



RAE SYSTEMS INC.

CODE OF CONDUCT AND ETHICS

1. Policy Statement

We are committed to being a good corporate citizen and it is our policy to conduct our business affairs honestly and in an ethical manner. That goal cannot be achieved unless each of our employees individually accepts his or her responsibility to promote integrity and ethical conduct in all of his or her activities. Activities that may call into question our reputation or integrity should be avoided. The provisions of this Code cannot anticipate every situation that may pose an ethical or moral issue, and RAE Systems understands that not every situation is black and white. The key to compliance with the Code is exercising good judgment. This means following the spirit of this Code and the law, doing the “right” thing and acting ethically even when the law is not specific.

Managers set an example for other employees and are often responsible for directing the actions of others. Every manager and supervisor is expected to take necessary actions to ensure compliance with this Code, to provide guidance and assist employees in resolving questions concerning the Code and to permit employees to express any concerns regarding compliance with this Code. No one has the authority to order another employee to act contrary to this Code.

The Code outlines the broad principles of legal and ethical business conduct under which we do business. The Code is intended to supplement, but not to replace, our Employee Handbook and any policies that we have established. Every person who works for RAE Systems, its affiliates or subsidiaries, is expected to understand and comply with the provisions of this Code.

Violations of the Code of Conduct and Ethics, including failures to report potential violations by others, will be viewed as a disciplinary matter that may result in personnel action, including termination of employment. If you believe that a violation of this Code of Conduct and Ethics has occurred, please contact the Ethics Manager, David Achterkirchen, at (408) 952-8412 or ethicsmanager@raesystems.com. If you are concerned about maintaining anonymity, you may contact National Hotline Services, a confidential third-party reporting service, by calling (800) 826-6762, or by mail to RAE Systems Inc., c/o David Achterkirchen.

2. Compliance with Laws and Regulations

RAE Systems seeks to comply with both the letter and spirit of the laws and regulations in all countries in which it operates.

We are committed to full compliance with the laws and regulations of the cities, states and countries in which we operate. Numerous federal, state and local laws and regulations define and establish obligations with which RAE Systems, its employees and agents must comply. Violation of governing laws and regulations may subject RAE Systems to significant risk of fines, penalties and damaged reputation. All of our employees are expected to comply with applicable laws, rules and regulations when performing duties for RAE Systems. Under certain circumstances, local country law may establish requirements that differ from this Code, and in such situations employees should comply with all local country laws. An employee or agent who violates laws or regulations in performing duties for RAE Systems risks individual indictment, prosecution and penalties, and civil actions and penalties, and may subject RAE Systems to the same risks and penalties. An employee who violates these laws or this Code may be subject to immediate disciplinary action, including possible termination of employment or affiliation with RAE Systems. As explained below, you should always consult with your manager or David Achterkirchen, Ethics Manager, regarding any questions you may have about the legality of your or your colleagues’ conduct.

3. Fair Dealing and Business Ethics

Our goal is to conduct our business with integrity.

We expect all of our employees to deal honestly with our customers, suppliers, competitors, and other employees. Under federal and state laws, we are prohibited from engaging in unfair methods of competition, and unfair or deceptive acts and practices, and expect you to avoid taking unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other unfair dealing.

Examples of these unfair or deceptive acts or practices include:



- bribery or payoffs to induce business or breaches of contracts by others;
- acquiring a competitor's trade secrets through bribery or theft;
- making false, deceptive or disparaging claims or comparisons about competitors or their products or services; or
- mislabeling products or services.

These are examples of possible activities that we expect our employees to avoid. You should feel free to discuss any concerns about these activities with your manager or our Ethics Manager.

4. Ethics Obligations for Employees

It is of critical importance to RAE Systems that all disclosures in every communication that we make to third parties be fair, accurate, timely and understandable. You may be called upon to provide information to assist RAE Systems in these responsibilities consistent with your role within RAE Systems. We expect all of our employees to take this responsibility seriously, and to provide prompt and accurate answers to all inquiries made to you in connection with the above. In addition, our Chief Executive Officer, Chief Financial Officer, and other members of our Finance Department each bear a special responsibility for promoting integrity throughout RAE Systems and fostering a culture throughout RAE Systems as a whole that ensures that we adhere to these responsibilities.

By accepting the Code of Conduct and Ethics, each employee agrees that he or she will:

- Act with honesty and integrity, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships.
- Comply with rules and regulations of federal, state, provincial and local governments, and other appropriate private and public regulatory agencies applicable to the performance of his or her duties to RAE Systems.
- Respect the confidentiality of information acquired in the course of his or her work except when authorized or otherwise legally obligated to disclose. Confidential information acquired in the course of one's work will not be used for personal advantage.
- Promptly report to the Ethics Manager any conduct that the individual believes to be a violation of law or business ethics or of any provision of the Code of Conduct.

In addition, because of the special role our Chief Executive Officer, Chief Financial Officer, and other members of our Finance Department have in the preparation of our financial statements, they bear additional responsibilities, and by accepting the Code of Conduct and Ethics each agrees that, in addition to the items noted above, he or she will:

- Comply with our established accounting procedures, our system of internal controls and generally accepted accounting principles.
- Provide information that is accurate, complete, objective, relevant, timely and understandable to ensure full, fair, accurate, timely and understandable disclosure in reports and documents that we file with, or submit to, governmental agencies and in other public communications made by us.

5. Conflicts of Interest and Corporate Opportunities

Employees should avoid any situation in which his or her personal interests conflict or appear to conflict with the interests of RAE Systems, and should make business decisions and take actions based on the best interests of RAE Systems as a whole and not based upon personal relationships or benefits.

There are certain situations and activities that may create a conflict between your interests and those of RAE Systems. You should avoid any relationship, influence or activity that would cause a conflict of interest, or appear to cause a conflict of interest, with your duties and responsibilities at RAE Systems. This includes situations in which your personal, family or financial interests conflict or appear to conflict with those of RAE Systems. You should not take for your own benefit opportunities discovered in the course of employment that you have reason to know would benefit RAE Systems. Sometimes a conflict of interest will develop unexpectedly. If you feel that you have a conflict, actual or potential, you should report the details to your manager. Although not every actual or potential activity creating a conflict of interest is automatically prohibited, you should disclose all details of the conflict to your manager, and if possible obtain written approval from the Ethics Manager before participating in any such activity.



Since it isn't always easy to spot potential conflicts of interests, set forth below are some examples of actual or potential conflicts. It is not possible to list every possible potential conflict and you are encouraged to consult with the Ethics Manager before taking action if you are uncertain whether an activity may constitute a conflict of interest.

- you or a member of your family, receives improper personal benefits as a result of your position at RAE Systems;
- you use Company property for your personal benefit;
- you engage in activities that interfere with your loyalty to RAE Systems or your ability to perform Company duties or responsibilities effectively;
- you work simultaneously (whether as an employee or a consultant) for a competitor, customer or supplier;
- you, or a member of your family, have a financial interest in a customer, supplier, or competitor which is significant enough to cause divided loyalty with the Company or the appearance of divided loyalty (the significance of a financial interest depends on many factors, such as size of investment in relation to your income, net worth and/or financial needs, your potential to influence decisions that could impact your interests, and the nature of the business or level of competition between the Company and the supplier, customer or competitor);
- you, or a member of your family, acquire an interest in property (such as real estate, patent or other intellectual property rights or securities) in which you have reason to know the Company has, or might have, a legitimate interest;
- you, or a member of your family, receive a loan or a guarantee of a loan from a customer, supplier or competitor (other than a loan from a financial institution made in the ordinary course of business and on an arm's-length basis);
- you divulge or use the Company's confidential information – such as financial data, customer information, or computer programs – for your own personal or business purposes;
- you make gifts or payments, or provide special favors, to customers, suppliers or competitors (or their immediate family members) with a value significant enough to cause the customer, supplier or competitor to make a purchase, or take or forego other action, which is beneficial to RAE Systems and which the customer, supplier or competitor would not otherwise have taken; or
- you are given the right to buy stock in other companies or you receive cash or other payments in return for promoting the services of an advisor, such as an investment banker, to RAE Systems.

Neither you, nor members of your immediate family, are permitted to solicit or accept valuable gifts, payments, special favors or other consideration to or from customers, suppliers or competitors beyond those extended in the normal course of business, and you should not make payments or promises to influence someone else's acts or decisions. You must observe all government restrictions on gifts and entertainment, including the restrictions of the Foreign Corrupt Practices Act which makes it illegal to offer payment, promise to pay, or authorization to pay any money, gift, or anything of value to any foreign official, or any foreign political party, candidate or official, for the purpose of (1) influencing any act, or failure to act, in the official capacity of that foreign official or party; or (2) inducing the foreign official or party to use influence to affect a decision of a foreign government or agency, in order to obtain or retain business for anyone, or direct business to anyone. If a circumstance arises where local customs call for the exchange of gifts of more than nominal value as part of the business relationship, the gifts may be accepted only on behalf of RAE Systems with the approval of your manager and the Ethics Manager. Any gifts received should be turned over to Human Resources for appropriate distribution.

Although we encourage you to participate in industry and civic associations, you should be sensitive to possible conflicts with our business interests, if, for instance, the association takes a position adverse to our interests. As a general rule, employees may not accept a position as an outside director of another company without prior written approval from the Ethics Manager. In addition, employees may not accept a position as an outside director of any current or likely competitor of RAE Systems.



6. Foreign Corrupt Practices Act

The United States Foreign Corrupt Practices Act (“FCPA”) has applied to RAE Systems’ business operations globally since our inception. The FCPA is a U.S. law that makes it a crime to pay or offer to pay anything of value, directly or through one or more intermediaries, to any non-U.S. official, including employees of state-owned companies, political candidates, or anyone acting on behalf of a public organization. All employees, agents, consultants, representatives, and joint venture partners acting on behalf of RAE Systems or its controlled subsidiaries must fully comply with the provisions of the FCPA. We do not tolerate violations. Compliance is a condition of employment or association with our Company. Interpreting the FCPA is not a simple task. There are times when situations fall into the “gray areas” of the FCPA. If you have any questions regarding the FCPA or a request for payment, contact the Ethics Manager.

In many industries and countries, gifts and entertainment are common practices used to strengthen business relationships. Throughout the world, RAE Systems’ position is clear: No gift, favor or entertainment should be accepted or provided if it will obligate, or appear to obligate, the person who receives it. Receiving or giving gifts of cash or cash equivalents is never allowed. Any proposed payment or gift to a foreign official, political party, or candidate must have prior review by the Ethics Manager, even if the payment or gift is common in that country. Keep in mind that foreign officials, under the FCPA, can include executives and employees of government-owned or government-affiliated corporations, universities, and other entities. A government-affiliated entity includes an entity wholly or partially owned or invested in by any government entity, including but not limited to those on the state, national, provincial, local, county, municipal, township, or village level, and any related bureaus or departments. Always ask if you have some doubt regarding government ownership.

RAE Systems employees may accept or give gifts, favors, and entertainment only if they meet ALL of the following criteria:

- They are not against the law or the policy of the other parties’ company.
- They are consistent with customary business practices in the country or industry.
- They are reasonably related to business relationships.
- They cannot be viewed as a bribe, payoff, or improper influence.
- Public disclosure of the facts would not embarrass the company or the employee.
- They do not violate our business values or ethics in any other manner.

If you are offered a gift that falls outside the list shown above, you should politely refuse. There may be rare cases, such as a public presentation, where refusal of a gift may not be possible, or, in some countries, cultural norms may prevent refusing a gift without being rude. In those situations you may accept the gift and promptly turn it over to RAE Systems. It is NEVER acceptable to request or ask for personal gifts, favors, entertainment or services.

To prevent conflicts around gift giving, it is often helpful at the start of a business relationship to discuss what is not allowed.

7. Protection and Proper Use of Company Assets

You should endeavor to protect our assets and ensure their proper use.

Company assets, both tangible and intangible, should be used only for legitimate business purposes of RAE Systems and only by authorized employees or consultants. Intangible assets include intellectual property such as trade secrets, patents, trademarks and copyrights, business, marketing and service plans, engineering and manufacturing ideas, designs, databases, Company records, salary information, and any unpublished financial data and reports. Unauthorized alteration, destruction, use, disclosure or distribution of Company assets violates Company policy and this Code.

RAE Systems provides computers, voice mail, electronic mail (e-mail), and Internet access to certain employees for the purpose of achieving our business objectives. As a result, RAE has the right to access, reprint, publish, or retain any information created, sent or contained in any of RAE’s computers or e-mail systems of any Company machine. You may not use e-mail, the Internet or voice mail for any illegal purpose or in any manner that is contrary to RAE’s policies or the standards embodied in this Code.

You should not make copies of, or resell or transfer, copyrighted publications, including software, manuals, articles, books, and databases being used in RAE, that were created by another entity and licensed to RAE, unless you are authorized to do so under the applicable license agreement. You may not transfer any data or information to any Company computer other than for Company use. Although you may use a handheld computing device or mobile phone in



connection with your work for RAE, you may not use this device or phone to access, load or transfer content, software or data in violation of any applicable law or regulation or without the permission of the owner of such content, software or data. If you should have any questions as to what is permitted in this regard, please consult with the Company's Information Systems Director.

8. Reporting Violations of Company Policies and Receipt of Complaints Regarding Financial Reporting or Accounting Issues

You should report any violation or suspected violation of this Code to the appropriate Company personnel or via RAE'S anonymous and confidential reporting procedures.

In connection with our efforts to ensure observance of, and adherence to, the goals and policies we have outlined in this Code, we have designated David Achterkirchen as our Ethics Manager for purposes of matters of business ethics and conduct. You should promptly bring to the attention of the Ethics Manager any conduct that you believe in good faith to be an actual or apparent violation of this Code. We encourage you to work with your managers or other appropriate personnel in making such reports, but you may also make such reports directly to the Ethics Manager, or anonymously pursuant to our confidential reporting procedures. Prompt reporting is in the best interests of everyone. The following are some approaches to handling potential questions or concerns about violations of this Code:

- Discuss your concerns with a supervisor or other member of Company management. In the event you believe a violation of the Code, including a violation of applicable laws and/or governmental regulations, has occurred or you have become aware of conduct that may be contrary to the Code, you should discuss the situation with your manager or supervisor. Supervisor or managers who receive any report of a suspected violation must report the matter to the Ethics Manager. If you have or receive notice of a complaint or concern regarding the Company's financial disclosure, accounting practices, internal accounting controls, auditing, or questionable accounting or auditing matters, you **must** immediately advise your supervisor. If it would be inappropriate to discuss the issue with your supervisor, or if you would be more comfortable discussing the situation with the Ethics Manager, you may report directly to the Ethics Manager or anonymously pursuant to our confidential reporting procedures. Our confidential reporting procedures are set forth in Section 1 hereof.
- Use common sense and good judgment; Act in good faith. You should become familiar with and to understand the requirements of the Code. If you become aware of a suspected violation, don't try to investigate it or resolve it on your own. Allegations of violations of the Code are not taken lightly and should not be made to embarrass someone or put him or her in a false light. Reports of suspected violations should always be made in good faith.
- Internal investigation. We will investigate all allegations of violation of this Code made in good faith in accordance with the procedures set forth below, and expect you to cooperate in any such internal investigation.
- No fear of retaliation. It is our policy that there be no intentional retaliation against any person who provides truthful information to a Company or law enforcement official concerning a possible violation of any law, regulation or Company policy, including this Code. Persons who retaliate may be subject to civil, criminal and administrative penalties, as well as disciplinary action, up to and including termination of employment. In cases in which you report a suspected violation in good faith and are not engaged in the questionable conduct, we will attempt to keep our discussions with you confidential to the greatest extent possible. In the course of our investigation, we may find it necessary to share information with others on a "need to know" basis. No retaliation shall be taken against you for reporting alleged violations while acting in good faith.

9. Compliance Procedures

We have established this Code as part of our overall policies and procedures. To the extent that other Company policies and procedures conflict with this Code, you should follow this Code. The Code applies to all Company directors and Company employees, including all officers, in all locations. We will ensure that employees may access the Code on our internal website and each employee shall be provided with a hard copy of the Code. From time to time, we will sponsor employee training programs in which the Code and other Company policies and procedures will be discussed. RAE Systems shall maintain a record of all incidents reported as violations of the Code.



- **Monitoring.** The Ethics Manager shall be responsible for reviewing the Code with all of the Company's managers. In turn, the Company's managers with supervisory responsibilities should review the Code with his/her direct reports. Managers will work with the Ethics Manager in assessing areas of concern, potential violations, and overall compliance with the Code and other related policies.
- **Internal Investigation.** When an alleged violation of the Code is reported, RAE Systems shall take prompt and appropriate action in accordance with the law and regulations and otherwise consistent with good business practice. If the suspected violation appears to involve either a possible violation of law or an issue of significant corporate interest, including complaints or concerns regarding the Company's financial disclosures, internal accounting controls, questionable auditing or accounting matter or practices, then the manager or investigator should immediately notify the Ethics Manager. The Ethics Manager or other senior officer of the Company, as applicable, shall assess the situation and determine an appropriate course of action. If a suspected violation involves any director or executive officer or if the suspected violation concerns any fraud involving management or other employees who have a significant role in the Company's internal controls, any person who received such report should immediately report the alleged violation to the Ethics Manager, if appropriate, the Chief Executive Officer and/or the Chief Financial Officer. At a point in the process consistent with the need not to compromise the investigation, a person who is suspected of a violation shall be apprised of the alleged violation and shall have an opportunity to provide a response to the investigator.
- **Disciplinary Actions.** The Ethics Manager, after appropriate consultation, shall be responsible for implementing the appropriate disciplinary action in accordance with our policies and procedures for any employee who is found to have violated the Code. Any employee engaged in the exercise of substantial discretionary authority, including any senior officer, who is found to have engaged in a violation of law or unethical conduct in connection with the performance of his or her duties for RAE Systems, shall be removed from his or her position and not assigned to any other position involving the exercise of substantial discretionary authority.' In addition to imposing discipline upon employees involved in non-compliant conduct, RAE Systems shall impose discipline, as appropriate, upon an employee's supervisor, if any, who directs or approves such employees' improper actions or is aware of those actions but does not act appropriately to correct them, and upon other individuals who fail to report known non-compliant conduct. Disciplinary action may include the termination of the employee's employment, and violations of law may be brought to the attention of appropriate law enforcement personnel.
- **Remedial Action.** In the event of a violation of the Code, the Ethics Manager should assess the situation to determine whether the violation demonstrates a problem that requires remedial action as to Company policies and procedures. Such remedial action may include retraining Company employees, modifying Company policies and procedures, improving monitoring of compliance under existing procedures and other action necessary to detect similar non-compliant conduct and prevent it from occurring in the future. Such corrective action shall be documented, as appropriate.

10. Publication of the Code of Conduct and Ethics; Amendments and Waivers of the Code of Conduct and Ethics

The most current version of this Code will be posted and maintained on our website.

Any material amendment or any waiver of this Code for executive officers or directors may be made only after approval by the Board of Directors.