

# **SALIX PHARMACEUTICALS, LTD.**

## **Corporate Governance Guidelines**

### **A. Introduction**

These Corporate Governance Guidelines established by the Board of Directors of Salix Pharmaceuticals, Ltd. provide a structure within which our directors and management can effectively pursue Salix's objectives for the benefit of its stockholders. The Board intends that these Guidelines serve as a flexible framework within which the Board may conduct its business, not as a set of binding legal obligations. These Guidelines should be interpreted in the context of all applicable laws, Salix's charter documents and other governing legal documents.

### **B. Mission of the Board of Directors**

Salix's Board of Directors believes that its primary responsibility is to provide effective governance over Salix's affairs for the benefit of stockholders. The Board is responsible for determining that the Company is managed in such a way as to ensure this result. That responsibility includes:

- representing the stockholders' interest in perpetuating a successful business;
- optimizing long-term financial returns;
- evaluating the performance of the Chief Executive Officer;
- reviewing and approving periodically long-term strategic and business plans and monitoring corporate performance against such plans;
- selecting, evaluating, and fixing the compensation of senior management and establishing policies regarding the compensation of other members of management;
- adopting policies of corporate conduct, including compliance with applicable laws and regulations and maintenance of accounting, financial, and other controls, and reviewing the adequacy of compliance systems and controls;
- evaluating periodically the overall effectiveness of the Board and its committees; and
- deciding on matters of corporate governance.

This is an active, not a passive, responsibility. The Board has the responsibility to ensure that in good times, as well as difficult ones, management is capably executing its responsibilities, and has adopted the following guidelines to assist it in the exercise of its responsibility.

### **C. Board Structure and Composition**

1. Size of the Board. The authorized number of directors will be determined from time to time by resolution of the Board, provided the Board is comprised of at least three directors and no more than eleven directors. The Board currently has seven members.

2. Director Independence. The Board believes that a majority of directors on the Board should be independent as defined by the Sarbanes-Oxley Act of 2002, the rules and regulations of the Securities and Exchange Commission, and the NASDAQ Stock Market. The Board also believes that it is often in the best interest of Salix and its stockholders to have non-independent directors, including current and (in some cases) former members of management, serve as directors.

3. Director Tenure. Directors are reelected each year and the Board does not believe it should establish term limits because directors who have developed insight into Salix and its operations over time provide an increasing contribution to the Board as a whole. To ensure the Board continues to generate new ideas and to operate effectively, the Nominating/Corporate Governance Committee shall monitor performance and take steps as necessary regarding continuing director tenure.

#### **D. Selection of the Board of Directors**

1. Annual Election of the Board by Stockholders. Directors are elected by a plurality of the votes of the stockholders of Salix present or represented by proxy at the annual or special meeting of stockholders. Directors are elected from those persons properly nominated to stand for election at the annual or special meeting. The Board has delegated the nomination process to the Nominating/Corporate Governance Committee, which has the authority to identify and nominate candidates for vacancies on the Board of Directors. At Salix's annual meeting of stockholders, the nominees receiving the highest number of affirmative votes of the common stock present or represented and entitled to be voted for them shall be elected as directors. Each director so elected shall hold office until the next annual meeting of the stockholders and until a successor has been elected and qualified.

2. Board Membership Criteria. The Nominating/Corporate Governance Committee will evaluate and recommend candidates for membership on the Board, including director nominees to be proposed by the Board to Salix's stockholders for election or any director nominees to be elected or appointed by the Board to fill interim director vacancies on the Board. The Nominating/Corporate Governance Committee has determined that desirable characteristics for a Board membership include industry knowledge, senior management experience, relevant skill sets, diversity, business acumen, strength of character and mature judgment.

3. Nomination of New Directors. The Nominating/Corporate Governance Committee generates a list of possible candidates for nomination to the Board. The Nominating/Corporate Governance Committee considers possible candidates suggested by Board members, consultants, stockholders, senior management, or individuals personally known to the members. In addition to submitting suggested nominees to the Nominating/Corporate Governance Committee, a stockholder of Salix may nominate a person for election as a director at Salix's annual meeting or at a special meeting provided the stockholder follows the procedures specified in the Salix's Bylaws, which are disclosed annually in Salix's proxy statement.

4. Board Resignations and Vacancies. Salix's Bylaws provide that any director may resign effective on giving written notice or electronic transmission thereof to the Chair of the Board, the Chief Executive Officer, the Corporate Secretary or the Board of Directors, unless the notice specifies a later time for that resignation to become effective. If the resignation of a director is effective at a future time, the Board of Directors may elect a successor to take office when the resignation becomes effective. Vacancies in the Board of Directors may only be filled by a majority of the remaining directors, even if less than a quorum, or by a sole remaining director; stockholders may not fill a vacancy on the Board other than at a duly called meeting of stockholders.

## **E. Principal Duties of the Board of Directors**

1. To Oversee Management and Evaluate Strategy. The fundamental responsibility of the directors is to exercise their business judgment to act in what they reasonably believe to be the best interests of Salix and its stockholders. It is the duty of the Board to oversee the Chief Executive Officer and the other members of senior management who together run Salix on a daily basis. The Board also monitors management's performance to ensure that Salix operates in an effective, efficient and ethical manner in order to produce value for Salix's stockholders. The Board also evaluates Salix's overall strategy and monitors Salix's performance against its operating plan and against the performance of its peers.

Directors are expected to invest the time and effort necessary to understand Salix's business and financial strategies and challenges. The basic duties of the directors include attending Board meetings and actively participating in Board discussions. Directors are also expected to make themselves available outside of board meetings for advice and consultation.

2. To Select the Chair and Chief Executive Officer. The Board will select the Chair of the Board and the Chief Executive Officer in compliance with Salix's charter documents. However, if there is no Chief Executive Officer or President of Salix as a result of the death, resignation or removal of such officer, then the Chair of the Board of Directors may also serve in an interim capacity as the Chief Executive Officer of Salix until the Board appoints a new Chief Executive Officer.

3. To Evaluate Management Performance and Compensation. At least annually, in conjunction with the Chair of the Board the Compensation Committee will evaluate the performance of the Chief Executive Officer. It will also review with the Chief Executive Officer the other executive officers. On an annual basis it will determine the compensation of the Chief Executive Officer and the other officers. It will also evaluate the compensation plans, policies and programs for officers and employees to ensure they are appropriate, competitive, do not encourage excessively risky behavior, and properly reflect Salix's objectives and performance.

4. To Review Management Succession Planning. The Chief Executive Officer meets with the Board at least annually to review and recommend to the Board plans for the development, retention and replacement of executive officers of Salix.

5. To Monitor and Manage Potential Conflicts of Interest. All members of the Board must inform the Audit Committee of the Board of all types of transactions between them (directly or indirectly) and Salix as soon as reasonably practicable even if these transactions are in the ordinary course of business. The Audit Committee of the Board will review and approve all related party transactions for which audit committee approval is required by applicable law or the rules of the NASDAQ Stock Market. The Board will also ensure that there is no abuse of corporate assets or unlawful related party transactions.

6. To Ensure the Integrity of Financial Information. The Audit Committee of the Board evaluates the integrity of Salix's accounting and financial reporting systems, including the audit of Salix's annual financial statements by the independent auditors, and ensure that appropriate systems of control are in place. The Audit Committee reports to the Board on a regular basis and the Board, upon the recommendation of the Audit Committee, takes the actions that are necessary to ensure the integrity of Salix's accounting and financial reporting systems and that appropriate controls are in place.

7. To Monitor the Effectiveness of Board Governance Practices. The Nominating/Corporate Governance Committee of the Board will periodically review and evaluate the effectiveness of the governance practices under which the Board operates and make changes to these practices as needed.

## **F. Board Procedures**

Directors are expected to prepare for, attend, and contribute meaningfully in all Board and applicable committee meetings in order to discharge their obligations.

1. Frequency of Board Meetings. Regular meetings of the Board shall be held at such times and places as determined by the Board. There will be at least four regularly scheduled meetings of the Board each year but the Board will meet more often if necessary.

2. Attendance at Board Meetings. To facilitate participation at the Board meetings, directors may attend in person or via telephone conference. Materials are distributed in advance of meetings so that the directors have a sufficient amount of time to review and evaluate materials prior to meetings.

3. Other Commitments. Each member of the Board is expected to ensure that other existing and future commitments, including employment responsibilities and service on the boards of other entities, do not materially interfere with the member's service as director.

4. Executive Sessions of Non-Management Directors. NASDAQ rules require independent Board members to meet in executive session without non-independent directors at least twice per year. The Board's policy is to hold executive sessions without the presence of management, including the Chief Executive Officer and other non-independent directors in connection with regularly scheduled Board meeting, and at other times as necessary. Committees of the Board will also meet in executive session as deemed appropriate.

5. Board Access to Management. Members of the Board will have access to Salix's management and employees as needed to fulfill their duties. Furthermore, the Board encourages management to, from time to time, bring managers into meetings of the Board who: (a) can provide additional insight into the items being discussed because of personal involvement in these areas, and/or (b) are managers with future potential that senior management believes should be given exposure to the Board.

6. Code of Business Conduct. Salix has adopted a Code of Business Conduct to provide guidelines for the ethical conduct by directors, officers and employees. The Code of Business Conduct is posted on Salix's website.

7. Engaging Experts. The Board and each committee of the Board has the authority to obtain advice, reports or opinions from internal and external counsel and expert advisers and will have the power to hire independent legal, financial and other advisers as they may deem necessary or appropriate, without consulting with, or obtaining approval from, management of Salix in advance.

8. Stock Retention Policy. In an effort to more closely align the interests of the directors with those of the stockholders of Salix, Salix has implemented a stock retention policy whereby all non-employee directors must retain 50% of any restricted stock grants issued to him or

her, net any income taxes owed thereon, until such director's resignation or removal or until his successor shall be duly elected. The retention percentage required for executive officers is 30%.

## **G. Board Committees**

1. Number and Composition of Committees. The Board currently has the following standing committees: an Audit Committee, a Compensation Committee and a Nominating/Corporate Governance Committee. From time to time the Board may form a new committee or disband a current committee depending on the circumstances. Each committee complies with the independence and other requirements established by applicable law and regulations, including SEC and NASDAQ rules.

2. Committee Appointments. Following an assessment of all members' skill sets and a recommendation by the Nominating and Corporate Governance Committee, all members of all standing committees are appointed by the Board. The Board determines the exact number of members and can at any time remove or replace a committee member.

3. Committee Proceedings. The Chair of each committee of the Board will, in consultation with appropriate committee members and members of management, and in accordance with the committee's charter, determine the frequency and length of committee meetings and develop the committee's agenda.

## **H. Director Continuing Education**

The Board believes that ongoing education is important for maintaining a current and effective Board. Accordingly, the Board encourages directors to participate in ongoing education, as well as participation in accredited director education programs. Salix will reimburse directors for reasonable expenses incurred in connection with these education programs.

## **I. Board Performance**

The Board develops and maintains a process whereby the Board, its committees and its members are subject to evaluation and self-assessment. The Nominating/Corporate Governance Committee oversees this process.

## **J. Board Compensation**

The Compensation Committee of the Board has the responsibility to review and recommend to the Board compensation programs for non-employee directors.

## **K. Auditor Rotation**

The Audit Committee of the Board will ensure that the lead audit partner and the audit review partner be rotated every 5 years as is required by the rules of the SEC.

## **L. Communications with Stockholders**

1. Stockholder Communications to the Board. Stockholders who wish to communicate with members of the Board of Directors, including the independent directors individually or as a group, can send correspondence to them in care of Salix' Corporate Secretary

at Salix principal executive offices. Such communication will be forwarded to the intended recipient(s).

2. Annual Meeting of Stockholders. Each director is expected to attend the Annual Meeting of Stockholders.

#### **M. Periodic Review of the Corporate Governance Guidelines**

These guidelines shall be reviewed periodically by the Nominating/Corporate Governance Committee. The Board will make changes when appropriate based on recommendations from the committee.

*Effective: December 13, 2007*

*Amended and Restated: December 9, 2009*