



## **CORPORATE GOVERNANCE GUIDELINES**

### **December 2011**

The Board of Directors of Endo Pharmaceuticals Holdings Inc. has adopted these corporate governance guidelines (these “Guidelines”) to promote the effective functioning of the Board and its committees, to promote the interests of the stockholders, and to provide a common set of expectations as to how the Board, its various committees, individual directors and management should perform their functions.

The Board of Directors of Endo Pharmaceuticals Holdings Inc. is responsible for selecting the Chief Executive Officer of the Company, monitoring the operating performance and financial condition of the Company, overseeing the Company’s adherence to corporate governance standards, approving significant transactions and establishing the strategic direction of the Company. The Board has developed these Guidelines as a framework for its oversight activities that advance the long-term interests of stockholders and other stakeholders. The Board will continue to assess the appropriateness and effectiveness of these Guidelines and to update these Guidelines periodically.

### **Role, Responsibilities and Duties of the Board**

The Board is elected by the Company’s stockholders to provide direction and oversight of the business and affairs of the Company and to maximize stockholder value. The Board appoints the Chief Executive Officer of the Company, establishes the strategic direction of the Company and oversees the performance of the Company’s business and management. Management of the Company is responsible for presenting strategic plans to the Board for review and approval and for implementing the Company’s strategic direction. The Board has delegated to the Chief Executive Officer, together with the other executive officers of the Company, the authority and responsibility for managing the business of the Company under the direction of the Board. In performing their duties, the primary responsibility of the Directors is to exercise their business judgment in the best interests of the Company in accordance with Delaware law.

The Board also has the obligation to review and approve significant transactions. Board approval of a particular transaction may be appropriate because of several factors, including:

- (1) legal or regulatory requirements;
- (2) the materiality of the transaction to the Company’s financial performance, risk profile or its business;
- (3) the terms of the transaction; or
- (4) other factors, such as a material variation from the Company’s strategic plan.

To the extent the Board determines it to be appropriate the Board shall develop standards to be utilized by management in determining the types of transactions and other decisions that should be submitted to the Board for review and approval or notification. Attachment 1 to these Guidelines is the current Grant of Authority which includes these standards.

The Board oversees the Company's adherence to corporate governance standards, and has delegated this oversight to the Nominating & Governance Committee, which has the responsibility for the corporate governance of the Company, these Guidelines and the current Grant of Authority.

## **Criteria, Selection and Orientation of the Board**

### *Board Membership Criteria; Selection*

The Nominating & Governance Committee and the subcommittees of the Nominating & Governance Committee are responsible for determining the skills, experience and characteristics required of members of the Board, and for recommending to the Board qualified candidates for Board membership. The Nominating & Governance Committee's review should include consideration of a balance of a number of attributes including general business and industry experience, leadership profile, strategic planning abilities and experience, aptitude in finance or accounting, expertise, character, business judgment, communication skills, interpersonal skills, time availability in light of other commitments, dedication, conflicts of interest, as well as the extent to which the interplay of the candidate's expertise, skills, knowledge and experience with that of other Board members will contribute to a Board that is effective, collegial and responsive to the needs of the Company, and other such relevant factors that the Nominating & Governance Committee considers appropriate in the context of the needs of the Board and its stockholders.

In an effort to foster and maintain a diversity of viewpoints on the Board, the Nominating & Governance Committee will monitor the mix of skills and experience of the Directors and assess potential candidates in the context of the current make-up of the Board. In determining whether to recommend a Director for nomination to be re-elected, the Nominating & Governance Committee shall also consider the Director's attendance at meetings and participation in and contributions to the activities of the Board.

Based on the recommendations of the Nominating & Governance Committee, the Board shall nominate candidates for election by the stockholders. Directors will stand for re-election every year. In accordance with the By-Laws of the Company, the Board will also be responsible for filling vacancies or newly-created directorships on the Board that may occur between annual meetings of stockholders.

### *Orientation and Education of Directors*

New directors will be promptly provided with materials relating to the operations, finances and business plan of the Company, and will attend briefings by the Company's executive officers, and at the new Director's request, other members of management, the internal auditors and the independent auditors. All Directors shall use reasonable efforts to attend, at the Company's expense, one formal continuing education program for corporate directors periodically, and are otherwise expected to be knowledgeable about effective corporate governance practices. If a Director serves on other boards of directors and attends a formal continuing education program for such other board(s), this requirement shall be satisfied.

## **Board Composition**

### *Size of Board*

The Board shall consist of no less than seven and no more than 11 members, the exact number of which shall determine from time to time by the Board in accordance with the Company's Certificate of Incorporation and By-Laws, and pursuant to duly adopted resolutions of the Board.

### *Majority of Independent Directors*

A majority of the Board shall consist of Directors who the Board has determined are "independent" under the rules of the Nasdaq. No more than two employees may serve on the Board at the same time. Of the Board's current members, one is an employee.

The Board shall make an annual determination of the independence of each member of the Board, in accordance with applicable laws, regulations and stock exchange listing agreements.

### *Change in Principal Occupation*

Each Director must notify the Chairman of the Board when his or her principal occupation changes. In addition, if a Director's principal occupation changes substantially from the position he or she held when originally invited to join the Board, the Board may request, upon the Nominating & Governance Committee's recommendation, a resignation from such Director and if so requested, such Director shall resign.

### *Other Directorships*

Serving on other boards of directors broadens the knowledge and experience of a Director, and enhances the ability of the Director to contribute and participate effectively on the Board. At the same time, however, no Director can serve the Company effectively without dedicating substantial time and energy to Board duties. Accordingly, Directors are encouraged to limit the number of other boards on which they serve and it is expected that directors' other commitments will not interfere with the Director's discharge of his or her duties. Any Director who serves on two public company boards in addition to the Company's Board shall receive approval from the Nominating & Governance Committee and the Chairman of the Board before accepting an invitation to serve on an additional board of directors *unless* such Director is retired from his/her principal occupation in which case such approval is not necessary. Due to the demanding nature of service on the Audit Committee, the members of the Audit Committee may not serve on the audit committees of the boards of directors of more than three other public companies at the same time as they are serving on the Audit Committee unless such Director is retired from his/her principal occupation or the other Directors specifically find that such Director has the time to contribute and participate effectively on the Audit Committee and permit such person to do so.

### *Election Term and Term Limits*

Directors are elected annually for one-year terms.

The Board has not established term limits. While term limits offer some advantages, the Board believes that any benefit is outweighed by the disadvantage of losing experienced Directors who have developed valuable insight into the Company and its operations, strategies, plans and potential. As an alternative to term limits, the Nominating & Governance Committee shall review the current effectiveness of each Director (including themselves) on an annual basis in deciding who to recommend to the full Board, who then shall nominate Directors for election by the stockholders.

### *Majority Voting*

If a Director nominee fails to receive a sufficient number of votes for re-election at the annual meeting of stockholders in accordance with the By-Laws of the Company, the Nominating & Governance Committee shall determine whether to recommend to the Board that such Director nominee tenders his or her resignation to the Board and whether to accept or reject the resignation, or whether any other action should be taken. The Board may request that such Director nominee tender his or her resignation to the Board upon the Nominating & Governance Committee's recommendation or take other action in accordance with the Nominating & Governance Committee's recommendation. A Director nominee shall, upon request by the Board in accordance with these procedures, tender his or her resignation to the Board. In accordance with the By-Laws of the Company, the Board will publicly disclose its decisions of whether or not to request any director to tender his or her resignation and whether or not to accept or reject any such tendered resignation or take any other action and the rationale behind such decisions within ninety (90) days from the date of the certification of the election results.

### *Compensation*

The form and amount of fees to be paid to independent Directors for serving on the Board and its committees shall be competitive in light of industry practices and the obligations imposed by such service. Accordingly, no less frequently than biennially, the Compensation Committee shall review the adequacy and fairness of Board compensation in relation to comparable U.S. companies and good governance practices. The Compensation Committee will in turn report its assessment to the Board.

In order to align the long-term interests of the Directors with those of the stockholders, a portion of director compensation shall be provided in equity interests of the Company. There is currently no pension or retirement plan for directors.

Any changes in Board compensation shall be approved by the Compensation Committee.

## **Board Leadership**

### *Chairman of the Board*

The Board shall choose its Chairman of the Board in any way it considers to be in the best interests of the Company taking into consideration any recommendation by the Nominating & Governance Committee. However, the Board believes that the role of the Chairman and the role of Chief Executive Officer should be separate and that the Chairman should not be an employee of the Company.

The Chairman is responsible for setting Board meeting dates and locations, setting meeting agendas, presiding over all Board and stockholder meetings and all executive sessions of the Board, and meeting regularly with the Chief Executive Officer between Board meetings. In exercising this leadership, the Chairman shall consult with the Chief Executive Officer and the Board as a whole. The Chairman will also make certain that there is full and candid communication among the Directors, and between the Directors and the Chief Executive Officer.

## **Committees and Executive Sessions**

### *Number, Structure and Independence of Committees*

The Board shall have four standing committees: Audit Committee, Nominating & Governance Committee, Compensation Committee and Transactions Committee. Each of these committees shall be comprised solely of independent Directors. A Director may sit on more than one committee for which he or she qualifies.

The purpose of these committees is set forth in their respective charters. The purpose of the Audit Committee is, among other things, to provide assistance to the Board in fulfilling its (1) legal and fiduciary obligations with respect to matters involving the accounting, auditing, financial reporting, internal control and legal compliance functions of the Company and its subsidiaries and (2) oversight responsibility relating to: (i) the integrity of the Company's financial statements; (ii) the effectiveness of the Company's internal control over financial reporting; (iii) the effectiveness of the Company's disclosure controls and procedures; (iv) the Company's efforts at compliance with legal and regulatory requirements; (v) the independent registered public accounting firm's qualifications and independence; and (vi) the performance of the Company's internal audit function and independent registered public accounting firm. Each member of the Audit Committee shall be financially literate and at least one will be a financial expert.

The purposes of the Nominating & Governance Committee shall be to identify and to recommend to the Board individuals qualified to serve as Directors of the Company and to advise the Board with respect to the Board composition, governance practices and procedures.

The purposes of the Compensation Committee shall be, among other things, to review, approve or, if appropriate, make recommendations to the Board regarding:

- The annual incentive compensation aggregate award and approval of awards of incentive compensation to Company executive officers;
- The granting of compensation increases to Company executive officers;
- The aggregate value of long-term incentives (stock options, restricted stock, etc.) to employees and individual awards of such to Company executive officers;

- Material changes to Company benefit plans;
- The granting of or changes, extensions or renewals to any employment contracts for Company employees at senior vice president level and above;
- Material changes in employment policies;
- The review and approval of directors compensation; and
- The review and approval of a management succession plan.

The purposes of the Transactions Committee shall be, among other things, to provide advice and guidance to the Company's management, and to review, approve or, if appropriate, make recommendations to the Board, in each case with respect to the exploration of strategic acquisition and licensing opportunities as well as any overture for merger with the Company, or sale of the Company or other like event.

#### *Committee Charters*

Each of the Audit Committee, Nominating & Governance Committee, Compensation Committee and Transactions Committee shall have a written charter that sets forth the purpose, responsibilities and duties of such Committee.

#### *Assignment and Rotation of Committee Members*

The Nominating & Governance Committee shall recommend to the Board the chair and membership of each Committee, and a majority of the Board shall determine the Committee chair and membership of each Committee. Committee membership and the position of the Committee chair shall not be rotated on a mandatory basis unless the Board determines that rotation is in the best interests of the Company.

#### *Executive Sessions*

To provide free and open discussion and communication among the non-management Directors, such Directors shall meet in executive session at every regularly scheduled meeting of the Board with no members of management present. The Chairman shall preside at the executive sessions. These executive sessions shall serve as the forum for, among other things, the annual performance evaluation of the Chief Executive Officer.

#### *Management Succession*

The Compensation Committee shall conduct an annual review of the Company's management succession plan, the mechanics for which are set forth below:

The Compensation Committee shall review and concur on a management succession plan, developed by the Chief Executive Officer, to provide continuity of senior management. In addition, the Compensation Committee, with input from the full Board, will also work with the CEO in the development of a succession plan for the CEO. These plans, on which the Compensation Committee shall report to the Board at least annually, shall address:

- a. Emergency Chief Executive Officer succession;
- b. Chief Executive Officer succession in the ordinary course of business; and

- c. Succession for the following members of senior management: Chief Financial Officer, Chief Legal Officer, Senior Vice President, R&D, and Chief Operating Officer.

## **Board and Committee Meetings**

The Board shall hold regular meetings not less frequently than quarterly. These meetings will usually consist of Committee meetings and the general Board meeting. Further Board meetings shall occur if called by the Board, the Chairman, the chair of any Committee or the Chief Executive Officer. The Committees shall hold such other meetings as they deem necessary to fully execute their fiduciary and oversight responsibilities. Any action of the Board or any Committee may be taken by unanimous written consent in lieu of a meeting.

The agenda of each Board meeting will be prepared by the Corporate Secretary under the direction of the Chairman. Any Board member may suggest the inclusion of additional subjects on the agenda. The agenda for each Committee meeting shall be established by the Committee chair in consultation with appropriate members of the Committee and with management. Although management will seek to provide to all Directors an agenda and appropriate materials in advance of meetings, the Board recognizes that this will not always be consistent with the timing of transactions and the operations of the business, and that in certain cases it may not be possible to circulate materials in advance of the meeting. Each Director is expected to review any materials prior to the applicable meeting.

Unless a Committee expressly determines otherwise, the agenda, materials and minutes for each Committee meeting shall be available to all Directors upon their request, and all non-employee Directors shall be free to attend any Committee meeting. In addition, all Directors, whether or not members of the Committee, shall be free to make suggestions to a Committee chair for additions to the agenda or his or her Committee or to request that an item from a Committee agenda be considered by the Board.

The Chair of each Committee will report regularly to the Board on the substance of the Committee meetings.

## **Expectations of Directors**

The business and affairs of the Company shall be overseen by or under the direction of the Board in accordance with Delaware law. In performing their duties, the primary responsibility of the Directors is to exercise their business judgment in the best interest of the Company. The Board has developed a number of specific expectations of Directors to promote the discharge of this responsibility and the efficient conduct of the Board's business.

*Commitment and Attendance.* All Directors should make efforts to attend meetings of the Board and meetings of committees of which they are members. Members may attend by any method permitted by law.

*Participation in Meetings.* Each Director should be sufficiently familiar with the business of the Company, including its financial statements and capital structure, and the risks and competition it faces, to facilitate active and effective participation in the deliberations of the Board and of each Committee on which he or she serves. Upon request, management will

make appropriate personnel available to answer any questions a Director may have about any aspect of the Company's business. Directors should also review the materials provided by management and advisors in advance of the meetings of the Board and its committees and should arrive prepared to discuss the issues presented.

*Loyalty and Ethics.* In their roles as Directors, all Directors owe a duty of loyalty to the Company. This duty of loyalty mandates that the best interests of the Company take precedence over any interests possessed by a Director.

The Company has adopted a Code of Conduct, including a compliance program to enforce the Code. Certain portions of the Code deal with activities of Directors, particularly with respect to transactions in the securities of the Company, potential conflicts of interest, the taking of corporate opportunities for personal use, and competing with the Company. Directors should be familiar with the Code's provisions and should consult with the Company's Chief Legal Officer in the event of any issues relating to the Code. All Directors and employees of the Company are required to affirm the Code on a periodic basis.

*Other Directorships.* The Company values the experience Directors bring from other boards on which they serve, but recognizes that those boards may also present demands on a director's time and availability and may present conflicts of legal issues. Directors should advise the Chairman before accepting membership on other boards of directors or other significant commitments involving affiliation with other businesses, institutions, governmental units or regulatory entities, in the event such membership or affiliation may conflict with the interests of the Company.

*Contact with Management.* All Directors are invited to contact the Chief Executive Officer at any time to discuss any aspect of the Company's business. Directors also have complete access to other members of senior management. The Board expects that there will be frequent opportunities for Directors to meet with the Chief Executive Officer and other members of senior management in Board and Committee meetings and in other formal and informal settings.

Further, the Board encourages management, from time to time, to bring managers into Board meetings who (1) can provide additional insight into the items being discussed because of personal involvement and substantial knowledge in those areas and/or (2) are managers with future potential that the senior management believes should be given exposure to the Board.

*Contact with Other Constituencies.* It is important that the Company speak to employees and outside constituencies with a single voice, and that the Chief Executive Officer and senior management serve as the primary spokespersons. If a situation does arise in which it seems necessary for a non-management Director to speak on behalf of the Company to one of these constituencies, the Director should consult and coordinate with the Chief Executive Officer and the Chairman.

*Confidentiality.* The proceedings and deliberations of the Board and its committees are confidential. Each Director shall maintain the confidentiality of information received in connection with his or her service as a Director.

*Conflicts of Interest.* Directors must disclose to the rest of the members of the Board (or any Committee on which such Directors are members) any potential conflict of interest that they may have, or that they believe may arise, with respect to a matter under discussion

and, if appropriate, refrain from participating in the discussion relating to, or voting on, a matter on which they may have a conflict.

### **Evaluating Board and Committee Performance**

The Board shall conduct a self-evaluation at least annually to determine whether it is functioning effectively on behalf of stockholders. The Board should periodically consider the mix of skills and experience that Directors bring to the Board to assess whether the Board has the necessary tools to perform its oversight function effectively. The Nominating & Governance Committee is authorized to provide oversight to the evaluation process.

Each Committee of the Board should conduct a self-evaluation at least annually and report the results to the Board.

### **Reliance on Management and Outside Advice**

In performing its functions, the Board and each Committee is entitled to rely on the advice, reports and opinions of management, counsel, accountants, auditors and other expert advisors. The Board and each Committee, as appropriate, shall have the authority to retain and approve the fees and retention terms of its outside advisors.

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Adopted by the Board of Directors of  
Endo Pharmaceuticals Holdings Inc.  
on December 9, 2011