

Corporate Code of Business Conduct and Ethics

Purpose

This Corporate Code of Business Conduct and Ethics (this “Code”) contains the policies that relate to the legal and ethical standards of conduct of employees, agents and representatives (together, “Employees”) of Cyberonics, Inc. (together with its controlled subsidiaries and affiliated entities the “Company”). This Code sets forth the Company’s expectations regarding the conduct of the Company’s Employees and directors while acting on the Company’s behalf and also provides guidelines regarding administration of the Code. This Code should be provided to and an agreement to abide, with an acknowledgement of having abided, by its provisions should be received from all Employees and directors on an annual basis. The Company strives to apply high ethical, moral and legal principles in every aspect of business conduct.

Policy

The Company requires that all laws applicable to it or the conduct of its business, regardless of where located, be observed. If a law conflicts with a policy in this Code, the law must be followed; however, if a local custom or policy conflicts with this Code, this Code must be followed. If in doubt about how to deal with conflicts among this Code and local laws, custom or practice, the Company’s General Counsel should be contacted for guidance. This Code and all laws and regulations applicable to the Company must be strictly followed. The exercise of personal discretion or judgment in this area is not acceptable. Each Employee has the personal responsibility to adhere to these standards and apply them in good faith and with reasonable business judgment. Any Employee who does not adhere to these standards is acting outside the scope of employment or agency.

Along with legal compliance, all Employees and directors should observe high standards of business and personal ethics when performing assigned duties. This requires using honesty and integrity when dealing with other Company Employees, the public, the business community, stockholders, customers, suppliers and governmental and regulatory authorities.

Waivers of the Code of Business Conduct and Ethics

Any waiver of this Code for executive officers or directors may be made only by independent directors and will be promptly disclosed as required by law and regulation by the NASDAQ Stock Market Inc. In the absence of a waiver, all directors, officers, and employees must conform their conduct to the letter and spirit of this Code, and no director, officer, or employee shall override, or mandate, approve, or engage in any conduct that violates, the letter or spirit of this Code or any other financial or other policy of the Company.

Compliance with Laws, Rules and Regulations (including Insider Trading Laws)

Obedying the law both in letter and in spirit is the foundation upon which the Company’s ethical standards are built. Although Employees of the Company are not expected to know every law that is applicable to the Company, it is important that Employees know enough to ask questions and seek advice from supervisors, managers, lawyers or other appropriate personnel if

they have any doubt regarding the legality of an action taken, or not taken, on behalf of the Company. For this reason, the Company periodically organizes information and training sessions to promote compliance with laws, rules and regulations and all invited Employees are expected to attend these information and training sessions.

Employees are required to comply with all healthcare laws applicable to the Company including, but not limited to, the Health Insurance Portability and Accountability Act of 1996 (“HIPPA”), Medicare and Medicaid. All Employees shall comply with the Company’s policies and procedures relating to HIPPA and other healthcare laws.

Purchasing or selling, whether directly or indirectly, securities of the Company while in possession of material non-public information is both unethical and illegal. Employees are also prohibited by law from disclosing material non-public information to others who might use such information to directly or indirectly place trades in the Company’s securities. Employees shall also not recommend the purchase or sale of the Company’s securities. All Employees shall comply with the Company’s Insider Trading Policy.

Pursuant to Section 16 of the Rules and Regulations of the Securities Exchange Act of 1934, most purchases or sales of securities of the Company by directors, executive officers, and 10% stockholders must be disclosed within two business days of the transaction. Employees who are subject to these reporting requirements must comply with the Company’s Policy on Compliance with Short-Swing Trading and Reporting Laws.

Confidentiality

Employees shall maintain the confidentiality of information entrusted to them by the Company or its customers, except when disclosure is authorized or legally mandated. Confidential information includes all non-public information that if disclosed might be of use to competitors, or harmful to the Company or its customers. Confidential information also includes all non-public information that is learned about the Company’s suppliers and customers that is not in the public domain. The obligation to preserve confidential information shall continue even after employment or agency with the Company ends. Any documents, papers, records, or other tangible items that contain trade secrets or proprietary information are the property of the Company.

Conflicts of Interest

A conflict of interest occurs when an individual’s private interest interferes in any way with the interests of the Company as a whole. This situation can arise when an Employee, officer, or director takes actions or has interests that may make it difficult to perform his or her work objectively and effectively. Conflicts of interest also arise when an Employee, officer or director, or a member of his or her family or household, receives improper personal benefits as a result of his or her position in the Company.

It is almost always a conflict of interest for an Employee to work simultaneously for a competitor, customer or supplier. No Employee or Director is permitted to work for a competitor as a consultant or board member. The best policy is to avoid any direct or indirect

business connection with the Company's customers, suppliers or competitors, except on the Company's behalf.

Conflicts of interest are prohibited as a matter of Company policy, except under guidelines approved by the Board of Directors. Any Employee or director who becomes aware of a conflict or potential conflict should bring it to the attention of a supervisor, manager or other appropriate personnel or consult the procedures described in the *Compliance Procedures* Section of this Code.

Prior to engaging in any material transaction or relationship not specifically addressed herein that reasonably could be expected to give rise to a conflict of interest, an Employee shall consult with the Company's Chief Executive Officer and then the Chairman of the Nominating & Governance Committee.

Each independent director shall use reasonable efforts to ensure that he or she does not have any relationships or engage in any activities that would result in such director not being independent for purposes of the Securities Act of 1934, as amended, the rules and regulations of the Securities Exchange Commission or the rules of the Nasdaq Stock Market, Inc. (including if such director is a member of the Company's Audit Committee, rules regarding independence applicable to service on such committee). Prior to engaging in any material relationship or activity that reasonably could be expected to affect such director's independence, the director shall consult with the Chairman of the Nominating & Governance Committee of the Company who shall determine if such relationship or activity is permitted under the independence standards established by the Board of Directors. If the independence standards set by the Board of Directors do not address the specific relationship or activity being reviewed, such relationship or activity shall be referred to the Board of Directors for determination.

Corporate Opportunities

Employees and directors are prohibited from (a) taking for themselves personally opportunities that are discovered through the use of corporate property, information, or position; and (b) using corporate property, information, or position for personal gain. No Employee shall compete in any way with the Company. Employees and directors of the Company owe a duty to the Company to advance its legitimate interest when the opportunity to do so arises.

Fair Dealing

Each Employee and director should endeavor to deal fairly with the Company's customers, suppliers, competitors and employees. None should take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other unfair-dealing practice.

Gifts

The purpose of business entertainment and gifts in a commercial setting is to create good will and sound working relationships, not to gain unfair advantage with customers or suppliers. No gift or entertainment should ever be offered, given, provided or accepted by any Employee, family member of an Employee unless it: (1) is not a cash gift, (2) is consistent with customary

business practices, (3) is not excessive in value, (4) cannot be construed as a bribe or payoff and (5) does not violate any laws or regulations. Supervisors can advise on the appropriateness of any gifts or proposed gifts.

Protection and Proper Use of Company Assets

All Employees should protect the Company's assets and ensure their efficient use. Theft, carelessness and waste have a direct impact on the Company's profitability. All Company assets should be used for legitimate business purposes. Company assets and equipment should only be used for Company business, although incidental personal use of assets may be permitted in some circumstances.

No executive officer (or the equivalent thereof)¹ listed on Schedule A hereto or Director shall seek or accept from the Company or any subsidiary of the Company credit, an extension of credit or the arrangement of an extension of credit in the form of a personal loan, and any existing personal loan shall not be materially modified, extended or renewed.

Company Records

All Company books, records, accounts, funds and assets must be maintained to reflect fairly and accurately the underlying transactions and disposition of Company business in reasonable detail. No accounting entries will be recorded that intentionally conceal, disguise or misrepresent the true nature of any transaction involving the Company.

In this respect, the following guidelines must be followed:

- No undisclosed, unrecorded, or "off book" funds or assets should be established for any purpose;
- No false or fictitious invoices should be paid or created;
- No false or artificial entries should be made or misleading reports issued;
- Assets and liabilities of the Company shall be recognized and reported on the Company's consolidated financial statements in accordance with the Company's standard practices and U.S. GAAP; and
- No Employee or director should take any action to fraudulently influence, coerce, manipulate or mislead the Company's independent auditors.

If an Employee believes that the Company's books and records are not being maintained in accordance with these requirements, the Employee should report the matter directly to their supervisor. If that also is not appropriate or if a satisfactory resolution is not obtained, call (877) 671-5139, the Company's toll-free Ethics Line.

¹ Cyberonics' executive officers and equivalents are listed on Schedule A hereto (as it may be updated from time to time).

Preparation and Certification of 1934 Act Reports

Each Annual Report on Form 10-K of the Company shall contain an internal control report that (i) states the responsibility of management for establishing and maintaining an adequate internal control structure and procedures for financial reporting; (ii) contains an assessment, as of the end of the most recent fiscal year of the Company, of the effectiveness of the internal control structure and procedures of the Company for financial reporting; (iii) as of the end of the Company's first fiscal year ending on or after June 15, 2004, includes a statement that the Company's independent auditor has attested to, and reported on, management's evaluation of the internal controls and procedures for financial reporting; (iv) includes the attestation report of the Company's independent auditor; and (v) otherwise complies with Section 404 of the Sarbanes-Oxley Act of 2002 and the rules promulgated thereunder by the Securities and Exchange Commission.

All employees of the Company are required to comply with the Company's Disclosure Controls and Procedures Policy. As set forth in the Disclosure Controls and Procedures Policy, it is the policy of the Company to promote full, fair, accurate, timely, and understandable disclosure in reports and documents that the Company files with, or submits to, the Securities and Exchange Commission and in other public communications made by the Company.

The Disclosure Committee shall oversee the internal controls of the Company and will take such actions as are necessary and appropriate to implement and improve the Disclosure Controls and Procedures Policy. The Disclosure Committee will report to senior management, including the principal executive and financial officers.

The Disclosure Committee shall consider the materiality of information and determine disclosure obligations on a timely basis.

The principal executive officer(s) and principal financial officer(s) of the Company shall make the certifications required by Section 302 and Section 906 of the Sarbanes-Oxley Act of 2002. In addition, the Company shall comply in all respects with Section 404 of the Sarbanes-Oxley Act of 2002.

Employee Relations

All Employees, regardless of position, shall do their best to work together to meet the following objectives:

- Respect each employee, worker and representative of customers, suppliers and contractors as an individual, showing courtesy and consideration and fostering personal dignity. Members of the management team shall use good judgment and exercise appropriate use of their influence and authority in their interactions with employees, customers, suppliers, contractors and partners of the Company;
- Make a commitment to and demonstrate equal treatment of all employees, workers, customers, suppliers and contractors of the Company without regard to race, color, gender, religion, age, national origin, citizenship status, military service or reserve or veteran status, sexual orientation or disability;

- Provide a workplace free of harassment of any kind, including on the basis of race, color, gender, religion, age, national origin, citizenship status, military service or reserve or veteran status, sexual orientation or disability;
- Employees who are members of management should keep employees generally informed of the policies, plans and progress of the Company through regular communications;
- Provide and maintain a safe, healthy and orderly workplace; and
- Assure uniformly fair compensation and benefit practices that will attract, reward and retain quality employees.

Non-Discrimination Policy

The Company values the diversity of its Employees and is committed to providing an equal opportunity in all aspects of employment to all Employees without regard to race, color, gender, religion, age, national origin, citizenship status, military service or reserve or veteran status, sexual orientation, or disability. Employees should use reasonable efforts to seek business partners for the Company that do not discriminate in hiring or in their employment practices, and who make decisions about hiring, salary, benefits, training opportunities, work assignments, advancement, discipline, termination and retirement solely on the basis of a person's ability to do the job.

Freedom of Association

The Company recognizes and respects the right of Employees to exercise their lawful rights of free association, including joining or not joining any association. The Company expects its business partners to also adhere to these principles.

Disciplinary Practices

The Company will not condone any type of harassment, abuse or punishment, whether corporal, mental or physical, of an Employee by another Employee or any partner, customer or supplier of the Company.

Governmental Affairs and Political Contributions

The Company's official policy concerning all governmental, political, and public matters in which the Company has an interest will be decided and announced by, or at least with prior approval from, the Board of Directors. No alteration of or deviation from such official policy will be made without the prior approval of the Board of Directors.

Under no circumstances shall any activity be authorized or undertaken by an Employee that violates the provisions of the Foreign Corrupt Practices Act, federal and state election laws, bribery, or other applicable domestic or foreign laws. Generally, the U.S. Foreign Corrupt Practices Act prohibits giving anything of value, directly or indirectly, to officials of foreign

governments or foreign political candidates in order to obtain or retain business. It is strictly prohibited to make illegal payments to government officials of any country.

In addition, the U.S. government has a number of laws and regulations regarding business gratuities which may be accepted by U.S. government personnel. The promise, offer or delivery to an official or employee of the U.S. government of a gift, favor or other gratuity in violation of these rules would not only violate Company policy, but could also be a criminal offense. State and local governments, as well as foreign governments, may have similar rules. To determine whether a gift or gratuity to be made on behalf of the Company complies with applicable laws or this Code, Employees should seek guidance from the Company's General Counsel.

To establish restrictions with regard to corporate participation in the political system as imposed by law, the following guidelines will be followed:

- No funds, assets, or services of the Company will be used for political contributions, directly or indirectly, unless allowed by applicable foreign and U.S. law and approved in advance by the Board of Directors.
- Company contributions to support or oppose public referenda or similar ballot issues are only permitted, with advance approval of the Board of Directors.
- Employees, if eligible under applicable foreign and U.S. law, may make political contributions through legally established Company sponsored and approved political support funds. Any such personal contribution is not a deductible expense for federal or other applicable income tax purposes and is not eligible for reimbursement by the Company as a business expense. Political action committees are permitted under applicable law.

Environmental Policy

The Company is committed to conducting its business in compliance with all applicable environmental laws and regulations in a manner that has the highest regard for the environment and safety and well-being of Employees and the general public. Therefore, the Company expects all Employees to do their utmost to abide by the letter and spirit of these laws and regulations.

Reporting any Illegal or Unethical Behavior

The Company proactively promotes ethical behavior. Employees should report violations of laws, rules, regulations, or this Code to appropriate personnel. To encourage Employees to report such violations, the Company will not allow retaliation for reports of misconduct made in good faith by Employees. Employees are expected to cooperate in internal investigations of misconduct.

Neither the Company nor any Employee, contractor, subcontractor, or agent of the Company may discharge, demote, suspend, threaten, harass or in any other manner discriminate against an Employee in the terms and conditions of employment because of any lawful act done by the Employee (a) to provide information, cause information to be provided or otherwise assist in an investigation of suspect securities laws violations, when the information is provided to any

Federal regulatory or law enforcement agency, any Member of Congress or Congressional Committee, or a supervisor of such Employee or other person with authority to investigate the matter or (b) to file, cause to be filed, testify, participate in, or otherwise assist in a proceeding filed or about to be filed (with any knowledge of the Company) relating to an alleged violation of the securities laws or any fraud against shareholders.

Cooperation with Government Investigations

It is the policy of Cyberonics to cooperate with all governmental investigative authorities. Each Employee and director shall retain any record, document or tangible object of the Company that is subject to an investigation or litigation.

It is a violation of this Code for any employee to knowingly alter, destroy, mutilate, conceal, cover up, falsify, or make a false entry in any record, document, or tangible object with the intent to impede, obstruct, or influence the investigation or proper administration of any matter within the jurisdiction of any federal or state department or agency or any bankruptcy, or in relation to or contemplation of any such matter or case.

Compliance Procedures

Employees must work together to ensure prompt and consistent action against violations of this Code. However, one may encounter a situation in which it is difficult to determine how to proceed, while also complying with this Code. Since not every situation that will arise can be anticipated, it is important to have a way to approach a new question or problem. When considering these situations, Employees should:

- Consider all relevant information. In order to reach the right solutions, try to assemble all relevant information available to you.
- Focus on the specific question or issue. If something seems unethical or improper, it probably is.
- Identify who is involved. In most situations, there is shared responsibility. Are other colleagues informed? It may help to get others involved and discuss the problem.
- Discuss the problem with a supervisor. This is the basic guidance for all situations. In many cases, supervisors will be more knowledgeable about the question, and will appreciate being brought into the decision-making process. Employees should remember that it is the responsibility of supervisors to help solve problems and ensure that the Company complies with this Code.
- Seek help from Company resources. While you are encouraged to first speak with your supervisor, in rare cases it may not be appropriate to discuss an issue with a supervisor, or a supervisor is not available to answer a question. In such instances, Employees can also discuss it with the Company's Compliance Officer, Darren Alch, or General Counsel, David Wise. Finally, Cyberonics maintains three different mechanisms for reporting

violations and concerns **anonymously**. These include the Cyberonics Compliance Website, the Compliance Hotline, and the Compliance E-mail Box.

- The Compliance Website may be accessed through a “Compliance” link on the intranet (http://cybernet.cyberonics.com/index_all.asp). The Compliance Website includes a mechanism for sending an anonymous message to the Compliance Officer. Cyberonics does not have the ability to trace the origin of any message sent from this link.
- The Compliance Hotline is a toll-free telephone line (1-877-671-5139). The Compliance Hotline is answered by voice-mail, and anyone may leave an anonymous voice-mail message for the Compliance Officer.
- The Compliance E-mail Box (compliance-CYBX@cyberonics.com) is an electronic mailbox directed to the Compliance Officer.
- Report ethical violations in confidence and without fear of retaliation. If the situation so requires, an Employee’s anonymity will be protected. The Company does not permit retaliation of any kind against Employees for good faith reports of ethical violations.
- Always ask first. When unsure of what to do in any situation, Employees should seek guidance and ask questions before the action in question is taken.

Any Employee or director to whom this Code of Business Conduct and Ethics has been provided may be required, from time to time, to sign a written affirmation stating that the person (1) has received and read this Code of Business Conduct and Ethics, (2) has not violated this Code of Business Conduct and Ethics, and (3) has no knowledge of any violations of this Code of Business Conduct and Ethics that has not been communicated previously to the office of the General Counsel, the Compliance Officer or the Audit Committee of the Board of Directors.

CYBERONICS, INC.
CORPORATE CODE OF BUSINESS CONDCUT AND ETHICS

EMPLOYEE ACKNOWLEDGEMENT

I have read the Corporate Code of Business Conduct and Ethics (the “Code”) of Cyberonics, Inc. I have had an opportunity to ask questions of my supervisor regarding the Code and any questions I had have been answered.

I acknowledged and understand all provisions in the Code and that any unauthorized or prohibited activity or violation of the Code is subject to disciplinary action, up to and including termination of employment at the time of discovery.

Date

Employee Signature

Employee Number

Employee Name (print)

SCHEDULE A

Daniel J. Moore.....	President, Chief Executive Officer and Director
Gregory H. Browne.....	Vice President, Finance and Chief Financial Office
George E. Parker III.....	Vice President, Human Resources and General Manager, Depression
James A. Reinstein.....	Vice President, Sales and Marketing and General Manager, International
Randal L. Simpson.....	Vice President, Operations and Research & Development
David S. Wise	Vice President, General Counsel and Secretary