (i) the Stock Incentive Plan and related Stock Option Agreement, (ii) any changes to the Stock Incentive Plan and related Stock Option Agreement and (iii) any other similar plans or related agreements.
8. Grant awards of shares or share options pursuant to the Company's equity-based plans.

9. Exercise such other responsibilities in respect of the Company's equity-based compensation plans and other officer compensation and benefits plans as are assigned to the Committee under the express terms of such plans.

Reports

10. Prepare an annual report on executive compensation for inclusion in the Company's proxy statement, in accordance with applicable rules and regulations of the Nasdaq Stock Market, Inc. (or other stock exchange on which the Company's securities may be listed from time to time), SEC and other applicable regulatory bodies.
11. The Committee should report regularly to the Board following each meeting, which reports shall include any recommendations the Committee deems appropriate and any other matters that are relevant to the fulfillment of the Committee's responsibilities. The report to the Board may be an oral report and may be at any meeting of the Board.
12. Maintain minutes or other records of meetings and activities of the Committee.

Annual Self-Evaluation

In addition, the Committee shall conduct an annual self-evaluation of the performance of the Committee, including the effectiveness and compliance with the Charter of the Committee. In addition, the Committee shall annually review and reassess the adequacy of this Charter and recommend to the Board any improvements to this Charter that the Committee considers necessary or valuable.

V. SAVINGS CLAUSE

This charter of the Committee is subject in all respects to the terms of the Company's By-laws. In the event that any provision of this charter conflicts or is inconsistent with the terms of the By-laws the terms, the terms of the By-laws shall govern.