

PEERLESS SYSTEMS CORPORATION COMPENSATION COMMITTEE CHARTER

The purpose of the Compensation Committee (the “Committee”) is to design, evaluate and, in some instances, approve or determine the compensation plans, policies and programs of Peerless Systems Corporation (the “Company”), especially those related to executive compensation. In so doing, the Committee will endeavor to maintain free and open means of communication among the members of the Committee, other members of the Board of Directors (the “Board”) and the management of the Company. The Committee has the authority to undertake, and may exercise all of the powers of the Board with respect to, the specific responsibilities listed below and will have the authority to undertake such other specific responsibilities as the Board from time to time prescribes.

STATEMENT OF PHILOSOPHY

In designing the Company’s compensation programs, the Committee shall be mindful of its belief that compensation should reflect the value created for stockholders while supporting the Company’s business strategies and long-range plans. The Committee is guided by the following four themes:

- A compensation program should stress the Company’s annual performance and increase in value.
- A compensation program should strengthen the relationship between pay and performance by providing variable, at-risk compensation based on predetermined objective performance measures.
- A compensation program should attract, motivate and retain high quality employees who will enable the Company to achieve its strategic and financial performance goals.
- A compensation program should provide an incentive plan that supports a performance-oriented environment, with superior performance resulting in total annual compensation above median levels.

These principles are intended to create a competitive compensation structure that will help attract and retain key management talent, assure the integrity of the Company’s executive compensation practices, tie compensation to performance, promote accountability and safeguard the interests of the stockholders.

COMPOSITION

The Committee will be composed of not less than three directors (the actual number to be determined from time to time by the Board). The members of the Committee are appointed by, and serve at the discretion of, the Board. Each member of the Committee shall, in the business judgment of the Board, possess a combination of business and people management experience that would be valuable in (i) providing broad direction to the Board on matters related to compensation of non-employee directors, the Chief Executive Officer and the other executive

officers, and (ii) advising the Board and the Chief Executive Officer on other executive compensation matters. In addition, each member of the Committee shall:

- satisfy the director “independence” requirements of the Nasdaq National Market;
- be a non-employee director, as defined under Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”); and
- be an “outside director” within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended, and the regulations thereunder.

Organization and Procedures

The members of the Committee will:

- Appoint a Chairman by majority vote no less frequently than every three years.
- Have the authority to establish the Committee’s own rules and procedures consistent with the Company’s Bylaws and this Charter.
- Meet at least four times in each fiscal year and more frequently as it deems desirable.
- Have the ability to form and delegate certain matters to sub-committees comprised of members of the Committee or the Board or executive officers.
- Regularly report to the entire Board, as deemed necessary or desirable by the Committee, but no less frequently than annually, on its findings and actions.
- Have access to, and shall at its discretion utilize the services of, the Company’s regular corporate legal counsel, or at its discretion, retain other legal counsel if it determines that such counsel is necessary.
- Have access to, and shall at its discretion utilize the services of, a compensation consultant or other professional or expert to provide data and advice to the Committee regarding compensation and other matters.
- Maintain written minutes of Committee meetings, which will be filed with the minutes of the meetings of the Board.

DUTIES AND RESPONSIBILITIES

The duties and responsibilities of the Committee shall include:

1. Reviewing, establishing and revising the compensation policy for officers of the Company, and such other employees of the Company as directed by the Board.
2. Reviewing, establishing and revising all forms of compensation, including (a) annual base salary and bonus, (b) annual incentive opportunities, (c) long-term incentive opportunities, (d) grants of options, restricted stock and other equity compensation, (e) all “plan” compensation (as such term is defined in Item 402(a)(7) of Regulation S-K promulgated by the Securities and Exchange Commission), (f) all

employment agreements, severance arrangements and/or change in control severance arrangements and (g) all non-cash compensation, benefits and perquisites and any special or supplemental compensation, benefits or perquisites; in each case to be provided to the executive officers of the Company.

3. Reviewing, establishing and revising the general compensation goals and guidelines for the Company's executive officers and the criteria by which bonuses to the Company's executive officers are to be determined.
4. Periodically reviewing fees and benefits of non-employee directors and making recommendations to the Board in that regard, such review to take place at least every three years.
5. Acting as administrator of the Company's various stock based compensation plans, including the 1996 Equity Incentive Plan, as amended, and all agreements issued thereunder, and such other stock option or equity participation plans as may be adopted by the Board or this Committee from time to time (collectively the "Equity Plans"). In its administration of the Equity Plans, the Committee may, (i) grant stock options, stock purchase rights and/or awards and issue shares of the Company's common stock under the Equity Plans, (ii) amend such stock options, stock purchase rights and/or awards as they deem advisable and (iii) amend the Equity Plans in such ways as they deem advisable. The Committee shall also account for the number of awards granted and available under the respective Equity Plans and make recommendations to the Board with respect to any increase in the number of shares reserved for issuance thereunder.
6. Acting as administrator of the Company's various long-term incentive plans, including, the 401(k) Retirement Savings Program ("Program"), as amended. In administering these plans, the Committee shall have the authority to exercise all powers granted to the administrator of such plans, including, but not limited to, making grants or awards to executive officers, amending the terms of such grants or awards where determined by the Committee to be appropriate, amending the plans where determined by the Committee to be appropriate, overseeing compliance of the plans with applicable laws, determining the appropriate performance objectives with respect to each plan and determining when adjustments should be made to such objectives due to external circumstances or nonrecurring items.
7. Reviewing and making recommendations to the Board regarding the amendment of any currently existing incentive, equity or other benefits plan or program or the adoption of any new incentive, equity or other benefits plan or program for the provision of any form of compensation to the Chief Executive Officer or any other executive officer.
8. Assessing the need for change in control protection and adopting and modifying change in control plans and agreements for executives as appropriate.
9. Reviewing and approving the hiring, termination and promotion, and the terms of employment, of any executive officer of the Company other than the Chief Executive Officer or any employee that has entered into an employment agreement requiring Board approval.

10. Approving the annual performance goals of the Chief Executive Officer and the other executive officers, and reviewing their respective performance.
11. Determining the Company's policy with respect to the application of Section 162(m) of the Internal Revenue Code of 1986, as amended, and when compensation may be paid by the Company which is not deductible for Federal income tax purposes.
12. Providing a report to be included in the Company's annual proxy statement which complies with the requirements of Item 402(k) of Regulation S-K promulgated under the Exchange Act.
13. Reviewing and reassessing the Committee's charter at least annually and submitting any recommended changes to the Board for its consideration.
14. In addition to the foregoing, the Committee shall perform such other functions and have such other powers as may be necessary or convenient in the efficient discharge of the foregoing.

MEETINGS

The Committee will meet at least four times each year and more often if desirable. The Committee may establish its own schedule, which it will provide to the Board. In addition, the Chairman or majority of the Committee may call a meeting at any time during the year to discuss any urgent or important matters. The General Counsel, Human Resources department, and the Chief Financial Officer shall be notified of all meetings.

A quorum, defined as a majority, of the Committee shall participate in each meeting either in person or by telephone.

The Committee will consider stock plans, performance goals and incentive awards, and the overall coverage and composition of the compensation package on an annual basis.

Unless the Committee determines otherwise, the General Counsel of the Company or his designee shall be present at all meetings to advise on legal ramifications and to take minutes of all meetings. When the General Counsel or his designee is not requested to attend, a member of the Committee shall take the minutes of the meeting.

Failure to satisfy pre-meeting notification or agenda requirements shall not invalidate an otherwise duly held meeting.

RESOLUTIONS AND WRITTEN CONSENT

All proposed resolutions shall be prepared by the legal department in consultation with the human resources, tax and accounting departments and shall be discussed and voted upon at the meetings or adopted by unanimous written consent.

All adopted plans of compensation or changes to existing plans, whether for executive officers, directors or other personnel, shall be detailed and attached to the minutes of the appropriate meeting. This includes any grants of options or loans made outside of any official company plan.

When planning to establish, modify or certify performance targets under bonus plans for senior executive officers, grant any and all forms of equity compensation, modify or rescind any stock option or restricted stock grants, or make, modify or rescind loans to employees, the Committee shall consult the Company's General Counsel and Chief Financial Officer before taking action.

INDEPENDENT ADVISORS

The Committee shall have the sole authority and discretion, without further action by the Board of Directors, to engage and determine funding for such independent legal, accounting, compensation consultants and other advisors as the Committee deems necessary or appropriate to carry out its responsibilities. The Committee shall have the direct responsibility for the appointment, compensation and oversight of the work of such independent legal, accounting, compensation consultants and other advisors that it retains. Such independent advisors may be the regular advisors to the Company. The Committee is empowered, without further action by the Board of Directors, to cause the Company to pay the compensation of such advisors as established by the Committee.