

**CHARTER FOR THE
COMPENSATION COMMITTEE
OF
ECHELON CORPORATION**

PURPOSE:

The purpose of the Compensation Committee of the Board of Directors (the “**Board**”) of Echelon Corporation (the “**Company**”) shall be to discharge the Board's responsibilities relating to compensation of the Company's executive officers. The Compensation Committee has overall responsibility for approving and evaluating the executive officer compensation plans, policies and programs of the Company.

The Compensation Committee is also responsible for producing an annual report on executive compensation for inclusion in the Company's proxy statement.

COMMITTEE MEMBERSHIP AND ORGANIZATION:

The Compensation Committee will be appointed by and will serve at the discretion of the Board. The Compensation Committee shall consist of no fewer than two (2) members. The members of the Compensation Committee shall meet (i) all independence requirements of the listing standards of the Nasdaq national market, (ii) the non-employee director definition of Rule 16b-3 promulgated under Section 16 of the Securities Exchange Act of 1934, as amended, and (iii) the outside director definition of Section 162(m) of the Internal Revenue Code of 1986, as amended.

The Board will appoint the members of the Compensation Committee. The Compensation Committee members will serve at the discretion of the Board.

COMMITTEE RESPONSIBILITIES AND AUTHORITY:

- The Compensation Committee shall annually review and approve for the CEO and the executive officers of the Company (a) the annual base salary, (b) the annual incentive bonus, including the specific goals and amount, (c) equity compensation, (d) employment agreements, severance arrangements, and change in control agreements/provisions, and (e) any other benefits, compensation or arrangements.
- The Compensation Committee will conduct an annual review of the CEO's performance.
- The Compensation Committee may make recommendations to the Board with respect to incentive compensation plans.
- The Compensation Committee may form and delegate authority to subcommittees when appropriate.

- The Compensation Committee shall make regular reports to the Board.
- The Compensation Committee shall review and reassess the adequacy of this Charter from time to time and recommend any proposed changes to the Board for approval.
- From time to time, the Compensation Committee shall review its own performance.
- The Compensation Committee shall have the authority to retain and terminate any compensation consultant to be used by the Company to assist in the evaluation of CEO compensation and shall have authority to approve the consultant's fees and other retention terms. The Compensation Committee shall also have authority to obtain advice and assistance from internal or external legal, accounting or other advisors.