

**ARTHROCARE CORPORATION**  
**Amended and Restated Corporate Governance Guidelines**

**[Adopted August 14, 2012]**

# ARTHROCARE CORPORATION

## Amended and Restated Corporate Governance Guidelines

The Board of Directors (the “Board”) of ArthroCare Corporation (the “Company”) has adopted the following Amended and Restated Corporate Governance Guidelines (the “Guidelines”) to assist the Board in the exercise of its responsibilities and to serve best the interests of the Company and its stockholders. These Guidelines should be interpreted in the context of all applicable laws and the Company’s Certificate of Incorporation, Bylaws and other corporate governance documents. These Guidelines acknowledge the leadership exercised by the Board’s standing committees and their chairs and are intended to serve as a flexible framework within which the Board may conduct its business and not as a set of legally binding obligations. The Guidelines are subject to modification from time to time by the Board, as the Board may deem appropriate in the best interests of the Company and its stockholders or as required by applicable laws and regulations.

These Guidelines shall be made available on the Company’s website at [www.arthrocare.com](http://www.arthrocare.com) and to any stockholder who otherwise requests a copy. The Company’s Annual Report to Stockholders shall state the foregoing.

### **The Board**

#### *Size of the Board*

The Company’s Certificate of Incorporation provides that the number of directors will be designated in the Company’s Bylaws. The Company’s Bylaws, as amended, currently provide that the Board shall be eight (8) members. The Board currently has eight members. The Board expects that the number of directors will range from five to nine, based on the Company’s needs and circumstances and the availability of appropriate candidates. The Board will periodically review the size of the Board, and determine the size that is most effective in relation to future operations.

#### *Independence of the Board*

The Board will be comprised of a majority of directors who qualify as independent directors (the “**Independent Directors**”) under the listing standards of The Nasdaq Global Select Stock Market (“**NASDAQ**”). No more than two (2) management executives who are employed by the Company or who were employed by the Company in the previous five years may serve on the Board at the same time.

The Board will review annually the relationships that each director has with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company). Following such annual review, only those directors who the Board affirmatively determines have no material relationship with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company) will be considered Independent Directors, subject to additional qualifications

prescribed under the listing standards of NASDAQ. The basis for any determination that a relationship is not material will be published in the Company's annual proxy statement.

### *Lead Independent Director*

The Board will elect a lead Independent Director (the "**Lead Independent Director**") to serve an annual term). The Lead Independent Director's duties will include: Serving as a member of the Compensation Committee, meeting with the Chair of the Compensation Committee and the Chief Executive Officer (or "**CEO**") to convey the results of the CEO's annual performance evaluations, coordinating the activities of the Independent Directors, coordinating the agenda for and chairing sessions of the Board's Independent Directors and facilitating communications between the Independent Directors and the other members of the Board and the management of the Company. In performing the duties described above, the Lead Independent Director is expected to consult with the chairs of the appropriate Board committees and solicit their participation in order to avoid diluting the authority or responsibility of such committee chairs.

### *Separate Sessions of Independent Directors*

The Independent Directors will meet in executive session without management directors or management present at least four times per year on a regularly scheduled basis, generally as part of regularly scheduled meetings of the Board. At least two of such meetings shall be in person. The Lead Independent Director will chair such meetings. The name of the Lead Independent Director will be published, along with a procedure for stockholders to communicate with the non-management directors. The Independent Directors will review the Company's implementation of and compliance with its Guidelines and consider such matters as they may deem appropriate at such meetings.

### *Director Qualification Standards*

The Nominating and Corporate Governance Committee is responsible for reviewing with the Board, on an annual basis, the appropriate characteristics, skills and experience required for the Board as a whole and its individual members. In evaluating the suitability of individual candidates (both new candidates and current Board members), the Nominating and Corporate Governance Committee, in recommending candidates for election, and the Board, in approving (and, in the case of vacancies, appointing) such candidates, will take into account many factors, including ability to make independent analytical inquiries, general understanding of marketing, finance and other elements relevant to the success of a publicly traded company in today's business environment, understanding of the Company's business on a technical level, other board service and educational and professional background. Each candidate nominee must also possess fundamental qualities of intelligence, honesty, good judgment, high ethics and standards of integrity, fairness and responsibility. The Nominating and Corporate Governance Committee will evaluate each individual in the context of the Board as a whole, with the objective of assembling a group that can best perpetuate the success of the business and represent stockholder interests through the exercise of sound judgment using its diversity of experience in these various areas. In determining whether to recommend a director for re-election, the Nominating and

Governance Committee will also consider the director's past attendance at meetings and participation in, and contributions to, the activities of the Board.

#### *Selection of New Directors*

The Board will be elected by the stockholders of the Company each year at the Company's annual meeting. Each year, at the annual meeting, the Board will recommend a slate of directors for election by the stockholders. In accordance with the Bylaws of the Company, the Board will also be responsible for filling vacancies or newly created directorships on the Board that may occur between annual meetings of stockholders; provided, however, that if the Company is legally required by contract or otherwise to permit a third party to designate one or more of the directors to be elected or appointed (for example, pursuant to rights contained in a Certificate of Designations of a class of preferred stock to elect one or more directors), then the nomination or appointment of such directors shall be governed by such requirements. The Nominating and Corporate Governance Committee is responsible for identifying, screening and recommending candidates to the entire Board for Board membership.

#### *Selection of Lead Independent Director*

The Board will elect the Lead Independent Director in accordance with the Company's Bylaws.

#### *No Specific Limitation on Other Board Service*

The Board does not believe that its members should be prohibited from serving on boards of other organizations and has not adopted any guidelines limiting such activities. However, the Nominating and Corporate Governance Committee and the Board will take into account the nature of, and time involved in, a director's service on other boards and/or committees in evaluating the suitability of individual director candidates and current directors and making its recommendations to the Company's stockholders.

Due to the demanding nature of service as a member of an Audit Committee and/or as a Lead Independent Director, the members of the Audit Committee and the Lead Independent Director may not serve on the audit committees or as Lead Independent Director/Chairman of the boards of directors of more than two other publicly traded companies at the same time as they are serving on the Audit Committee or as Lead Independent Director of ArthroCare.

Service on other boards and/or committees should be consistent with the Company's conflict of interest policies set forth below.

#### *Directors Who Resign Their Current Positions With Their Company*

When a director, including any director who is currently an officer or employee of the Company, resigns or materially changes his or her position with his or her employer, such director should submit his or her resignation from the Board, which the Board may accept or reject, after consideration of the recommendation of the Nominating and Corporate Governance Committee.

### *Retirement*

It is the general policy of the Company that no director may stand for election to the Board after his or her 75th birthday. The Board may, however, make exceptions to this standard, based on the recommendation of the Nominating and Corporate Governance Committee, as it deems appropriate in the interests of the Company's stockholders.

### *Director Responsibilities*

The business and affairs of the Company will be managed by or under the direction of the Board, including through one or more of its committees as set forth in the Bylaws and committee charters. Each director is expected to spend the time and effort necessary to properly discharge his or her responsibilities. These include:

- (1) Overseeing the conduct of the Company's business to evaluate whether the business is being properly managed;
- (2) reviewing and, where appropriate, approving the Company's major strategic direction, financial objectives, plans and actions;
- (3) reviewing and, where appropriate, approving major changes in, and determinations of other major issues respecting, the appropriate auditing and accounting principles and practices to be used in the preparation of the Company's financial statements;
- (4) reviewing and, where appropriate, approving major changes in, and determinations under the Company's Guidelines, Code of Business Conduct and Ethics and other Company policies;
- (5) reviewing and, where appropriate, approving actions to be undertaken by the Company that would result in a material change in the financial structure or control of the Company, the acquisition or disposition of any businesses or asset(s) material to the Company or the entry of the Company into any major new line of business;
- (6) regularly evaluating the performance and approving the compensation of the CEO;
- (7) reviewing the CEO's evaluation of the performance of principal senior executives;
- (8) planning for succession with respect to the position of CEO and monitoring management's succession planning for other key executives; and
- (9) ensuring that the Company's business is conducted with the highest standards of ethical conduct and in conformity with any and all applicable laws and regulations.

### *Compensation*

The Company's executive officers shall not receive additional compensation for their service as directors. Senior management of the Company will report once a year to the Compensation Committee regarding the status of the Company's non-employee director compensation in relation to other U.S. companies of comparable size and the Company's competitors. Such report will include consideration of both direct and indirect forms of compensation to the Company's directors, including any charitable contributions by the Company to organizations in which a director is involved. Following a review of the report, the Compensation Committee will recommend any changes in director compensation to the Chairman of the Board, or Lead Independent Director, if there is no Chairman, which changes will be approved or disapproved by the Board after a full discussion.

Director and Committee member fees, together with equity compensation for directors, are the sole form of compensation that members of the Audit Committee may receive from the Company.

### *Stock Ownership*

The Company encourages directors to purchase shares of the Company's stock. However, the number of shares of the Company's stock owned by any director, is a personal decision and, at this time, the Board has chosen not to adopt a policy requiring ownership by directors of a minimum number of shares.

### *Conflicts of Interest*

Directors are expected to avoid any actions, positions or interests that conflict with the interests of the Company or give the appearance of a conflict. If an actual or potential conflict of interest develops, the director should immediately report the matter to the CEO and the Lead Independent Director. Any significant conflict must be resolved as promptly as possible, or the director will resign. The Board must review and concur that the conflict has been resolved. If a director has a personal interest in a matter before the Board, the director will disclose the interest to the Board, excuse him or herself from discussion on the matter and not vote on the matter.

### *Board Orientation and Continuing Education of Board Members*

The Company provides new directors with a director orientation program to familiarize them with, among other things, the Company's business, strategic plans, significant financial, accounting and management issues, compliance programs, conflicts policies, code of business conduct and ethics, Guidelines, principal officers, internal auditors and independent auditors.

The Company will make available to directors continuing education programs, and each director is expected to participate in such programs, as management or the Board determines desirable.

### *Interaction with Institutional Investors, the Press and Customers*

The Board believes that management speaks for the Company. Each director should refer all inquiries of management received from institutional investors, the press or customers to the CEO. Individual Board members may, from time to time at the request of management, meet or otherwise communicate with various constituencies that are involved with the Company. If comments from the Board are appropriate, they should, in most circumstances, come from the CEO or Lead Independent Director.

### *Board Access to Senior Management*

The Board will have complete access to Company management in order to ensure that directors can ask any questions and receive all information necessary to perform their duties. Directors should exercise judgment to ensure that their contact with management does not distract managers from their jobs or disturb the business operations of the Company. Such contact, if in writing, should be copied to the CEO of the Company and, if verbal, should be communicated to the CEO.

### *Board and Committee Access to Independent Advisors*

Committees of the Board may hire independent advisors as set forth in their applicable charters. The Board as a whole shall have access to such advisors and the independent advisors the Company retains or such other advisors as the Board considers necessary to discharge its responsibilities.

### *Annual Self-Evaluation*

Following the end of each fiscal year, the Nominating and Governance Committee will oversee an annual assessment by the Board of the Board's performance. The Nominating and Governance Committee will be responsible for establishing the evaluation criteria and implementing the process for such evaluation, as well as considering other corporate governance principles that may, from time to time, merit consideration by the Board.

The assessment should include a review of any areas in which the Board or management believes the Board can make a better contribution to the governance of the Company, as well as a review of the committee structure and an assessment of the Board's compliance with the principles set forth in these Guidelines. The purpose of the review will be to improve the performance of the Board as a unit, and not to target the performance of any individual Board member. The Nominating and Governance Committee will utilize the results of the Board evaluation process in assessing and determining the characteristics and critical skills required of prospective candidates for election to the Board.

## **Board Meetings**

### *Frequency of Meetings*

The Board will meet at least four times annually. In addition, special meetings may be called from time to time as determined by the needs of the business. It is the responsibility of the directors to attend meetings.

### *Director Attendance*

A director is expected to spend the time and effort necessary to properly discharge his or her responsibilities. Accordingly, a director is expected to regularly prepare for and attend meetings of the Board and all committees on which the director sits (including separate meetings of Independent Directors), with the understanding that, on occasion, a director may be unable to attend a meeting. A director who is unable to attend a meeting is expected to notify the CEO, the Lead Independent Director or the Chairman of the Board, or the Chairman of the appropriate committee, as the case may be, in advance of such meeting, and, whenever possible, participate in such meeting via teleconference.

### *Attendance of Non-Directors*

The Board encourages the Lead Independent Director or chairman of any committee to bring Company management and outside advisors or consultants from time to time into Board and/or committee meetings to (i) provide insight into items being discussed by the Board which involve the manager, advisor or consultant, (ii) make presentations to the Board on matters which involve the manager, advisor or consultant, and (iii) bring managers with high potential into contact with the Board. Attendance of non-directors at Board meetings is at the discretion of the Board.

### *Agendas*

The CEO and Lead Independent Director will establish the agenda for each Board meeting with input from management and, as necessary or desired, from the other directors.

### *Advance Receipt of Meeting Materials*

Information regarding the topics to be considered at a meeting is essential to the Board's understanding of the business and the preparation of the directors for a productive meeting. To the extent feasible, the meeting agenda and any written materials relating to each Board meeting will be distributed to the directors sufficiently in advance of each meeting to allow for meaningful review of such agenda and materials by the directors (usually seven days in advance). Directors are expected to have reviewed and be prepared to discuss all materials distributed in advance of any meeting.

## **Committee Matters**

### *Number, Name, Responsibilities and Independence of Committees*

The Board currently has three committees, each composed entirely of Independent Directors. From time to time, the Board may form a new committee or disband a current committee, depending upon the circumstances. Each committee will perform its duties as assigned by the Board in compliance with the Company's Bylaws and the committee's charter.

The current committees are:

(1) Audit Committee. The Audit Committee consists of at least three members, all of whom shall be "independent" within the meaning of applicable laws and regulations (including applicable listing requirements for any exchange on which the Company's stock is traded), and reviews the work of the Company's internal accounting and audit processes and independent auditors. The committee has sole authority to appoint and fire the Company's independent auditors and to approve any significant non-audit relationship with the independent auditors.

(2) Compensation Committee. The Compensation Committee consists of at least three members, all of whom shall be "independent" within the meaning of applicable laws and regulations (including applicable listing requirements for any exchange on which the Company's stock is traded), and reviews and approves the Company's goals and objectives relevant to compensation, stays informed as to market levels of compensation and, based on evaluations submitted by management, recommends to the Board compensation levels and systems for Board and the CEO that correspond to the Company's goals and objectives. The committee also produces an annual report on executive compensation for inclusion in the Company's proxy statement and recommends Board approval of the Company's Compensation Discussion and Analysis section of such proxy statement, in accordance with applicable rules and regulations.

(3) Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee consists of at least three members and is responsible for recommending to the Board individuals to be nominated as directors and committee members. This includes evaluation of new candidates as well as evaluation of current directors. The Nominating and Corporate Governance Committee is also responsible for recommending to the Board the individual to replace David Fitzgerald as CEO of the Company following his departure or resignation. Such recommendation shall be unanimous by all members of the committee and the Board shall not appoint a CEO to replace David Fitzgerald who has not been unanimously approved by the committee. The committee is also responsible for developing and recommending to the Board the Guidelines, as well as reviewing and recommending revisions to such Guidelines on a regular basis. The committee also performs other duties as are described in these Guidelines.

### *Assignment and Rotation of Committee Members*

Based on the recommendations of the Nominating and Corporate Governance Committee, the Board will appoint committee members and committee chairs according to criteria set forth in the applicable committee charter and such other criteria that the Board

determines to be appropriate in light of the responsibilities of each committee. Committee membership and the position of committee chair will not be rotated on a mandatory basis unless the Board determines that rotation is in the best interest of the Company.

The Board affirmatively states that each member of the Audit Committee must be financially literate, as determined by the Board in its business judgment, or must become financially literate within a reasonable period of time after his or her appointment, and that at least one member of the Audit Committee must have accounting or related financial management expertise as determined by the Board in its business judgment.

#### *Frequency of Committee Meetings*

Each committee will meet at least two times annually. In addition, the Chairman of the committee may call special meetings from time to time as determined by the needs of the business. It is the responsibility of the directors to attend the meetings of the committees on which they serve.

#### *Committee Agendas*

The Chairman of each committee, in consultation with the appropriate members of the Committee, will develop his or her committee's agenda.

#### *Committee Self-Evaluations*

Following the end of each fiscal year, each committee will review its performance and charter and recommend to the Board any changes it deems necessary.

### **Leadership Development**

#### *Annual Review of Chief Executive Officer*

The Board, with input from the CEO, shall annually establish the performance criteria (including both long-term and short-term goals) to be considered in connection with the CEO's next annual performance evaluation. At the end of each year, the CEO shall make a presentation or furnish a written report to the Board indicating his or her progress against such established performance criteria. Thereafter, with the CEO absent, the Board shall meet to review the CEO's performance. The Lead Independent Director and the Chairman of the Compensation Committee shall communicate the results of the review and evaluation to the CEO.

#### *Succession Planning*

The Nominating and Corporate Governance Committee works on a periodic basis with the CEO to review, maintain and revise, if necessary, the Company's succession plan that will be implemented in the event of the CEO's retirement or upon the occurrence of an unexpected event, such as the death or disability of the CEO or other senior member of management. The CEO shall report annually to the Board, or the Nominating and Corporate Governance Committee (which shall report to the Board), on succession planning for the CEO and senior

management positions, including a discussion of assessments, leadership development plans and other relevant factors.

*Management Development*

The Board will determine that a satisfactory system is in effect for the education, development and orderly succession of senior and mid-level managers throughout the Company.

*Whistle-Blower Policy*

The Company will maintain a Whistle-Blower Policy that meets the requirements of applicable law that will allow anonymous reporting of perceived wrong-doing by the Company or its personnel.