



## **SALIX PHARMACEUTICALS, LTD.**

### **CODE OF BUSINESS CONDUCT**

This Code of Business Conduct summarizes general standards of conduct and specific corporate policies intended to promote and ensure the legal and ethical conduct of persons acting on behalf of Salix Pharmaceuticals, Ltd. and its subsidiaries (collectively, “Salix” or the “Company”). Our Company is built upon the highest standards of business integrity and corporate morality. Consequently, we believe that it is the personal responsibility of each director, employee and agent of the Company to adhere to applicable laws, regulations, ethical principles and this Code of Business Conduct in carrying out his or her duties and responsibilities.

Each director, employee and agent of the Company should read this Code of Business Conduct thoroughly. Keep in mind that this Code of Business Conduct is only a guide. If you are concerned about a legal or ethical situation, or are not sure whether specific conduct meets Salix standards, feel free to discuss the situation with your supervisor, the Human Resources Department, or the Company’s Corporate Compliance Officer (as described below).

#### **Company Mission**

Salix is committed to being the leading U.S. specialty pharmaceutical company licensing, developing and marketing innovative products to health care professionals to prevent or treat gastrointestinal disorders in patients while providing rewarding opportunities for our employees and creating exceptional value for our stockholders.

#### **Business Principles**

Salix is committed to conducting its business consistent with sound ethical and moral business principles. Accordingly, directors, employees and agents should always conduct themselves in order to:

- promote and preserve the Company’s reputation for integrity through fair dealing and honest, ethical business conduct;
- build relationships with customers, vendors and others that are based on trust and to treat every individual with respect and dignity in the conduct of Company business;

- avoid even the appearance of having conflicts of interest with the Company in all business dealings and transactions;
- protect the Company’s confidential information and respect the confidential information of others;
- avoid any activities that could involve the Company in any unlawful practice or damage the Company’s reputation or image; and
- promptly report any violations of law, regulation, ethical principles or Company policies, and cooperate fully in any audit, inquiry, review or investigation by the Company.

## **General Standards of Conduct**

To carry out the Company’s Mission and adhere to our business principles, all directors, employees and agents are expected to understand and comply with the following general standards of conduct.

Compliance with the Law. It is our policy to observe and comply with all laws, rules and regulations applicable to the Company and the conduct of its business globally. Where the applicable law of the United States conflicts with the applicable law of another country, we will endeavor to resolve the conflict by seeking and following the guidance of our legal counsel. If the conflict cannot be resolved, it is our policy to comply with the applicable law of the United States.

Accountability. We believe it is the personal responsibility of each director, employee and agent of the Company to adhere to applicable law, regulations, ethical principles, and this Code of Business Conduct in carrying out his or her duties and responsibilities. Any director, employee or agent who does not adhere to such standards is acting outside the scope of his or her authority and might be subject to disciplinary action.

Honesty and Integrity. In addition to complying with all applicable laws, all Company directors, employees and agents are expected to observe high standards of business and personal ethics in discharging their duties and responsibilities. This requires honesty and integrity in every aspect of dealing with other Company employees, the public, the business community, stockholders, customers, suppliers, and governmental authorities.

Reputation. Each director, employee and agent of the Company contributes to the Company’s reputation. Consequently, each of us must understand this Code and adhere to it whenever conducting Company business. We should never allow any sense of loyalty to the Company or a desire for profitability to cause one or more of us to act illegally, unethically or otherwise contrary to this Code of Business Conduct.

Finally, we must always keep in mind that in the “court of public opinion” the Company is judged not just by what we actually do, but also by what we appear to be doing. Consequently we must constantly endeavor to avoid even the appearance of improper behavior.

## Specific Company Policies

Our Board of Directors has adopted the following policies governing specific areas of conduct. Such conduct is either mandated by law or is critical to the ethical operation of the Company. The specific content of these policies is included either (i) in the Appendices attached to this Code of Business Conduct, (ii) in the Employee Handbook maintained, posted on the Company intranet and distributed by Human Resources, or (iii) in the compilations of the Company's Standard Operating Procedures (SOPs) maintained by Quality Assurance. All such policies, SOPs and other related documents are considered a part of this Code. Set forth below are brief summaries of the Company's policies, SOPs and other related documents that relate to ethical business practices and legal compliance.

Accounting and Corporate Records and Reporting (Appendix A). Company policy requires the Company to keep books and records that accurately and fairly present its financial condition and results of operations.

Bribery. Company policy prohibits bribes, kickbacks and other similar payoffs and benefits paid to any suppliers, customers, governmental authorities or any other parties.

Code of Ethics for the Chief Executive Officer and Financial Officers (Appendix B). The Chief Executive Officer and the financial officers of the Company, including the Chief Financial Officer, Controller and other employees with similar responsibilities, are responsible for safeguarding the integrity and accuracy of the Company's financial data.

It is our policy to keep books and records that accurately and fairly present the Company's financial condition and results of its operations. We will adhere to all applicable rules, and regulations, as promulgated by accounting and governmental organizations with jurisdiction over Company financial and reporting matters. It is also our policy to work constructively and openly with our external auditors.

Above all, we will seek to ensure true, accurate and timely financial records to assist the Company in meeting its goals and to allow its stockholders and the public to understand its financial condition and results of operations.

Confidential or Proprietary Information. Company policy prohibits the disclosure of confidential or proprietary information outside the Company, either during or after employment, without Company authorization.

Conflicts of Interest (Appendix C). Company policy requires disclosure of, and in some cases prohibits arrangements that constitute a conflict between, the interests of its directors, employees and agents, on the one hand, and the Company, on the other. For instance, in certain circumstances it may not be appropriate for the Company to enter into a supply arrangement with a vendor owned or managed by a relative of a Company employee. Any arrangement that could pose a conflict of interest should be discussed with the Corporate Compliance Officer before it is finalized.

Discrimination and Harassment. Company policy prohibits discrimination and sexual or other harassment in the Company's workplace.

Drug and Alcohol Use. It is our goal to maintain a workplace free from drug and alcohol abuse. The Company's directors, employees and agents must be able to rely on colleagues who are not impaired or under the influence of drugs or alcohol while fulfilling their responsibilities to Salix. The Company has adopted a Drug-Free Workplace Policy and will require each of its directors, employees and agents to sign a statement certifying that they have read, understand, and will comply with the policies set forth therein.

Fraud. The Company prohibits all fraud by its directors, employees and agents. The term "fraud" as used in this policy includes such things as any:

- dishonest act;
- embezzlement;
- forgery or alteration of negotiable instruments such as Company checks and drafts;
- misappropriation of Company, employee, customer, partner, or supplier assets;
- conversion to personal use of cash, securities, supplies or any other Company asset;
- unauthorized handling or reporting of Company transactions; and
- falsification of Company records or financial statements for personal gain or any other reason.

The above list is not all-inclusive but intended to be representative of situations involving fraud.

Insider Trading. The Company has a policy against trading Company securities while in possession of material non-public information, as well as the disclosure of material non-public information to anyone other than persons within the Company whose positions require them to know such information. The Company has adopted an Insider Trading Compliance Program and requires each of its directors, employees and agents to sign a statement certifying that they have read, understand, and will comply with the policies set forth therein.

Retaliation. Taking action to prevent problems is part of Salix's corporate culture. Any director, employee or agent who observes possible unethical or illegal conduct, is strongly encouraged to report their concerns. Any person reporting such concerns in good faith can be assured that their concerns will be listened to, thoughtfully considered, and fully investigated, as appropriate. Furthermore, the Company prohibits and will not tolerate retaliation in any form against a person making such a good faith report.

Intolerance of retaliation is not just Company policy--it's the law. Specifically, no director, employee or agent of the Company may intentionally retaliate against any person for providing to a law enforcement officer any truthful information relating to the commission or possible commission of any federal offense. Furthermore, the Company will not discharge, demote, suspend, threaten, harass or in any other manner discriminate against any person because of any lawful act done to provide information or otherwise assist in an investigation of corporate

fraud or violation of SEC rules or regulations in a federal or Congressional investigation or one conducted by a Company representative.

Sales and Marketing Policies and Procedures. Each member of the Company's sales force receives training on policies and procedures specific to the Sales and Marketing Department. The subject matter of those policies and procedures covers such matters as the Company's Compliance Manual, ethics, non-disclosure of confidential information, drug sampling, signature authority, use of Company letterhead/logos, use of Company property, performance standards and reviews, incentive compensation and such other matters as senior management of the Company deems appropriate from time to time.

Promotion Review. In order to ensure that all of our promotional materials are medically and legally appropriate, the Company has adopted a policy requiring that these materials be submitted to the scrutiny of an internal review process. That process is governed by the *Salix Compliance Manual* and the Promotion Review Committee Standard Operating Procedure (0200). All individual employees who are involved in development or distribution of product-specific communications are given a copy of this Manual and SOP with applicable training, and are required to be familiar with them and adhere to their procedures.

Document Retention. The Company has adopted the Document Retention Policy in order to manage information generated and received by the Company and to ensure that the Company's records are managed effectively and efficiently. When conducting Company business, certain records must be maintained for future reference as specified by applicable laws and/or contract requirements. The Document Retention Policy obligates all employees of the Company to follow specified procedures for the systematic review, retention and destruction of certain records.

Signature Authority. It is Company policy that employees may only sign documents on behalf of the Company when authorized to do so. The Salix Policy on Authority to Sign Agreements outlines the circumstances under which the Board of Directors has authorized each of us to sign documents for the Company.

Standard Operating Procedures. Salix has established Standard Operating Procedures (SOPs) to assure compliance with Food and Drug Administration regulations and guidance in regards to current good manufacturing, laboratory and clinical practices, as well as certain activities conducted in connection with the sales and marketing of pharmaceuticals. The Company has also adopted SOPs applicable to certain activities regarding the reporting of safety information about our products and maintaining the integrity of our automated record keeping systems. The appropriate departments draft, review, approve and update written procedures relevant to their group functions and responsibilities. The Quality Assurance group then performs a final review and approval and issues these written procedures as SOPs. Employees and other Company representatives acting on our behalf in connection with the testing, manufacturing or selling of our products must read, be familiar with, and comply with those SOPs that impact their activities. In certain cases, specific training on such SOPs (and employee certification of completion of training) may also be required.

## **Administration of the Code of Business Conduct**

The Company's Code of Business Conduct is administered as follows:

### **1. Responsibility for Administration; Corporate Compliance Officer**

The Nominating/Corporate Governance Committee of the Company's Board of Directors (the "Governance Committee") is ultimately responsible for the administration of the Code of Business Conduct. The Governance Committee has delegated responsibility for the practical, day-to-day administration of the Code to an individual referred to herein as the "Corporate Compliance Officer". Working with Human Resources and senior management, the Corporate Compliance Officer will establish reasonable procedures in order to discharge his or her responsibility. Such procedures will provide for obtaining advice of outside legal counsel where appropriate. In discharging his or her responsibilities, the Corporate Compliance Officer may also delegate responsibilities to committees, officers or other employees and may engage agents and advisors, as appropriate, to discharge his or her responsibilities.

### **2. Periodic Review of Code of Business Conduct**

The Corporate Compliance Officer will periodically, but not less frequently than annually, review the Code of Business Conduct, and when necessary or desirable, make recommendations to the Governance Committee to ensure (a) its continued conformance to applicable law, (b) that it meets or exceeds industry standards, and (c) that any weaknesses revealed through monitoring, auditing and reporting systems are eliminated or corrected.

### **3. Communication of Policies**

To ensure the continued dissemination and communication of the Code of Business Conduct, the Corporate Compliance Officer will take reasonable steps to effectively communicate the standards and procedures included in the Code of Business Conduct to the Company's directors, employees and agents. At a minimum, each director, employee and agent of the Company will be given a copy of the Code of Business Conduct upon his or her election, appointment or hiring, and be asked to acknowledge in writing his or her receipt, review and understanding of the Code of Business Conduct.

Directors, employees and agents of the Company are encouraged to submit questions, concerns and suggestions regarding the Code of Business Conduct to the Corporate Compliance Officer in order to make it more clear, comprehensive and useful.

The Code of Business Conduct will be available to the public upon request and will be posted on the Company's website.

#### 4. Monitoring and Auditing

The Corporate Compliance Officer will take reasonable steps to monitor and audit compliance with the Code of Business Conduct, including the establishment of monitoring and auditing systems that are reasonably designed to detect violations of the Code of Business Conduct. To that end:

- a. The information developed by the Company's independent auditors in performing their engagement by the Company and by its internal auditors in the performance of their assigned responsibilities will be made available to the Corporate Compliance Officer to monitor and audit compliance with the Code of Business Conduct.
- b. The results of periodic risk management, health, safety, and regulatory compliance audits of the Company's operations and facilities will be made available to the Corporate Compliance Officer to monitor and audit compliance with the Code of Business Conduct.

#### 5. Internal Reports

The Corporate Compliance Officer will report to the Governance Committee at least once each year regarding the general effectiveness of the Code of Business Conduct.

#### 6. Communication and Reporting System

A communication and reporting system that encourages and allows directors, employees and agents to raise questions, concerns or comments regarding the Code of Business Conduct and to report any suspected violations of the Code has been established. The communication and reporting system provides a mechanism for directors and employees to submit information or questions on a confidential basis and allows the Company's directors and employees to deal objectively with the reported matters. The existence and nature of the communication and reporting system is communicated to all directors and employees and, to the extent appropriate, to agents of the Company. It will be a violation of this Code of Business Conduct to intimidate or impose any form of retribution on any employee or agent who utilizes such communication and reporting system in good faith to report suspected violations (except that appropriate action may be taken against such employee or agent if such individual is one of the wrongdoers).

#### 7. Investigation of Violations

If, the Company receives information regarding an alleged violation of the Code of Business Conduct, the Corporate Compliance Officer or a designee thereof will work in conjunction with Human Resources, as appropriate, to:

- a. evaluate such information as to severity and credibility;
- b. initiate an informal inquiry or a formal investigation with respect thereto;

- c. prepare a report of the results of such inquiry or investigation, including recommendations as to the disposition of such matter;
- d. make the results of such inquiry or investigation available to the Governance Committee for action (including disciplinary action) if warranted by the severity of the violation; and
- e. recommend changes in the Code of Business Conduct necessary or desirable to prevent further similar violations.

The Company may, as appropriate, disclose the results of investigations to law enforcement or regulatory agencies.

#### 8. Disciplinary Actions

The Company will consistently enforce the Code of Business Conduct with appropriate discipline. The Corporate Compliance Officer will determine with Human Resources (as set forth in Section 7 above) whether violations of the Code of Business Conduct have occurred and, if so, will make a recommendation to Human Resources as to whether any disciplinary measures should be taken against any director, employee or agent of the Company who has violated the Code of Business Conduct. Disciplinary measures might include counseling, oral or written reprimands, warnings, probation or suspension without pay, demotions, reductions in salary, and termination of service or employment.

Persons subject to disciplinary measure may include, in addition to the violator, others involved in the wrongdoing, such as (a) persons who fail to use reasonable care to detect a violation, (b) persons who if requested to divulge information withhold material information regarding a violation, and (c) supervisors who approve or condone the violations or attempt to retaliate against employees or agents for reporting violations or violators.

#### 9. Waivers

The Corporate Compliance Officer, in consultation with Human Resources, or the Governance Committee may grant a waiver of any provision of this Code of Business Conduct, with the exception that:

- a. waivers of the Code of Ethics for the Chief Executive Officer and financial officers and waivers of any conflict of interest can be waived only by the Audit Committee who shall report each waiver to the Governance Committee; and
- b. waiver of this Code of Business Conduct for directors and executive officers can be waived only by the Board of Directors.

A request for waiver must be submitted in writing and provide sufficient details to allow an informed decision to be made. Any waiver, if granted, must be recorded in the minutes of the body granting the waiver.

The Corporate Compliance Officer, in consultation with Human Resources, will review the status of all waivers on at least an annual basis to determine compliance with the terms of the waiver and the advisability of continuing the waiver.

Any waiver granted to an executive officer or director of the Company must be publicly disclosed promptly if and in the manner required by law.

#### 10. Employment at Will

This Code of Business Conduct will not be construed or interpreted as creating an implied contract with any employee that he or she may be discharged only for cause. Employment with the Company is voluntarily entered into, and the employee is free to resign at will at any time, for any or no reason, with or without notice. Similarly, the Company may terminate the employment relationship at will at any time, for any or no reason, with or without notice, so long as there is no violation of applicable federal, state or local law.

#### 11. Amendment

This Code of Business Conduct may be amended only by the Governance Committee or the Board of Directors. Any amendment must be publicly disclosed promptly if and in the manner required by law.

#### 12. Documentation

Subject to its document retention program, the Company will document its compliance efforts and results to evidence its commitment to comply with and enforce the Code of Business Conduct.

*Adopted: February 28, 2004*

*Amended and Restated: December 8, 2010 and December 14, 2011*

**Accounting and Corporate Records and Reporting Policy**

The Company's business transactions will be fully and accurately recorded in its financial statements and corporate records. The financial condition of the Company will be fully and accurately recorded in the financial statements. To ensure compliance with these policies, the Company will maintain a system of internal accounting and disclosure controls and procedures to ensure the reliability and adequacy of its books and records, the proper recording of all financial transactions, and the accurate and timely reporting of material events and transactions. To that end:

1. The only transactions to be entered into by the Company are those which are executed in accordance with management's specific authorization or established, formalized policies and procedures.
2. No transaction will be recorded in the accounts of the Company unless it is within the scope of written policies and procedures or is specifically and formally approved by an appropriate and designated employee. Such approval requires the determination that the transaction (i) has been authorized in accordance with this policy and (ii) is supported by documentary evidence to verify the validity of the transaction.
3. All transactions entered into by the Company will be recorded in the accounts of the Company in accordance with normal, standard procedures. Each entry will be coded into an account which accurately and fairly reflects the true nature of the transaction.
4. All transactions that have been accounted for in accordance with this policy will be accumulated and processed in a manner which will permit preparation of financial statements, reports and data for purposes of internal, public and regulatory reporting. Such statements, reports and data must be in a form sufficient to reflect accurately and fairly the results of transactions entered into by the Company and to permit proper accountability for the Company's assets.
5. The implementation and maintenance of internal accounting and disclosure controls, procedures and the Company's financial records that are adequate in all respects to satisfy the requirements of this policy will be the primary responsibility of the Chief Financial Officer with oversight by the Audit Committee.

## APPENDIX B

### Code of Ethics for Chief Executive Officer and Financial Officers

The Company's Chief Executive Officer and financial officers, including the Chief Financial Officer, Controller and other employees performing similar functions, due to their important and elevated role in the Company's corporate governance, must comply with the following standards of conduct:

- Act with honesty and integrity, avoiding actual or apparent conflicts of interest in personal and professional relationships. Any potential conflict of interest must be dealt with in accordance with the Company's Policy on Conflicts of Interest.
- Act in good faith, responsibly, with due care, competence and diligence, without misrepresenting material facts or allowing their independent judgment to be subordinated.
- Create and provide full, fair, accurate timely and understandable disclosure in reports and documents the Company files with or submits to the Securities and Exchange Commission and in other public communications made by the Company.
- Comply with applicable governmental laws, rules and regulations including private and public regulatory agencies.
- Comply with applicable accounting rules and pronouncements.
- Respect the confidentiality of information acquired in the course of their work except when authorized or otherwise legally obligated to disclose such information. Confidential information acquired in the course of their work may not be used for personal advantage.
- Use responsibly and as authorized all assets and resources employed or entrusted to them.

Actual or suspected violations of this Code of Ethics must be reported to the Chairman of the Company's Audit Committee. All other provisions of the Company's Code of Business Conduct shall govern the administration of this Code of Ethics, including accountability for adherence to this Code.

## Policy on Conflicts of Interest

Conflicts. A conflict of interest exists in any situation where the personal interests of an individual director, employee or agent, or that of a relative, friend or associate of such individual, might influence that person to act in a manner other than in the best interest of the Company. Any situation involving a conflict of interest could affect the Company's reputation, competitive position, future growth or financial standing. The Company's directors, employees and agents must conduct themselves with utmost discretion and remain above suspicion; therefore, each director, employee and agent must avoid even the appearance of a conflict of interest.

No director, employee or agent of the Company will accept any appointment, undertake any activity or outside work which will conflict, or create the perception of a conflict, with his or her obligations to the Company. Exceptions must be approved in writing by the Board of Directors or the Audit Committee.

On any occasion that a director, employee or agent is in negotiation or discussion of or is asked for approval of any matter in which they or any member of their immediate family has or could in the future have a direct or indirect personal interest, they will declare such interest to the Audit Committee or to the Board of Directors and will withdraw if requested to do so.

No director, employee or agent will seek or accept, directly or indirectly, for their personal use or benefit, from any individual or entity doing or seeking to do business with the Company, any material benefit which would or may be perceived to influence the proper conduct of Company business.

No director, employee or agent of the Company will offer or provide, directly or indirectly, for personal use or benefit, to any individual with whom the Company is doing or seeking to do business, or who may be in a position to influence the business or financial interests of the Company, any material benefit which would or may be perceived to influence the proper business conduct of the recipient.

No director, employee or agent of the Company, will, except to the extent disclosed to and approved by the Audit Committee or the Board of Directors, have any interest, direct or indirect, in any competitor, customer or supplier of the Company, except when such interest consists of securities in publicly held corporations and such interest is neither in excess of 1% of the outstanding stock or securities of such corporation nor material to the individual in the context of their personal financial circumstances.

Corporate Opportunity. No director, employee or agent may (1) take for themselves a business opportunity that they become aware of in carrying out their duties for the Company or because of their position with the Company, (2) use Company property or position for personal gain, or (3) compete with the Company.