

## **PRINCIPLES OF CORPORATE GOVERNANCE**

### **1.0 PURPOSE**

Cardiovascular Systems, Inc. ("CSI") is committed to strong, forward-looking corporate governance practices as one means of ensuring the trust and confidence of the Company's stakeholders. To this end, the CSI Board of Directors has adopted these principles as a statement of the corporate governance policies which the Board will observe in the discharge of its responsibilities.

### **2.0 POLICY**

#### **2.1 Board Responsibilities**

- *Duties and Responsibilities.* The Board shall perform the duties and responsibilities of a Board of Directors as required by law, and the Company's governing documents, and as suggested by good governance practices.
- *Integrity of the Company; Ethical Culture.* Among its many responsibilities, the Board views overseeing the integrity of the Company, and the development/maintenance of a corporate culture which is ethical and embodies values of fairness and trust as critically important.

#### **2.2 Board Leadership**

- *Leadership.* The Board recognizes the importance of leadership which effectively assists the Board in the discharge of its responsibilities.
- *Board Chair.* The Chairman of the Board of the Company may be any director, including the Chief Executive Officer. The Board reserves the right to decide at any time whether it is in the best interest of the Company to separate the positions of Chairman of the Board and Chief Executive Officer.
- *Certain Committee Chairs.* The Chairs of the Audit and Compensation Committees will be independent directors.
- *Evaluation of Board and Committee Chairs.* The Board and Committee Chairs shall be annually evaluated by the Governance/Nominating Committee as to the performance of their respective Board leadership duties.

#### **2.3 Board Size, Composition; Criteria**

- *Number of Directors.* It is the current view of the Board that the number of directors should be no fewer than nine.
- *Independent Directors.* A substantial majority of the Company's directors will be independent under criteria for independence established from time to time by the Board in conformity with the rules of Nasdaq or any exchange on which the Company's common stock is traded and good governance practices. The Governance/Nominating Committee shall oversee determinations of director independence.
- *Management Directors.* As a general principle the CEO will be the only member of management elected to the Company's Board of Directors. However, the Board reserves the right to elect or recommend for election one or more additional members of management when such is believed to be in the best interests of the Company.
- *Director Qualifications.* Board members as a group shall meet the qualifications established by the Governance/Nominating Committee, including governance, business and professional experience, industry awareness/ knowledge and stakeholder awareness. Board members must have high standards of personal ethics, a commitment to the mission and integrity of the Company, and be willing to devote the necessary time and energy to fulfilling the Board's responsibility of oversight of the Company and its management.

## **PRINCIPLES OF CORPORATE GOVERNANCE**

### **2.4 Board Organization; Committees**

- *Board Committees.* The Board shall have a Governance/Nominating Committee, Audit Committee and Compensation Committee, and such other committees as the Board shall from time to time determine.
- *Number of Members.* Each of the Governance/Nominating, Audit and Compensation Committees shall have no fewer than three members.
- *Committee Member Independence.* Each of the Governance/Nominating, Audit and Compensation Committees shall be comprised solely of independent directors.
- *Committee Member and Committee Chair Appointment.* Committee members and the Chairs of each Committee will be appointed by the Board, upon the recommendation of the Governance/Nominating Committee. Committee members serve at the will of the Board.
- *Committee Charters.* Each Committee will have its own charter, which will set forth the responsibilities of the Committee.
- *Committee Meetings; Agenda.* The Chair of each Committee, in consultation with the Committee members, will determine the frequency and length of meetings, consistent with any requirements set forth in the Committee's charter and the appropriate discharge of the Committee's responsibilities. The Chair of each Committee, in consultation with members of the Committee, the Board Chair, and appropriate senior management, will develop the agenda for each Committee meeting. To the extent possible, each year the Committee will establish a schedule of agenda subjects to be considered during the year.
- *Committee Minutes.* Committees shall keep minutes of their meetings and actions. Absent special circumstances, Committee minutes shall be made available to all directors following Committee meetings or Committee action.
- *Committee Evaluation.* In cooperation with the Governance/Nominating Committee, each Committee will annually evaluate its performance, and the performance of its members.

### **2.5 Board and Committee Advisors**

- *Authority to Engage Advisors.* The Board and each Committee shall have the authority to hire, at the Company's expense, independent legal, financial or other advisors as the Board or Committee may deem appropriate to assist with the performance of Board and Committee responsibilities.

### **2.6 Selection and Orientation of New Directors**

- *Assessing Board Needs; Recommending Qualified Candidates.* The Governance/Nominating Committee shall be responsible for periodically assessing the needs of the Board of Directors to accomplish its oversight responsibilities, and recommending to the Board qualified candidates for election by the shareholders or by the Board (in the case of filling vacancies or increasing the Board size between shareholders meetings).
- *Consultation With CEO.* In making its recommendations regarding director candidates the Governance/Nominating Committee shall consult with the Chair, CEO and other directors as appropriate.
- *Final Authority for Selecting Director Nominees.* The Board itself is responsible for selecting director nominees upon the recommendation of the Governance/Nominating Committee and recommending them for election by the stockholders. The identification of director candidates is the responsibility of the Governance/Nominating Committee with input from the CEO and other directors. The Governance/Nominating Committee shall conduct the candidate screening process. The Committee may utilize such advisory assistance with the identification and screening process as it shall determine.
- *Orientation.* The Company will institute an orientation process for new directors that includes background material, meetings with senior management and visits to Company facilities. All new directors must participate in the orientation process, which should be conducted as soon as practicable following the meeting at which a new director is elected to the Board. This orientation will include presentations by

## PRINCIPLES OF CORPORATE GOVERNANCE

senior management to familiarize new directors with the Company's strategic plans, its significant financial, accounting and risk management issues, its compliance programs, its code of business conduct, its principal officers, and its internal and independent auditors and legal counsel. All continuing directors are also invited to attend any orientation meetings.

- *Extending Invitations to Prospective Directors.* The Chief Executive Officer and either the Chair of the Governance/Nominating Committee or Board Chair, if the Board Chair is independent, shall extend invitations to prospective directors to join the Board.

### 2.7 Director Service; Terms; Resignation; Retirement; Evaluation

- *Term and Term Limits.* Directors are divided into three classes, with each class serving a staggered three year term. The Board has not established term limits. While term limits could help ensure that there are fresh ideas and viewpoints available to the Board, they hold the disadvantage of losing the contribution of directors who have been able to develop, over a period of time, increasing insight into the Company and its operations. As an alternative to term limits, the Governance/Nominating Committee will review each director's continuation on the Board each time the director is renominated. This will also allow each director the opportunity to conveniently confirm his/her desire to continue as a member of the Board.

- *Retirement Age.* The Board has not established a retirement age for directors. As previously described, the Governance/Nominating Committee evaluates the contributions of each director prior to renomination.

- *Submission of Director Resignation.* Directors shall submit their resignations to the Board, and the remaining members of the Board, by majority vote, shall determine whether to accept such resignation, upon the following circumstances:

- A material change in a director's principal occupation or business association from the position or association which the director held at the time such person joined the Board or which such person held while serving on the Board.
- The commission by a director of any act, or the occurrence of any circumstance involving a director, which has affected, or may adversely affect, the Company's reputation.

- *Service on Other Boards.* Independent directors are encouraged to limit the number of other boards (excluding non-profit) on which they serve, taking into account meeting attendance, participation and effectiveness on these boards. Management personnel including the CEO, shall not serve on more than one additional for-profit board without the approval of the Board. Directors should advise the Board Chair and Chair of the Governance/Nominating Committee in advance of accepting an invitation to serve on another Board in order that the Committee may consider issues such as conflicts of interest, indemnification and director insurance.

- *Evaluation.* Periodically, but no less frequently than prior to the expiration of a director's term, the Governance/Nominating Committee shall evaluate each director's performance. The Governance/Nominating Committee shall report to each director regarding its conclusions. Individual director evaluations are conducted in the spirit of the Board's desire to continually improve its effectiveness as the Company's governing body.

### 2.8 Board Meetings

- *Number of Meetings.* The Board shall meet no fewer than four times per year.

- *Agenda for Meetings.* The Chair, in consultation with the CEO, and the other directors, shall establish the agenda for each meeting, and the length of meetings. At the beginning of each year, to the extent possible, the Board will establish a schedule of agenda subjects to be discussed during the year.

- *Attendance at Meetings.* The Board shall determine, in its sole discretion, whether persons who are not directors may attend Board meetings. It is anticipated that selected members of management will attend Board meetings as described elsewhere in these Principles.

## **PRINCIPLES OF CORPORATE GOVERNANCE**

- *Presiding Person.* The Chair of the Board, and in the Chair's absence, an independent director, shall preside at Board meetings and executive sessions of the Board.
- *Advance Distribution of Materials.* Information and materials that are important to the Board's understanding and discussion of meeting agenda items will be distributed to Board members prior to the Board meeting to the extent possible.
- *Executive Sessions.* To facilitate free and open communication among non-management Directors, each Board meeting shall begin and/or conclude with an executive session at which only independent directors are present, except as may otherwise be determined by the independent directors with respect to any particular executive session.
- *Board Minutes.* The Board will keep minutes of its meetings and actions. Board minutes shall be made available to all directors following Board meetings or action.
- *Confidentiality.* To promote full, open and candid discussion and debate in Board meetings, the Board considers its deliberations to be confidential, and expects all participants in Board meetings to observe that confidentiality.

### **2.9 Board Relationships With Management; Others**

- *Director Access to Management.* Board members shall have access to the Company's management beyond the access provided to selected members of management in Board meetings. In initiating contact with management members not already known to a director, a director will consult with the CEO or Board Chair to facilitate introduction or access. The Board shall make known to management the Board's policy of open access to alleviate any management concerns about a director's authority in this regard.
- *Management Attendance at Board Meetings.* In principle the Board encourages participation in Board and Committee meetings by management members who will provide reports and/or insight respecting meeting agenda items, and those members of management who by reason of responsibilities or succession the CEO believes should have exposure to the directors. The regular attendance at Board meetings of any management member, other than the CFO, Corporate Secretary, and General Counsel, who is not a director shall be agreed upon by the CEO and the Board.
- *Periodic Access to Selected Persons; Consultation Regarding Certain Matters.* In the conduct of its oversight functions it is anticipated that the Board and its Committees will seek individual meetings with selected members of management or employees or advisors who have responsibility for the financial matters, risk management, internal audit, ethical and legal compliance, human resources and such other areas as the Board and its Committees may identify. Further, with respect to such identified persons, the Board and its Committees may request consultation with the CEO or other members of management respecting the compensation, promotion or termination of such persons.

### **2.10 CEO Evaluation and Compensation**

- *Evaluation.* The Compensation Committee shall annually evaluate the performance and compensation of the CEO against goals and objectives established by the Compensation Committee and the CEO and approved by the Board.
- *Compensation.* The Compensation Committee shall recommend to the Board the fundamental principles and policies of executive compensation taking into consideration the Company's desire to attract and retain excellent, well-qualified management, provide fair, competitive compensation considering the size and business of the Company and alignment with the long-term interests of the Company and its stakeholders. The Committee shall report to the Board in executive session the results of the CEO evaluations, and its recommendations as to CEO compensation.

## **PRINCIPLES OF CORPORATE GOVERNANCE**

### **2.11 Board Evaluation and Compensation**

- *Evaluation.* Annually, the Governance/Nominating Committee of the Board shall conduct an evaluation of the Board's performance of its responsibilities, and shall report to the Board respecting its conclusions and recommendations.
- *Compensation.* The Compensation Committee shall annually review and make recommendations to the Board regarding the compensation to be paid to non-management directors, including separate compensation to be paid for chairing the Board, chairing Committees, and serving as Committee members. In recommending non-management director compensation, the Compensation Committee will take into consideration the Company's desire to attract and retain well-qualified directors, provide fair, competitive compensation considering the size and business of the Company, and alignment with the long-term interests of the Company and its stakeholders.

### **2.12 Leadership Development**

- *Management Succession and Development.* At least annually, the Governance/Nominating Committee shall report to the Board respecting long-term and emergency management succession. At least annually the CEO shall report to the Board respecting management development.
- *Board Education.* Board members are expected to continually educate themselves as to the Company's business, and corporate governance matters. Management, in consultation with the Governance/Nominating Committee, shall plan programs and presentations to the directors respecting the Company's business and industry which may include periodic attendance at conferences and management meetings. The Governance/Nominating Committee shall oversee directors' corporate governance educational activities.

### **2.13 Communications With Public and Various Constituents**

- *Roles of the CEO and Board Chair.* Under ordinary circumstances the CEO, and such other members of management as appropriate, speak for the Company, and the Chair speaks for the Board. Directors may from time to time interact with various constituents of the Company with the knowledge of management or the Chair.
- *Director Attendance at Shareholders' Meetings.* The Board policy is that, subject to unavoidable personal conflicts, directors shall attend shareholders' meetings.

### **2.14 Director Stock Ownership**

- Directors are expected to become shareholders of the Company, and continue to hold at least a portion of their shares during their terms of service.

### **2.15 Ethics and Conflicts of Interest**

- *Ethical Conduct.* The Board expects the Company's directors, officers and employees to act ethically at all times, and to comply with the Company's various policies.
- *Conflicts of Interest.* No director, officer or employee of the Company shall waive compliance with the Company's conflicts of interest and ethical conduct policies without the prior approval of the Board of Directors.

### **2.16 Review of Principles of Corporate Governance**

- The Governance/Nominating Committee shall review the Principles of Corporate Governance periodically, at least annually, and recommend any changes to the Board, as conditions dictate.

**PRINCIPLES OF CORPORATE GOVERNANCE**

<b>REVISION HISTORY RECORD</b>		
<b>REV</b>	<b>CO #</b>	<b>DESCRIPTION OF CHANGE</b>
A	CO-3169	Moving Principles of Corporate Governance policy into MasterControl.