

NOVARAY MEDICAL, INC.

CHARTER OF THE COMPENSATION COMMITTEE

I. Purpose

The Compensation Committee (the “Committee”) is appointed by the Board of Directors (the “Board”) of NovaRay Medical, Inc., a Delaware corporation (the “Company”), to assist the Board in discharging its responsibilities relating to compensation of the Company’s directors and executive officers, in accordance with applicable rules and regulations. The Committee shall undertake those specific duties and responsibilities listed below and such other duties as the Board shall from time to time prescribe. All powers of the Committee are subject to the restrictions designated in the Company’s Certificate of Incorporation, as amended (the “Certificate of Incorporation”), the Company’s Bylaws, as amended (the “Bylaws”), and by applicable law.

II. Committee Membership

Committee members shall be elected by the Board and shall serve until their successors shall be duly elected and qualified. The Committee shall consist of no fewer than two members. Each member of the Committee shall be an “outside director” under the regulations promulgated under Section 162(m) of the Internal Revenue Code of 1986, as amended (the “Code”). Committee members may also be removed at any time, with or without cause, by vote of the Board.

III. Structure and Meetings

The Committee shall conduct its business in accordance with this Charter, the Certificate of Incorporation, the Bylaws and any direction by the Board. The Committee chairperson shall be designated by the Board, or, if it does not do so, the Committee members shall elect a chairperson. In the event of a tie vote on any issue, the chairperson’s vote shall decide the issue.

The Committee shall meet at least two times a year at a time and place determined by the Committee chairperson, with further meetings to occur, or actions to be taken by unanimous written consent, when deemed necessary or desirable by the Committee or its chairperson. Members of the Committee may participate in a meeting of the Committee by means of conference call or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation shall constitute presence in person at such meeting.

The Committee chairperson will preside at each meeting. The Committee shall maintain written minutes of its meetings, which minutes will be maintained with the books and records of the Company.

As necessary or desirable, the chairperson of the Committee may invite any Director, officer or employee of the Company, or other persons whose advice and counsel are sought by the Committee, to be present at meetings of the Committee, consistent with the maintenance of

confidentiality of compensation discussions. The Chief Executive Officer of the Company (“CEO”) should not attend any meeting where the CEO’s performance or compensation is discussed.

IV. Committee Authority and Responsibilities

The Committee shall:

1. Annually review and approve the Company’s corporate goals and objectives relevant to CEO compensation, evaluate the CEO’s performance in light of such goals and objectives, and, either as a Committee or together with the other independent directors (as directed by the Board), determine and approve the CEO’s compensation level based on this evaluation. In determining the long-term incentive component of the CEO’s compensation, the Committee will consider the Company’s performance and relative stockholder return, the value of similar incentive awards to CEOs at comparable companies, and the awards given to the Company’s CEO in past years.
2. Annually review and make recommendations to the Board with respect to non-CEO executive officer compensation, and incentive-compensation and equity based-plans that are subject to Board approval. The Committee shall review and approve compensation policies and attempt to ensure that the Company’s compensation program is effective in attracting and retaining such employees, reinforces business strategies and objectives for enhanced stockholder value, and is administered in a fair and equitable manner consistent with established policies and guidelines.
3. Administer the Company’s annual based bonus programs and plans, incentive-compensation programs and plans, equity based programs and plans, and employee benefit programs and plans (401K and deferred compensation) as in effect and as adopted from time to time by the Board; provided that the Board shall retain the authority to interpret such plans.
4. Approve any new equity compensation plan or any material change to an existing plan where stockholder approval has not been obtained.
5. Approve any stock option award or any other type of award as may be required for complying with any tax, securities, or other regulatory requirement, or otherwise determined to be appropriate or desirable by the Committee or Board.
6. Ensure appropriate overall corporate performance measures and goals are set and determine the extent that established goals have been achieved and any related compensation earned.
7. Annually review and approve for the Company’s non-CEO executive officers: (i) annual base salary levels; (ii) annual incentive compensation levels; (iii) long-term incentive compensation levels, if any; (iv) any employment agreements, severance agreements, and change of control agreements/provisions, in each case as, when and if appropriate; and (v) any supplemental or special benefits.

8. Review and recommend to the Board for approval, the compensation to be paid to members of the Board and members of each committee of the Board and ensure that no individual director or any of his subordinates is involved in deciding his own individual compensation in the absence of involvement of any other director.
9. Perform such other functions and have such other powers consistent with this Charter, the Certificate of Incorporation, the Bylaws and governing law, as the Committee or the Board may deem appropriate.

V. Annual Evaluation

The Committee shall periodically review and assess the adequacy of this Charter and recommend any proposed changes to the Board for approval.

VI. Committee Resources

The Committee shall be empowered, without the approval of the Board or management, to engage and compensate independent legal, accounting and other advisors, as it determines necessary to carry out its duties. The Committee shall have the sole authority to retain and terminate any consultant that it uses to assist in the Committee's evaluation of director, CEO or executive officer compensation and shall have the sole authority to approve that consultant's fees and other retention terms. The Committee shall receive appropriate funding, as determined by the Committee, from the Company for payment of: (i) compensation to any advisor employed by the Committee; and (ii) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

The Committee may form and delegate authority to subcommittees when appropriate.