

ARTHROCARE CORPORATION
Audit Committee Charter

[Adopted February 27, 2003]

[Amended May 23, 2005]

[Amended February 21, 2008]

[Amended February 4, 2010]

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Audit Committee Charter

This Audit Committee Charter was adopted by the Board of Directors (the “Board”) of ArthroCare Corporation (the “Company”) on February 27, 2003 and amended on May 23, 2005 February 21, 2008, and February 4, 2010.

I. Purpose

The purpose of the Audit Committee (the “Committee”) is to oversee the accounting, auditing and financial reporting processes of ArthroCare Corporation and the audits of the Company’s financial statements including, but not limited to, oversight responsibilities regarding: (i) the integrity of the Company’s financial statements and to the extent required or delegated by the Board, the integrity of other financial information to be publicly disclosed; (ii) the Company’s compliance with legal and regulatory requirements and Company’s policies requiring ethical conduct; (iii) the Company’s system of internal controls over financial reporting; (iv) the independent auditor’s qualifications and independence; and the performance of the Company’s independent auditor; and directly responsible for the appointment, compensation, retention, and oversight of the independent auditor; and (v) the performance of the Company’s internal audit function; and (b) to prepare the report required by the rules of the Securities and Exchange Commission (the “SEC”) to be included in the Company’s annual proxy statement.

In so doing, the Committee should endeavor to maintain free and open means of communication between the members of the Committee, other members of the Committee, other members of the Board, the external and internal auditors and the financial management of the Company.

In addition to the powers and responsibilities expressly delegated to the Committee in this Charter, the Committee may exercise any other powers and carry out any other responsibilities delegated to it by the Board from time to time consistent with the Company’s bylaws. The powers and responsibilities delegated by the Board to the Committee in this Charter, or otherwise, shall be exercised and carried out by the Committee as it deems appropriate without requirement of Board approval, and any decision made by the Committee (including any decision to exercise or refrain from exercising any of the powers delegated to the Committee hereunder) shall be at the Committee’s sole discretion. While acting within the scope of the powers and responsibilities delegated to it, the Committee shall have and may exercise all the powers and authority of the Board. To the fullest extent permitted by law, the Committee shall have the power to determine which matters are within the scope of the powers and responsibilities delegated to it.

Notwithstanding the foregoing, the Committee’s responsibilities are limited to oversight. Management of the Company is responsible for the preparation, presentation and integrity of the Company’s financial statements as well as the Company’s financial reporting process, accounting policies, internal audit function, internal accounting controls, and disclosure controls and procedures. The independent auditor is responsible for performing an audit of the Company’s annual financial statements, expressing an opinion as to the conformity of such annual financial statements with generally accepted accounting principles and reviewing the

Company's quarterly financial statements. It is not the responsibility of the Committee to plan or conduct audits or to determine that the Company's financial statements and disclosures are complete and accurate and in accordance with generally accepted accounting principles and applicable laws, rules and regulations. Each member of the Committee shall be entitled to rely on the integrity of those persons within the Company and of the professionals and experts including the Company's internal auditor (or others responsible for the internal audit function, including contracted non-employee or audit or accounting firms engaged to provide internal audit services, the "internal auditor," and the Company's independent auditor) from which the Committee receives information and, absent actual knowledge to the contrary, the accuracy of the financial and other information provided to the Committee by such persons, professionals or experts.

Further, auditing literature, particularly Statement of Accounting Standards No. 100, defines the term "review" to include a particular set of required procedures to be undertaken by independent auditors. The members of the Committee are not independent auditors, and the term "review" as used in this Charter is not intended to have that meaning and should not be interpreted to suggest that the Committee members can or should follow the procedures required of auditors performing reviews of financial statements.

II. Membership

The Committee shall consist of three or more "independent" (under the standards set forth in applicable laws or listing standards) directors as determined time to time by the resolution of the Board. Each member of the Committee shall be qualified to serve on the Committee pursuant to, and the composition of the Committee shall comply with, the requirements of the Nasdaq Stock Market ("Nasdaq") and any additional requirements that the Board determines appropriate or any additional or supplemental independence standards applicable to audit committees established under any applicable law, rule or regulation. All such members will be financially literate, with at least one member possessing accounting or financial management expertise and other qualifications necessary to satisfy the requirements of a "financial expert," as set forth in applicable laws, rules or regulations, such as the Securities and Exchange Commission.

The Board, on the recommendation of the Nominating and Corporate Governance Committee, shall appoint the members of the Committee, including the Chair of the Committee. The Board may remove committee members from the Committee, with or without cause, by action of the full Board of Directors.

In accordance with the Company's Bylaws, the Board or the Committee may appoint such subcommittees of the Committee from among the members of the Committee as they shall deem necessary or appropriate to carry out specific duties and responsibilities and may also retain independent counsel, accountants, or others to advise the Committee or assist in the conduct of an investigation.

III. Meetings

The Chair (or in his or her absence, a member designated by the Chair) shall preside at each meeting of the Committee and set the agendas for Committee meetings. The Committee shall have the authority to establish its own rules and procedures for notice and conduct of its meetings so long as they are not inconsistent with any provisions of the Company's bylaws that are applicable to the Committee.

The Committee shall meet at least once during each fiscal quarter and more frequently as the Committee deems to carry out the duties and responsibilities, either in person or telephonically. The Committee shall meet separately, periodically, with management, with the internal auditor and with the independent auditor.

All non-management directors that are not members of the Committee may attend and observe meetings of the Committee, but shall not participate in any discussion or deliberation unless invited to do so by the Committee, and in any event shall not be entitled to vote. The Committee may, at its discretion, include in its meetings members of the Company's management; representatives of the independent auditor, the internal auditor, any other financial personnel employed or retained by the Company or any other persons whose presence the Committee believes to be necessary or appropriate. Notwithstanding the foregoing, the Committee may also exclude from its meetings any persons it deems appropriate, including, but not limited to, any non-management director that is not a member of the Committee.

The Committee may conduct or authorize investigations into any matters within the scope of the powers and responsibilities delegated to the Committee.

Minutes of each meeting will be maintained by the corporate secretary and provided to the Audit Committee and the Board in a timely manner.

IV. Powers and Responsibilities

In carrying out its duties and responsibilities, the Committee's policies and procedures should remain flexible, so that it may be in a position to best address or respond to changing circumstances or conditions. Among its duties and responsibilities, the Committee shall, consistent with and subject to applicable law and rules and regulations promulgated by the Securities and Exchange Committee ("SEC"), Nasdaq or any other regulatory authority:

Financial Statements – Oversight of Annual Audit and Quarterly Review

Meetings with Management and the Independent Auditor

The Committee shall meet with management and the independent auditor to review significant accounting and reporting issues impacting the financial statements, including:

- Major issues regarding accounting principles and financial statement presentation, including any significant changes in the Company's selection or application of accounting principles.

- Major issues as to the adequacy of the Company's internal controls and any special audit steps adopted in light of material control deficiencies.
- Any analyses prepared by management or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, including analyses of the effects of alternative GAAP methods on the Company's financial statements.
- Critical, including complex or unusual transactions and highly judgmental areas.
- The effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the Company's financial statements.
- The matters required to be discussed by Statement on Auditing Standards No. 114, "Communication with Audit Committees" and Statement on Auditing Standards No. 112, "Communication of Internal Control Related Matters Identified in an Audit".
- Resolve all disagreements between the Company's independent auditors and management regarding financial reporting.
- The Company's earnings press releases (with particular focus on any "pro forma" or "adjusted" non-GAAP information), as well as financial information and earnings guidance provided to analysts and rating agencies. The Committee's discussion in this regard may be general in nature (i.e., discussion of the types of information to be disclosed and the type of presentation to be made) and need not take place in advance of each earnings release or each instance in which the Company may provide earnings guidance.

Audited Financial Statements

The Committee shall review and discuss the annual audited and quarterly financial statements with management and the independent auditor, including:

- The Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations."
- Any problems or difficulties the independent auditor may have encountered during the course of the annual audit or quarterly reviews, including any restrictions on the scope of activities or access to required information or any significant disagreements with management and management's responses to such matters.
- Any accounting adjustments that were noted or proposed by the auditor but were "passed" (as immaterial or otherwise)
- Any communications between the audit team and the independent auditor's national office respecting auditing or accounting issues presented by the engagement
- Any "management" or "internal control" letter issued, or proposed to be issued, by the independent auditor to the Company.
- Obtaining from the independent auditor assurances that Section 10A(b) of the Exchange Act has not been implicated.
- All other material written communications between the independent auditor and management of the Company, such as:
 - o any management letter,
 - o management representation letter,
 - o reports on observations and recommendations on internal controls,
 - o independent auditor's engagement letter,
 - o independent auditor's independence letter,

- schedule of unadjusted audit differences, and
- a listing of adjustments and reclassifications not recorded, if any.
- Review disclosures made by the CEO and CFO during the Forms 10-K and 10-Q certification process about significant deficiencies in the design or operation of internal controls or any fraud that involves management or other employees who have a significant role in the Company's internal controls.
- Discuss any material financial or non-financial arrangements of the Company which do not appear on the financial statements of the Company.

Recommendation to Include Financial Statements in Annual Report

The Committee shall, based on the review and discussions in paragraphs above, and based on the disclosures received from the independent auditor regarding its independence and discussions with the auditor regarding such independence pursuant to the below Independence of Independent Auditor section under External Auditor responsibilities, determine whether to recommend to the Board that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year subject to the audit.

Compliance and Ethical Behavior – Oversight

The Committee should develop process and procedures to ensure the Company's compliance with legal and regulatory requirements, as well as ethical conduct.

- Establish procedures for (a) the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters, and (b) the confidential, anonymous submission by employees of the Company of their concerns regarding questionable accounting or auditing matters.
- Oversee the execution and results of Compliance Program investigations.
- Review the process for communicating the code of conduct to Company personnel, and for monitoring compliance therewith.
- Discuss with the Company's General Counsel or outside counsel any legal matters brought to the Committee's attention that could reasonably be expected to have a material impact on the Company's financial statements.
- Discuss with management and the independent auditor any correspondence from or with regulators or governmental agencies, any employee complaints or any published reports that raise material issues regarding the Company's financial statements, financial reporting process, accounting policies or internal control environment.
- Establish procedures for the receipt, retention and treatment of reports of evidence of a material violation from attorneys appearing and practicing before the SEC in the representation of the Company or any of its subsidiaries.

Internal Control – Oversight of Financial Reporting Process and Internal Controls

- Understand the scope of internal and external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.
- Review and discuss with the independent auditors and management, periodically, the adequacy and effectiveness of the Company's accounting and internal control policies and procedures, including the independent auditors' judgment as to the quality of the Company's accounting principles, and the following:
 - o all significant deficiencies in the design or operation of internal controls, including information technology security and control, which could adversely affect the Company's ability to record, process, summarize and report financial data, including any material weaknesses in internal controls identified by the Company's independent auditors;
 - o any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls; and
 - o any significant changes in internal controls or in other factors that could significantly affect internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses.
- Review and discuss with management the Company's administrative, operational and accounting internal controls, and whether the Company is operating in accordance with its prescribed policies, procedures and codes of conduct.

Internal Audit – Evaluation and Oversight of the Internal Auditors

Appointment and Oversight

The Committee shall meet periodically with the Company's chief audit executive to:

- Discuss the charter, responsibilities, plans, activities, staffing, organizational structure, and budget and of the Company's internal audit function, any issues that the internal auditor believes warrant Audit Committee attention, and any significant reports to management prepared by the internal auditor and any responses from management.
- Ensure there are no unjustified restrictions or scope limitations.
- Review the effectiveness of the internal audit function.
- Meet separately with chief audit executive to discuss any matters that the Committee or internal audit believes should be discussed privately.

The Committee shall review the appointment, dismissal and replacement of the chief audit executive.

Independent Auditor – Selection, Evaluation, and Oversight of the Independent Auditor

Appointment and Oversight

- The Committee shall be directly responsible and have sole authority for the appointment (subject, if applicable, to shareholder ratification), compensation, retention and oversight of the work of the independent auditor for the purpose of preparing or issuing an audit report or related work or performing other audit, review or attest services for the Company.

- The independent auditor shall report directly to the Committee.
- Review the external auditors' proposed annual audit plan, including the scope of audit activities, the timing of the audit, staffing, and approach including coordination of audit effort with internal audit.
- Monitor the approved audit plan's progress and results during the year.
- If determined appropriate by the Committee, in its sole discretion, terminate and replace the independent auditors.
- On a regular basis, meet separately with the external auditors to discuss any matters that the Committee or auditors believe should be discussed privately.

Pre-Approval of Services

- Before the independent auditor is engaged by the Company or its subsidiaries to render audit or non-audit services, the Committee shall pre-approve the engagement. The Committee may delegate to one or more designated members of the Committee the authority to grant pre-approvals, provided such approvals are presented to the Committee at a subsequent meeting. If the Committee elects to establish pre-approval policies and procedures regarding non-audit services, the Committee must be informed of each non-audit service provided by the independent auditor.
- Committee pre-approval of non-audit services (other than review and attest services) also will not be required if such services fall within de minimis non-audit services described in Section 10A(i)(1)(B) of the Exchange Act and Rule 2-01 (c) (7)(i)(C) of Regulation S-X which are approved by the Audit Committee prior to the completion of the audit, or any other available exceptions established by the SEC.

Independent Auditors Performance

The Committee shall, at least annually, review the independence and quality control procedures of the independent auditor and the experience and qualifications of the independent auditor's senior personnel that are providing audit services to the Company. In conducting its review, the Committee shall:

- Obtain and review a report prepared by the independent auditor describing (a) the auditing firm's internal quality-control procedures and (b) any material issues raised by the most recent internal quality-control review, or peer review, of the auditing firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the auditing firm, and any steps taken to deal with any such issues.
- Ensure that the independent auditor prepare and deliver, at least annually, a written statement delineating all relationships between the independent auditor and the Company, consistent with Independence Standards Board Standard 1. The Committee shall actively engage in a dialogue with the independent auditor with respect to any disclosed relationships or services that, in the view of the Committee, may impact the objectivity and independence of the independent auditor.
- Confirm with the independent auditor that the independent auditor is in compliance with the partner rotation requirements established by the SEC.
- Consider whether the Company should adopt a rotation of the annual audit among independent auditing firms.

- Consider, if applicable, whether the independent auditor's provision of any permitted information technology services or other non-audit services to the Company is compatible with maintaining the independence of the independent auditor.
- Engage in a dialogue with the independent auditors to confirm that audit partner compensation is consistent with rules promulgated by the SEC, Nasdaq or any other applicable regulatory authority
- Present its conclusions with respect to the external auditor to the full board.

Other Powers and Responsibilities

Reporting Responsibilities

Specific reporting requirements or responsibilities by the Audit Committee include to:

- Provide the Company with the report of the Committee with respect to the audited financial statements required by Item 306 of Reg. S-K, for inclusion in each of the Company's annual proxy statements.
- Report, through its Chair, regularly to, and review with, the Board any issues that arise with respect to the quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements, the qualifications, performance and independence of the Company's independent auditor, the performance of the Company's internal audit function or any other matter the Committee determines is necessary or advisable to report to the Board.
- Review any other reports the Company issues that relate to Committee responsibilities.

Other Responsibilities

The Committee shall:

- Review all related-party transactions, regardless of the dollar amount thereof, on an ongoing basis and all such transactions must be subject to approval by the Committee.
- Discuss with management the Company's policies with respect to risk assessment and risk management.
- Discuss with management the Company's significant financial risk exposures and the actions management has taken to limit monitor or control such exposures.
- Institute and oversee special investigations, as needed.
- Perform other activities related to this charter as requested by the Board of Directors.
- Perform an evaluation, at least annually, of the performance of the Committee and its members, including a review of the Committee's compliance with this Charter.
- Review and reassess, at least annually, this Charter and submit any recommended changes to the Board for its consideration.
- Endorse and encourage education and dialog relative to emerging issues and facilitate knowledge of Audit Committee members and the Board on such pertinent issues.

Outside Advisors

In discharging its duties and responsibilities, the Committee is empowered to investigate any matter relating to its purpose, duties or responsibilities that it deems appropriate and shall have full access to all books, records, facilities and personnel of the Company. The Committee shall

have full authority (without the need for any other Board approval) to retain outside legal, accounting or other advisors in carrying out its duties and responsibilities, including the authority to approve the fees payable to such advisors and any other terms of retention, and the Company shall provide the funding determined appropriate by the Committee for any such advisors, as set forth in Sections 10A(m)(5) and (6) of the Exchange Act and Rules 10A-3(b)(4) and (5). Such advisors shall have such access to the books records, facilities and personnel of the Company as the Committee shall consider appropriate.

In fulfilling their responsibilities hereunder, it is recognized that members of the Committee are not full-time employees of the Company; it is not the duty or responsibility of the Committee or its members to conduct “field work” or other types of auditing or accounting review or procedures or to set auditor independence standards; and each member of the Committee shall be entitled to rely on (a) the integrity of those persons and organizations within and outside the Company from which it receives information, (b) the accuracy of the financial and other information provided to the Committee absent actual knowledge to the contrary (which shall be promptly reported to the Board) and (c) statements made by management or third parties as to any information technology, internal audit and other non-audit services provided by the auditors to the Company.