

## **CALIFORNIA COMPLIANCE DISCLOSURE**

This California Compliance Disclosure (“Compliance Disclosure”) is provided pursuant to the requirements of CAL. HEALTH & SAFETY CODE §§ 119400 – 119402, which requires that certain pharmaceutical and medical device companies adopt and make public Comprehensive Compliance Programs (“Compliance Programs”) that govern such companies’ marketing and promotional activities.

ArthroCare’s Compliance Program is global in scope and incorporates the highest standards of ethical and legal conduct as expressed in laws, rules and regulations applicable to the many territories in which ArthroCare does business. The Compliance Program is primarily structured to follow Office of the Inspector General of the US Department of Health and Human Services (“OIG”) Compliance Program Guidance documents, as well as the Federal Sentencing Guidelines’ Seven Elements of an Effective Compliance Program (endorsed by the OIG, and set forth in the sections below). The policies and procedures issued under the Compliance Program are appropriate to ArthroCare, and are modeled on (and often more strict than) guidance set forth in the AdvaMed Code of Ethics on Interactions with Healthcare Professionals, Eucomed’s Code of Business Practice, and various other self-regulatory codes applicable to where ArthroCare does business.

The Compliance Program is designed to assist ArthroCare in maintaining its reputation of good corporate citizenship and the high levels of trust ArthroCare has established in the global marketplace. ArthroCare’s Compliance Program aids ArthroCare by giving ArthroCare personnel specific direction in preventing, detecting and resolving compliance challenges. ArthroCare is committed to ensuring that its personnel are trained comprehensively and understand their duties under the Compliance Program.

ArthroCare investigates and resolves all reported compliance concerns in a timely manner; reporting compliance concerns is each ArthroCare personnel’s obligation, and non-compliance with this or any other Compliance Program obligations may result in disciplinary action up to and including termination of employment or contract.

As of the date of this Compliance Disclosure, ArthroCare believes that its operations are in compliance with its Compliance Program and the provisions of CAL. HEALTH & SAFETY CODE §§ 119400 – 119402.

This Compliance Disclosure is made solely for the purpose of complying with the California law cited above and should not be read in isolation from ArthroCare’s other discussions of its compliance related activities and information currently disclosed or disclosed in the future in its periodic reports, press releases and elsewhere. To see a copy of ArthroCare’s Code of Business Conduct and Ethics, please click [here](#). Questions regarding ArthroCare’s Code of Business Conduct and Ethics and/or this Compliance Disclosure may be addressed to Gwen Chapman, Vice President, Compliance Officer at (512) 358-5918, or at [gwen.chapman@arthrocare.com](mailto:gwen.chapman@arthrocare.com).

## **Element 1: Written Policies and Procedures**

ArthroCare's written policies and procedures – including the Code of Business Conduct and Ethics, the ArthroCare Integrity Code for Interactions with Health Care Professionals, and policies and procedures promulgated thereunder – emphasize individual and corporate responsibility for compliance with all applicable laws and regulations and adherence to the highest ethical standards. All ArthroCare personnel worldwide must understand and comply with these obligations.

The ArthroCare Code of Business Conduct and Ethics (the “Code of Conduct”) describes ArthroCare's commitment to operate in accordance with accepted standards of business integrity, ArthroCare policies, and applicable laws and regulations. The ArthroCare Compliance Department (the “Compliance Department”) reviews the Code of Conduct at least annually and presents to the CEO and Audit Committee recommended revisions as necessary.

The Integrity Code for Interactions with Health Care Professionals (the “Integrity Code”) provides direct guidance relating to the integrity of ArthroCare personnel's relationships with customers and other Health Care Professionals (“HCPs”) across the globe. The Integrity Code and the policies and procedures adopted thereunder closely model the AdvaMed Code of Ethics for Interactions with Health Care Providers, as well as incorporate appropriate laws and standards of conduct from each jurisdiction in which ArthroCare operates or does business (*e.g.*, Eucomed/Europe, Medec/Canada, US state law governing medical device companies, and the UK Bribery Act 2010). The Compliance Department reviews legal and compliance-related developments relevant to ArthroCare's business on an ongoing basis, and presents new-and-updated policies and procedures to the ArthroCare Board of Directors (through the Compliance Committee) for approval as necessary, ensuring implementation of such policies and procedures company-wide to maintain compliance with all applicable laws.

Consistent with CAL. HEALTH & SAFETY CODE § 119402, ArthroCare has established a written \$2,500-per-calendar-year limit on otherwise-appropriate items that may be provided to California health care professionals.

## **Element 2: The Compliance Officer and Compliance Committee**

The ArthroCare Compliance Program is successful because it equips and empowers the participation of ArthroCare personnel at all levels – from the Board of Directors and ArthroCare Senior Management to Sales Agents, Distributors, clerks and receptionists. Consistent with OIG guidance, ArthroCare has also established the senior management position, Vice President, Compliance Officer (“Compliance Officer”) with global responsibility over the Compliance Program. The Compliance Officer manages and oversees the day-to-day operations of the Compliance Program, and reports directly to the CEO.

ArthroCare has also established a Compliance Committee that meets at least monthly to review the Compliance Program and advise the Compliance Officer regarding its operation. The Compliance Committee is made up of the CEO, the Compliance Officer, and the head of the operational units within ArthroCare, including Regulatory, Legal, Human Resources, Risk and Strategic Business Units (sales and marketing).

### **Element 3: Training and Education**

As part of their general compliance training, ArthroCare personnel must annually acknowledge and document that they have reviewed the Code of Conduct and Integrity Code, and will carry out their responsibilities in accordance with applicable law and ArthroCare policies and procedures.

The Compliance Department ensures that all ArthroCare personnel receive generalized compliance training wherever they are in the world, as well as specialized training relevant to their day-to-day activities. Such training occurs at least annually, with additional training events as necessary for new personnel or to address significant changes in law or industry practices. The Compliance Department also sends compliance updates to ArthroCare personnel as appropriate.

### **Element 4: Effective Lines of Communication**

ArthroCare encourages candid and open communication between management and ArthroCare personnel regarding compliance concerns. ArthroCare has established (and communicated to personnel) multiple confidential-reporting channels, including anonymous options, which are meant to provide personnel the means to report compliance concerns without fear of retaliation. ArthroCare not only encourages its personnel to report *possible* violations of the Code of Conduct, the Integrity Code, U.S. law, or another country's anti-corruption laws, it requires such reporting: Failure to report suspected non-compliance may result in disciplinary action up to and including termination of employment or contract with ArthroCare.

Compliance concerns may be directed to:

- ArthroCare's Senior Vice President and General Counsel, Richard Rew at (512) 391-3962; and/or ArthroCare's Vice President, Compliance Officer, Gwen Chapman at (512) 358-5918;
- ArthroCare's Ethics Helpline at 1 (800) 799-4385 (US only; international concerns may be reported through the International Ethics Helpline by dialing the country access code found at [http://www.usa.att.com/traveler/access\\_numbers/index.jsp](http://www.usa.att.com/traveler/access_numbers/index.jsp), then dialing 1 (888) 691-0775); and/or
- The ArthroCare Silent Whistle website at <http://arthrocare.silentwhistle.com> (both US and international).

### **Element 5: Auditing and Monitoring**

The ArthroCare Compliance Department continuously monitors ArthroCare personnel's compliance with the Compliance Program and ArthroCare policies and procedures. The Compliance Department also conducts audits – both formal and informal – to address risk areas.

## **Element 6: Enforcement and Discipline**

ArthroCare Compliance Program documents establish the standards to which personnel are expected to adhere, as well as publish the procedures ArthroCare follows in response to any reported or otherwise-suspected improper behavior. ArthroCare timely investigates such suspected and/or reported non-compliance, and responds promptly with corrective action as appropriate and required, and consistent with ArthroCare's Compliance Program policies and procedures.

## **Element 7: Response and Prevention**

As noted above, ArthroCare timely investigates suspected and/or reported non-compliance and responds promptly with corrective and preventive actions tailored to address improper actions or prevent potential violations.

Actions in response to detected violations of the Compliance Program or applicable laws, rules or regulations can include, but are not limited to, corrective actions, prevention plans, disciplinary action (including dismissal), revision of Compliance Program documents, and re-training. The Compliance Department works with ArthroCare management to ensure that ArthroCare personnel who remain with the company successfully complete any corrective action or prevention plans, and takes the lead on re-drafting documents and conducting follow-up training, as necessary.

The Compliance Officer reports such investigation outcomes, corrective actions and prevention plans to the CEO and Compliance Committee. Certain matters are also to be reported to the Audit Committee of the Board of Directors, as appropriate.