

NOVARAY MEDICAL, INC.

CODE

OF

BUSINESS CONDUCT AND ETHICS

OCTOBER 28, 2008

TABLE OF CONTENTS

	Page
1. POLICY STATEMENT	1
2. APPROVALS AND WAIVERS	1
3. CONFLICTS OF INTEREST	2
Corporate Opportunities & Resources	2
4. BUSINESS RELATIONSHIPS	3
5. FAIR COMPETITION	3
6. GIFTS, GRATUITIES, ENTERTAINMENT AND OTHER CONSIDERATIONS	3
Loans	3
Bribes and Kickbacks	3
7. DOING BUSINESS INTERNATIONALLY	4
Facilitating Payments to Low-Level Non-U.S Governmental Employees and Officials for Non-Discretionary Action	4
8. POLITICAL CONTRIBUTIONS AND LOBBYING	5
9. ACCURACY OF REPORTS, RECORDS AND ACCOUNTS	5
10. GOVERNMENT INVESTIGATIONS	6
11. REGULATORY COMPLIANCE	6
12. INSIDER TRADING; COMMUNICATIONS WITH THIRD PARTIES	6
Insider Trading	6
Communications with the Media and the Financial Community	7
Confidential Information	7
13. COMPLIANCE AND REPORTING	7
Compliance	7
Reporting Procedures and Other Inquiries	7
Policy Prohibiting Unlawful Retaliation or Discrimination	8
The NovaRay Compliance Officer:	9

NOVARAY MEDICAL, INC.
CODE OF BUSINESS CONDUCT AND ETHICS

1. POLICY STATEMENT

It is the policy of NovaRay Medical, Inc. (“NovaRay” or the “Company”) to conduct its affairs in accordance with applicable laws, rules and regulations of the jurisdictions in which it does business. This Code of Business Conduct and Ethics (“Code”) applies to the Company’s employees, officers and non-employee directors, including the Company’s principal executive officer, principal financial officer, principal accounting officer or controller, and persons performing similar functions (“Designated Executives”). This Code is the Company’s “code of ethics” as defined in Item 406 of Regulation S-K. This Code is designed to promote honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships; full, fair, accurate, timely and understandable disclosure in the reports and documents the Company files with, or submits to, the Securities and Exchange Commission (the “SEC”) and in other public communications made by the Company; compliance with applicable governmental laws, rules and regulations; the prompt internal reporting to the appropriate person of violations of this Code; and accountability for adherence to this Code.

NovaRay has established standards for behavior that affects the Company, and employees, officers and directors must comply with those standards. The Company promotes ethical behavior and encourages employees to talk to supervisors, managers, the NovaRay Compliance Officer, or other appropriate personnel when in doubt about the best course of action in a particular situation. Non-employee directors are encouraged to talk to the Audit Committee of the Company’s Board of Directors in such situations. Anyone aware of a situation that he or she believes may violate or lead to a violation of this Code should follow the guidelines under “*Compliance and Reporting*” below.

The Code covers a wide range of business practices and procedures. It does not cover every issue that may arise, but it sets out basic principles. Specific Company policies and procedures provide details pertinent to many of the provisions of the Code and can be used as resources on matters related to the Code. (However, please note that these policies and procedures are neither a part of the Code nor incorporated herein.)

2. APPROVALS AND WAIVERS

Certain provisions of this Code require employees, officers and directors to act, or refrain from acting, unless prior approval is received from the appropriate person. Employees requesting approval pursuant to this Code should request such approval from the NovaRay Compliance Officer. Approvals relating to executive officers and directors must be obtained from the Company’s Board of Directors. All other approvals may be granted by the NovaRay Compliance Officer, or such officer’s designee.

Other provisions of this Code require employees, officers and directors to act, or refrain from acting, in a particular manner and do not permit exceptions based on obtaining an approval. Waiver of those provisions relating to executive officers and directors may only be granted by

the Company's Board of Directors and waivers relating to executive officers and directors must be promptly disclosed to stockholders. All other waivers may be granted by the NovaRay Compliance Officer, or such officer's designee. Changes in this Code may only be made by the Board of Directors and must be promptly disclosed to stockholders. In some situations it may not be clear whether a provision of the Code is intended to apply to particular conduct. In such situations, the Board of Directors has full power and authority to interpret the Code in a manner that they believe reflects its intent, and no determination that the Code was not intended to apply to such conduct shall be deemed to be a waiver of the Code's prohibitions.

3. CONFLICTS OF INTEREST

A conflict of interest arises when personal interests interfere with the ability to act in the best interests of the Company. Employees must discharge their responsibilities on the basis of what is in the best interest of the Company independent of personal consideration or relationships. Non-employee directors must discharge their fiduciary duties as directors of the Company.

Employees should disclose any potential conflicts of interest to the NovaRay Compliance Officer or such officer's designees. An employee should also disclose known potential conflicts of interest involving the employee's spouse, siblings, parents, in-laws and children. Non-employee directors may discuss any concerns with the Audit Committee of the Company's Board of Directors.

Corporate Opportunities & Resources

Employees, officers and directors are prohibited from taking for themselves, personal opportunities that are discovered through the use of corporate property, information or position without approval. Without approval, corporate property, information or position may not be used for personal gain. No employee may compete with the Company, directly or indirectly, except as permitted by Company policies.

Employees, officers and directors should protect the Company's assets and ensure their efficient use. All Company assets should be used for legitimate business purposes.

Company resources may be used for minor personal uses, so long as such use is reasonable, does not interfere with Company duties, is not done for pecuniary gain, does not conflict with the Company's business and does not violate any Company policy.

4. BUSINESS RELATIONSHIPS

NovaRay seeks to outperform its competition fairly and honestly through superior performance, not unethical or illegal business practices. Each employee must endeavor to deal fairly with the Company's customers, suppliers, competitors and employees.

5. FAIR COMPETITION

Fair competition laws, including the U.S. antitrust rules, limit what NovaRay can do. Generally, the laws are designed to prohibit agreements or actions that reduce competition. Employees, officers and directors may not enter into agreements or discussions with competitors that have the effect of fixing or controlling prices, dividing and allocating markets or territories, or boycotting suppliers or customers in violation of applicable law. U.S. and foreign antitrust laws also apply to imports and exports.

6. GIFTS, GRATUITIES, ENTERTAINMENT AND OTHER CONSIDERATIONS

Use of Company funds or other Company property for illegal or unethical purposes is prohibited. The purpose of business entertainment and gifts in a commercial setting is to create goodwill and a sound working relationship, not to gain personal advantage with customers or suppliers.

Loans

Employees may not accept loans from any person or entities having or seeking business with the Company, other than such loans from financial institutions that are arranged in the normal course of business and on ordinary arm's length terms. Designated Executives and directors may not receive loans from the Company, nor may the Company arrange for any loan after the effective date of the Code.

Bribes and Kickbacks

The use of Company funds, facilities or property for any illegal or unethical purpose is strictly prohibited; provided, that certain facilitating payments discussed in "*Doing Business Internationally*" are permitted.

- Employees, officers and directors are not permitted to offer, give or cause others to give, any payments or anything of value in violation of applicable law for the purpose of influencing the recipient's business judgment or conduct in dealing with the Company other than facilitating payments.
- Employees, officers and directors shall not solicit or accept a kickback or bribe, in any form, for any reason.

7. DOING BUSINESS INTERNATIONALLY

NovaRay is committed to the highest business conduct standards wherever it operates. NovaRay observes these standards worldwide. While no one can anticipate all the situations in the worldwide marketplace, the following guidelines always apply:

- Observe all laws and regulations, both U.S. and non-U.S., that apply to business abroad.
- Paying bribes to government officials in violation of applicable law is absolutely

prohibited, even if those bribes are common practice, except for facilitating payments. Employees, officers and directors may not give, promise to give or authorize the giving to a foreign official, a foreign political party, or official thereof or any candidate for foreign political office any money or offer, gift, promise to give or authorize the giving of anything of value to influence any act or decision, to induce such official, party or candidate to do or omit to do any act in violation of the lawful duty of such official, party or candidate, or to induce such official, party or candidate to use his or her influence with a foreign government or agency to affect or influence any act or decision of such foreign government or agency in violation of applicable law.

- Do not cooperate with illegal boycotts.
- Observe licensing requirements and the requirements of applicable import and export control laws.
- Do not enter into an agreement with an agent or consultant that relates to NovaRay's business outside the United States unless it has been approved by the Company.

The laws governing NovaRay's business in foreign countries are extensive and complex, and may be different from those in the United States.

Facilitating Payments to Low-Level Non-U.S. Governmental Employees and Officials for Non-Discretionary Action

NovaRay is committed to complying with the laws of the countries where it operates. In some countries, a very limited category of small payments to facilitate or expedite routine nondiscretionary governmental actions may be permitted as exceptions to antibribery laws, including the U.S. Foreign Corrupt Practices Act ("FCPA"). The requirements pertaining to such payments are complex. NovaRay employees engaged in international business activities must obtain prior approval of the NovaRay Compliance Officer before making any such payment.

These "facilitating payments" to non-U.S. governmental officials are distinguished from payments made to influence a discretionary decision or to cause violation of, or an act in conflict with, the interests of an individual's employer, which are prohibited under applicable law.

8. POLITICAL CONTRIBUTIONS AND LOBBYING

No political contributions are to be made using NovaRay funds or assets to any political party, political campaign, political candidate or public official in the United States or any foreign country, unless the contribution is lawful and expressly authorized. In addition, a political contribution on behalf of NovaRay may not be made, or with the appearance that such contribution is being made on behalf of NovaRay, unless expressly authorized. A "contribution" is any direct or indirect payment, distribution, loan, advance, deposit, or gift of money, services

or anything of value in connection with an election or to an organization or group formed to support or defend a referendum or ballot issue.

Nothing in this Code is intended to discourage anyone from making contributions of their own time or funds to political parties or candidates of their choice. However, they will not be compensated or reimbursed by NovaRay for any personal contributions.

Employees must obtain approval to hire outside counsel or a public affairs firm to contact government officials regarding legislation, regulatory policy, or rule making. This includes grassroots lobbying contacts.

9. ACCURACY OF REPORTS, RECORDS AND ACCOUNTS

Employees, officers and directors are responsible for the accuracy of records, time sheets and reports. Accurate information is essential to NovaRay's ability to meet legal and regulatory obligations and to compete effectively. The records and books of account of NovaRay must meet the highest standards and accurately reflect the true nature of the transactions they record. Destruction of any records, books of account or other documents except in accordance with applicable company procedures regarding document retention is strictly prohibited.

Employees, officers and directors must not create false or misleading documents or accounting, financial or electronic records for any purpose relating to NovaRay, and no one may direct an employee to do so. For example, expense reports must accurately document expenses actually incurred in accordance with NovaRay policies. Employees, officers and directors must not obtain or create "false" invoices or other misleading documentation or invent or use fictitious entities, sales, purchases, services, loans or other financial arrangements for any purpose relating to NovaRay. Employees are also responsible for accurately reporting time worked.

No undisclosed or unrecorded account or fund may be established for any purpose. No false or misleading entries may be made in the Company's books or records for any reason. No disbursement of corporate funds or other corporate property may be made without adequate supporting documentation or for any purpose other than as described in the documents. All employees must comply with generally accepted accounting principles and the Company's internal controls at all times.

10. GOVERNMENT INVESTIGATIONS

Employees, officers and directors must promptly notify counsel of any government investigation or inquiries from government agencies concerning NovaRay and may not destroy any record, books of account, or other documents relating to NovaRay except in accordance with the Company's document retention policy. Any individual that is aware of a government investigation or inquiry may not destroy any record, books of account, or other documents relating to NovaRay unless advised by the NovaRay Compliance Officer or the officer's designee, that he or she may continue to follow the Company's normal document retention policy.

Employees, officers and directors must not obstruct the collection of information, data or records relating to NovaRay. The Company provides information to the government that it is

entitled to during an inspection, investigation, or request for information. Employees, officers and directors must not lie to government investigators or making misleading statements in any investigation relating to NovaRay or attempt to cause any employee to fail to provide accurate information to government investigators. Employees have the right to consult their own legal counsel at their own expense.

11. REGULATORY COMPLIANCE

The Company and its employees must comply with the regulatory requirements of applicable agencies. Employees are expected to take an active role by being knowledgeable about all applicable laws and regulations, attending trainings and requesting information. Employees are encouraged to immediately report regulatory violations, suspected regulatory violations, or potentially harmful or dangerous conditions to a supervisor or the Legal Department.

12. INSIDER TRADING; COMMUNICATIONS WITH THIRD PARTIES

Employees, officers and directors who have access to the Company's confidential information are not permitted to use or share that information for stock trading purposes or for any other purpose except the conduct of our business.

Insider Trading

Inside information is material information about a publicly traded company that is not known by the public. Information is deemed "material" if it could affect the market price of a security or if a reasonable investor would attach importance to the information in deciding whether to buy, sell or hold a security. Inside information typically relates to financial conditions, such as progress toward achieving revenue and earnings targets or projections of future earnings or losses of the Company. Inside information also includes changes in strategy regarding a proposed merger, acquisition or tender offer, new products or services, contract awards and other similar information. Inside information is not limited to information about NovaRay. It also includes material non-public information about others, including the Company's customers, suppliers, and competitors.

Insider trading occurs when an individual with material, non-public information trades securities or communicates such information to others who trade. The person who trades or "tips" information violates the law if he or she has a duty or relationship of trust and confidence not to use the information.

Trading or helping others trade while aware of inside information has serious legal consequences, even if the Insider does not receive any personal financial benefit. Insiders may also have an obligation to take appropriate steps to prevent insider trading by others.

Communications with the Media and the Financial Community

NovaRay communicates with the press and with the financial community through official channels only. The Company provides accurate information about its business, to investors, the media, and the general public. All inquiries received from financial analysts or the media

concerning NovaRay should be directed to the Chief Financial Officer. All legal inquiries concerning NovaRay should be referred to the Legal Department. All inquiries regarding current or former employees of NovaRay should be referred to the Human Resources Department.

Confidential Information

Employees, officers and directors must maintain the confidentiality of information entrusted by the Company or its customers, except when disclosure is authorized or legally mandated. Confidential information includes all non-public information, including information that might be of use to competitors or harmful to the Company or its customers if disclosed.

13. COMPLIANCE AND REPORTING

Compliance

Any employee who violates the provisions of this Code will be subject to disciplinary action, up to and including termination. Willful disregard of criminal statutes underlying this Code may require the Company to refer such violation for criminal prosecution or civil action.

Reporting Procedures and Other Inquiries

Questions regarding the policies in this Code may be directed to the NovaRay Compliance Officer. Managers and supervisors are also resources who can provide timely advice and guidance. Any employee having knowledge of, or questions or concerns about, an actual or possible violation of the provisions of this Code is encouraged to promptly report the matter to his or her immediate supervisor or to the NovaRay Compliance Officer. The contact information for the NovaRay Compliance Officer is set out below. Directors are encouraged to discuss any issues or concerns with the Audit Committee of the Board of Directors.

Any concerns relating to NovaRay's accounting, internal controls or auditing matters, may also confidentially, and anonymously if desired, be submitted in writing to the Company's Audit Committee of the Board of Directors at: NovaRay Audit Committee of the Board of Directors, c/o Michael C. Phillips, Morrison & Foerster LLP, 755 Page Mill Road, Palo Alto, California 94304-1018, Fax: (650) 494-0792.

When submitting concerns, please provide as much detailed information as possible. Providing detailed, rather than general, information will assist the Company in effectively investigating complaints. This is particularly important when a complaint is submitted on an anonymous basis, since the Company will be unable to contact the submitter with requests for additional information or clarification.

The Company is providing these anonymous reporting procedures so that genuine concerns may be disclosed without feeling threatened. Employees who choose to identify themselves when submitting a report may be contacted in order to gain additional information.

All conversations, calls and reports made under this policy in good faith will be taken seriously. Any allegations that are knowingly false or without a reasonable belief in the truth and accuracy of such information will be viewed as a serious disciplinary offense.

Policy Prohibiting Unlawful Retaliation or Discrimination

Neither the Company nor any of its employees may discharge, demote, suspend, threaten, harass or in any manner discriminate against any employee in the terms and conditions of employment based upon any lawful actions of such employee who in good faith:

- provides information or assists in an investigation regarding any conduct which the employee reasonably believes constitutes a violation of Fraud Laws (as defined below); or
- files, testifies, participates or otherwise assists in a proceeding that is filed or about to be filed (with any knowledge of the Company) relating to an alleged violation of a Fraud Law.

This policy applies in any instance where such information or assistance provided to, or the investigation is conducted by, a federal regulatory or law enforcement agency, any member or committee of Congress, or any person with supervisory authority over the employee or the authority to investigate misconduct relating to potential securities violations by the Company or its employees. For purposes of this policy, a “Fraud Law” is a violation of federal criminal law involving:

- securities fraud, mail fraud, bank fraud or wire, radio or television fraud;
- violations of SEC rules or regulations; or
- violations of any federal law relating to fraud against stockholders.

The NovaRay Compliance Officer:

NovaRay Compliance Officer: Edward G. Solomon, email: esolomon@novaraymedical.com.

This document is not an employment contract between NovaRay and its employees, nor does it modify their employment relationship with the Company. This Code is intended to clarify the existing obligation for proper conduct. The standards and the supporting policies and procedures may change from time to time in the Company’s discretion. Employees, officers and directors are responsible for knowing and complying with the current laws, regulations, standards, policies and procedures that apply to the Company’s work. The most current version of this document can be found at www.novaraymedical.com.