

# **ArthroCare Corporation Compensation Committee Charter**

Adopted by the Board of Directors December 11, 2002

## **1) Purpose and responsibilities**

a) The Compensation Committee is a committee of the Board of Directors. The purpose of the Compensation Committee is to review and make recommendations to the Board of Directors regarding all forms of compensation to be provided to the executive officers and employees of the Company. The Committee's policy is to ensure that senior management will be accountable to the Board of Directors through the effective application of compensation policies applicable to the Company's executive officers, including performance goals and stock and incentive compensation, to attract and retain key management talent, to support the achievement of the Company's business strategies through the establishment of appropriate compensation components and to ensure the integrity of the Company's compensation and benefit practices and safeguard the interests of the Company's stockholders. The Compensation Committee has the authority to undertake the specific duties and responsibilities listed below and will have the authority to undertake such other specific duties as the Board of Directors from time to time prescribes. The Compensation Committee's responsibilities shall include:

(i) Reviewing and making recommendations to the Board of Directors regarding the compensation policy for executive officers of the Company, and such other officers of the Company as directed by the Board of Directors.

(ii) Reviewing and making recommendations to the Board of Directors regarding all forms of compensation (including all "plan" compensation, as such term is defined in Item 402(a)(7) of Regulation S-K promulgated by the Securities and Exchange Commission, and all non plan compensation) to be provided to the executive officers of the Company;

(iii) Reviewing and making recommendations to the Board of Directors regarding general compensation goals and guidelines for the Company's employees and the criteria by which bonuses to the Company's employees are determined;

(iv) Acting as administrator of the Company's stock option plans and such other equity participation plans as may be adopted by the Board of Directors from time to time, and administering, within the authority delegated by the Board of Directors, the Company's Employee Stock Purchase Plan. In its administration of the plans, the Compensation Committee may, pursuant to authority delegated by the Board of Directors (a) grant stock options or stock purchase rights to individuals eligible for such grants (including grants to individuals subject to Section 16 of the Securities Exchange Act of 1934 (the "Exchange Act") in compliance with Rule 16b-3 promulgated thereunder, so long as the Compensation Committee is comprised entirely of "disinterested persons", as such term is defined in Rule 16b-3(c)(2)(i) promulgated under the Exchange Act), and (b) amend such stock options or stock purchase rights. The Compensation Committee shall also account for the number of

options granted and available under the respective plans and make recommendations to the Board of Directors with respect to amendments to the plans and changes in the number of shares reserved for issuance thereunder;

(v) Reviewing and making recommendations to the Board of Directors regarding other plans that are proposed for adoption or adopted by the Company for the provision of compensation to employees of, directors of and consultants to the Company;

(vi) Preparing a report (to be included in the Company's proxy statement) which describes: (a) the criteria on which compensation paid to the Chief Executive Officer for the last completed fiscal year is based and (b) the Compensation Committee's executive compensation policies applicable to executive officers; and

(vii) Authorizing the repurchase of shares from terminated employees pursuant to applicable law.

**2) Committee composition**

a) Subject to approval of the Board of Directors, the Compensation Committee shall be comprised of no less than three (3) non-employee members from the Board of Directors, each of whom shall qualify as "outside directors" under Section 162(m) of the Internal Revenue Code of 1986, as amended. The Compensation Committee should be led by a director experienced in executive compensation matters and the Committee Chair shall be elected by the Compensation Committee. All members shall have a working knowledge of compensation matters. The members of the Compensation Committee are appointed by and serve at the discretion of the Board of Directors.

**3) Committee standards**

a) The Committee's role includes coordination and cooperation with other Board committees, management, external auditors, counsel and other committee advisors. The Committee should insist and maintain the highest ethical standards, integrity and transparency in its relationships with management.

**4) Calendar and standing agenda**

a) The Committee shall meet at least four (4) times per year or more frequently as need dictates. There will be regular topics for each meeting. Other items will be added as necessary. The Committee may ask members of management or others to attend the meeting and provide information as necessary. The Committee will maintain written minutes of its meetings, which minutes will be filed with the minutes of the meetings of the Board of Directors.

b) At a minimum of one of its meetings annually, the Committee will review its compensation philosophy and strategy, and the Company's compensation package in relation to those of the Company's peer groups.

**5) Reporting to the Board**

a) The Committee Chair should report regularly to the Board in executive session on the Committee's activities, issues, and concerns, including an annual review of the Committee's performance in relation to its charter.