

UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF TEXAS
AUSTIN DIVISION

IN RE ARTHROCARE CORPORATION SECURITIES
LITIGATION

Civil Action No. 1:08-cv-00574-SS
CLASS ACTION

NOTICE OF PENDENCY AND PROPOSED SETTLEMENT OF CLASS ACTION

*A Federal Court authorized this Notice.
This is not a solicitation from a lawyer.*

NOTICE OF PENDENCY OF CLASS ACTION: Please be advised that your rights may be affected by a class action lawsuit pending in this Court (the "Action") if, during the period from December 11, 2007 and February 18, 2009, inclusive, you purchased or otherwise acquired the publicly traded securities of ArthroCare Corporation ("ArthroCare" or the "Company") or purchased or otherwise acquired call options or sold put options in ArthroCare common stock.

NOTICE OF SETTLEMENT: Please also be advised that the Court-appointed Lead Plaintiff, the DeKalb County Pension Fund, on behalf of the Class (as defined below) has reached a proposed settlement of the Action for a total of \$74 million in cash that will resolve all claims in the Action (the "Settlement").

This Notice explains important rights you may have, including your possible receipt of cash from the Settlement. Your legal rights will be affected whether or not you act. Please read this Notice carefully and in its entirety!

1. **Description of the Litigation and Class:** This Notice relates to the pendency and proposed settlement of a class action lawsuit against Defendants ArthroCare, Michael Baker and Michael Gluk (collectively referred to as "Defendants"). Defendants and Lead Plaintiff are collectively referred to as the "Settling Parties." The proposed Settlement, if approved by the Court, will settle certain claims of all persons and entities who purchased or otherwise acquired the publicly traded securities of ArthroCare as well as all persons and entities who purchased or otherwise acquired call options or sold put options in ArthroCare common stock between December 11, 2007 and February 18, 2009, inclusive (the "Class Period") and who suffered a loss thereby (the "Class").

2. **Statement of Class' Recovery:** Subject to Court approval and, as described more fully below, Lead Plaintiff, on behalf of the Class, has agreed to settle all claims related to the purchase or other acquisition of ArthroCare's publicly traded securities and call and/or put options during the Class Period that were or could have been asserted against Defendants and other Released Parties (as defined below) in the Action in exchange for a settlement payment of \$74 million to be deposited into an interest-bearing escrow account (the "Gross Settlement Fund"). The Net Settlement Fund (the Gross Settlement Fund less taxes, notice and administration costs, and attorneys' fees and certain litigation expenses awarded to Lead Plaintiff and Lead Counsel (as defined below)) will be distributed in accordance with a plan of allocation (the "Plan of Allocation") that will be approved by the Court and will determine how the Net Settlement Fund will be allocated to the members of the Class. The proposed Plan of Allocation is described in this Notice and may be modified by the Court without further notice.

3. **Statement of Average Amount of Damages Per Share:** The Gross Settlement Fund consists of \$74 million plus interest earned. Your recovery will depend on the number of ArthroCare publicly traded securities or call options you purchased or otherwise acquired or sale of put options, and the timing of those transactions. It will also depend on the number of valid claim forms that members of the Class submit and the amount of such claims. Assuming that all of the investors who purchased or otherwise acquired ArthroCare's publicly traded

securities or who purchased or otherwise acquired call options or sold put options in ArthroCare common stock during the Class Period and suffered damages as a result participate in the Settlement, Lead Counsel estimates that the estimated average distribution will be approximately \$3.49 per damaged share of ArthroCare common stock before the deduction of Court-approved fees and expenses as described below and the cost of notice and claims administration. Historically, not all eligible investors submit claims, resulting in higher average distributions per share.

4. **Statement of the Parties’ Position on Damages:** Defendants deny all claims of wrongdoing, that they are liable to the Class or that any Class Members suffered any injury. Moreover, the parties do not agree on the amount of recoverable damages or on the average amount of damages per share that would be recoverable if Lead Plaintiff prevails on each of its claims. The issues on which the parties disagree include, but are not limited to: (1) whether ArthroCare and the Individual Defendants acted with any intent to defraud the investing public; (2) whether the statements made or facts allegedly omitted were material, false or misleading, or whether Defendants are otherwise liable under the securities laws for those statements or omissions; (3) the amount by which the prices of ArthroCare common stock were allegedly inflated (if at all) during the Class Period; and (4) the effect of various market forces influencing the trading prices of ArthroCare common stock at various times during the Class Period.

5. **Statement of Attorneys’ Fees and Expenses Sought:** Lead Counsel will apply to the Court for an award of attorneys’ fees from the Gross Settlement Fund in an amount up to 30% of the Gross Settlement Fund, plus interest earned at the same rate and for the same period as earned by the Gross Settlement Fund, and for reimbursement of Litigation Expenses. Litigation Expenses will include reimbursement of the Lead Plaintiff’s time and expenses in accordance with 15 U.S.C. § 78u-4(a)(4). If the Court approves Lead Counsel’s fee and expense application, the average cost per damaged share of common stock will be approximately \$1.42.

6. **Identification of Attorney Representatives:** Lead Plaintiff and the Class are being represented by the firms of Chitwood Harley Harnes LLP and Cunningham Darlow LLP, the Court-appointed Lead Counsel. Any questions regarding the Settlement should be directed to Robert W. Killorin or Ze’eva K. Banks at Chitwood Harley Harnes LLP, 2300 Promenade II, 1230 Peachtree Street, N.E., Atlanta, GA 30309, (888) 873-3999, RKillorin@chitwoodlaw.com or ZKBanks@chitwoodlaw.com.

YOUR LEGAL RIGHTS AND OPTIONS IN THE SETTLEMENT

REMAIN A MEMBER OF THE CLASS	This is the only way to receive a payment. If you wish to obtain a payment as a member of the Class, you will need to file a claim form (the “Claim Form”), which is included with this Notice, postmarked no later than June 25, 2012.
EXCLUDE YOURSELF FROM THE CLASS BY SUBMITTING A WRITTEN REQUEST FOR EXCLUSION SO THAT IT IS RECEIVED NO LATER THAN MAY 10, 2012.	You will not be bound by the results of this lawsuit and you will not receive any payment. This is the only option that allows you to potentially participate in any other lawsuit against Defendants based on the legal claims in this case.
OBJECT TO THE SETTLEMENT BY SUBMITTING WRITTEN OBJECTIONS SO THAT THEY ARE RECEIVED NO LATER THAN MAY 10, 2012.	Write to the Court and explain why you do not like the Settlement, the proposed Plan of Allocation, or the request for attorneys’ fees and reimbursement of expenses. You cannot object to the Settlement unless you are a member of the Class and do not exclude yourself.
GO TO THE HEARING ON MAY 25, 2012, AT 9:30 A.M. AND FILE A NOTICE OF INTENTION TO APPEAR SO THAT IT IS RECEIVED NO LATER THAN MAY 10, 2012.	Ask to speak in Court about the fairness of the Settlement, the proposed Plan of Allocation, or the request for attorneys’ fees and reimbursement of expenses.
DO NOTHING	You will be bound by the result of this lawsuit. You will get no money from the Settlement, and you will be precluded from starting a lawsuit, or being part of any other lawsuit against Defendants and Defendants’ Related Persons (as defined below) about the Released Claims, ever again.

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1. Why did I get this Notice?

This Notice is being sent to you pursuant to an Order of the United States District Court for the Western District of Texas (the "Court") because you or someone in your family may have purchased or otherwise acquired the publicly traded securities of ArthroCare, including call options, or sold put options, as described on the first page of this Notice, during the Class Period. The Court has directed us to send you this Notice because, as a potential Class Member, you have a right to know about your options before the Court rules on the proposed settlement of this case. Additionally, you have the right to understand how a class action lawsuit may generally affect your legal rights. If the Court approves the Settlement, a claims administrator selected by Lead Plaintiff and approved by the Court will make payments pursuant to the Settlement after any objections and appeals are resolved.

In a class action lawsuit, the Court selects one or more people, known as class representatives, to sue on behalf of all people with similar claims, commonly known as the class or the class members. In this Action, the Court has appointed the DeKalb County Pension Fund as the Lead Plaintiff under a federal law governing lawsuits such as this one, and approved Lead Plaintiff's selection of the law firms of Chitwood Harley Harnes LLP and Cunningham Darlow LLP to serve as Lead Counsel ("Lead Counsel") in the Action. Lead Plaintiff is the Class Representative. A class action is a type of lawsuit in which the claims of a number of individuals are resolved together, thus providing the class members with both consistency and efficiency. Once the class is certified, the Court must resolve all issues on behalf of the class members, except for any persons who choose to exclude themselves from the class. (For more information on excluding yourself from the Class, please read "What if I do not want to be a part of the Settlement? How do I exclude myself?" located below.)

The Court in charge of this case is the United States District Court for the Western District of Texas, Austin Division, and the case is known as *In re ArthroCare Corporation Securities Litigation*. The Judge presiding over this case is the Honorable Sam Sparks, United States District Judge. The people who are suing are called plaintiffs, and those who are being sued are called defendants. In this case, the Defendants are ArthroCare, Michael Baker (former President, Chief Executive Officer and Director of ArthroCare) and Michael Gluk (former Senior Vice President and Chief Financial Officer of ArthroCare).

This Notice explains the lawsuit, the Settlement, your legal rights, what benefits are available, who is eligible for them, and how to receive them. The purpose of this Notice is to inform you of this case, that it is a class action, how you might be affected, and how to exclude yourself from the Class if you wish to do so. It also is being sent to inform you of the terms of the proposed Settlement and of a hearing to be held by the Court to consider the fairness, reasonableness and adequacy of the proposed Settlement, the fairness and reasonableness of the proposed Plan of Allocation, the

application by Lead Counsel for attorneys' fees and reimbursement of expenses, and the application by Lead Plaintiff for reimbursement of its time and expenses in prosecuting this action (the "Final Approval Hearing").

The Final Approval Hearing will be held on May 25, 2012, at 9:30 a.m., before the Honorable Sam Sparks at the United States District Court for the Western District of Texas, Austin Division, 200 West 8th Street, Courtroom 2, Austin, Texas 78701 to determine the following:

- whether the proposed Settlement is fair, reasonable, adequate and in the best interests of the Class and should be approved by the Court;
- whether the Settled Claims against Defendants and the other Released Parties should be dismissed with prejudice and fully and finally released by Lead Plaintiff and the Class as set forth in the Stipulation of Settlement entered into by the Settling Parties on February 9, 2012 (the "Stipulation");
- whether the proposed Plan of Allocation is fair and reasonable and should be approved by the Court;
- whether Lead Counsel's request for an award of attorneys' fees and reimbursement of certain litigation expenses should be approved by the Court; and
- whether Lead Plaintiff's request for reimbursement for its time and expenses in prosecuting this action should be approved by the Court.

This Notice does not express any opinion by the Court concerning the merits of any claim in the Action, and the Court still has to decide whether to approve the Settlement. If the Court approves the Settlement, payments to Authorized Claimants (defined below) will be made after any appeals are resolved, and after the completion of all claims processing. Please be patient.

2. What is this case about? What has happened so far?

On July 25, 2008, a class action complaint was filed against ArthroCare and certain individual defendants in this Court, alleging false and misleading statements and omissions in violation of §§ 10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act") and Rule 10b-5 promulgated by the Securities and Exchange Commission ("SEC") under the statute. The complaint alleged, among other things, that those Defendants made public statements that were materially false and misleading with respect to the true nature of ArthroCare's business, and failed to disclose numerous fraudulent and improper practices within the Company, thus causing it to file materially false and misleading financial statements. Defendants have denied and continue to deny the allegations in the Complaint. Pursuant to the Private Securities Litigation Reform Act of 1995 (the "PSLRA"), notice to the public was issued setting the deadline by which putative class members could move the Court to be appointed to act as lead plaintiff.

On December 10, 2008, the Court appointed the DeKalb County Pension Fund as Lead Plaintiff and Chitwood Harley Harnes LLP and Cunningham Darlow LLP as Lead Counsel in this case. On December 18, 2009, Lead Plaintiff filed the operative complaint in this action, the Consolidated Class Action Complaint ("Complaint"), asserting claims under § 10(b) of the Exchange Act and Rule 10b-5 against ArthroCare, Michael Baker, Michael Gluk, and external audit firm PriceWaterhouseCoopers ("PwC"), and under § 20(a) of the Exchange Act against Baker, Gluk, former Senior Vice President John Raffle, and former Vice President David Applegate. All defendants moved to dismiss the Complaint, and on July 20, 2010, the Court granted in part and denied in part the defendants' motions to dismiss, dismissing claims against David Applegate, John Raffle and PwC as well as claims against the remaining Defendants (ArthroCare, Baker and Gluk) based on disclosures that occurred prior to December 11, 2007.

On September 3, 2010, Defendants ArthroCare, Baker and Gluk ("Defendants") answered the Complaint. On August 30, 2011, following Lead Plaintiff's motion for class certification and oral argument held on July 15, 2011, the Court certified the Plaintiff class and appointed Chitwood Harley Harnes LLP and Cunningham Darlow LLP as class counsel. During the course of the litigation, Lead Plaintiff and Defendants conducted extensive discovery, including review by Lead Plaintiff of more than ten million pages of documents produced by Defendants and third parties. Lead Plaintiff took 24 depositions. Additionally, Lead Plaintiff defended six depositions taken by Defendants. On May 20, 2011, Lead Plaintiff submitted an expert report covering the issues of market efficiency and damages. Additionally, on November 3, 2011, Lead Plaintiff submitted three expert reports addressing accounting issues, coding and billing practices issues, and damages. During this period, on October 10, 2011, ArthroCare filed its Motion for Summary Judgment, or Alternatively Partial Summary Judgment, on Corporate Scierter.

On November 19, 2011, after considerable negotiation, the Settling Parties were able to reach an agreement in principle to settle the Action for \$74 million in cash to be paid by ArthroCare.

On February 10, 2012, the Court preliminarily approved the Settlement, authorized this Notice to be sent to potential members of the Class, and scheduled the Final Approval Hearing to consider whether to grant final approval to the Settlement.

3. How do I know if I am affected by the Settlement?

If you are a member of the Class, you are subject to the Settlement unless you request to be excluded by the deadline given above. The Class consists of all persons and entities who purchased or otherwise acquired the publicly traded securities of ArthroCare, and all persons or entities who purchased or otherwise acquired call options or who sold put options in ArthroCare common stock, between December 11, 2007 and February 18, 2009, inclusive, and who suffered a loss thereby. Excluded from the Class are the Defendants, current or former officers and directors of ArthroCare, members of the immediate family of each of any Defendant, and/or officer or director and their legal representatives, heirs, successors or assigns and any entity in which Defendants have or had a controlling interest. Also excluded from the Class are any persons who exclude themselves by filing a request for exclusion in accordance with the requirements set forth in the Notice. (See "What if I do not want to participate in the Class and the Settlement? How do I exclude myself?" below).

RECEIPT OF THIS NOTICE DOES NOT NECESSARILY MEAN THAT YOU ARE A CLASS MEMBER OR THAT YOU ARE ELIGIBLE TO RECEIVE PROCEEDS FROM THE SETTLEMENT. IF YOU WISH TO PARTICIPATE IN THE SETTLEMENT, YOU MUST SUBMIT THE ENCLOSED CLAIM FORM POSTMARKED NO LATER THAN JUNE 25, 2012.

4. What are the Settling Parties' reasons for the settlement?

Lead Plaintiff and Lead Counsel believe that the claims asserted against Defendants have merit. Lead Plaintiff and Lead Counsel recognize, however, the significant expense and length of continued proceedings necessary to pursue their claims against Defendants through trial and appeals, as well as the difficulties of establishing liability and damages for allegations of fraud, and ultimately collecting damages. Lead Plaintiff and Lead Counsel have considered the uncertain outcome and the trial and appellate risk in complex lawsuits like this one.

Given the amount of the Settlement and the immediacy of recovery to the Class, Lead Plaintiff and Lead Counsel believe that the proposed Settlement is fair, reasonable and adequate, and in the best interests of the Class. Lead Plaintiff and Lead Counsel believe that the Settlement provides a substantial benefit now, namely \$74 million (less the various deductions described in this Notice), as compared to the risk that the claims in the Complaint would produce a similar, smaller, or no recovery at all after summary judgment, trial and appeals, possibly years in the future.

Defendants have denied and continue to deny each and all of the claims alleged by Lead Plaintiff in the Action. Defendants expressly have denied and continue to deny all charges of wrongdoing or liability against them arising out of any of the conduct, statements, acts or omissions alleged, or that could have been alleged, in the Action. Defendants also have denied and continue to deny, among other things, the allegations that ArthroCare and the Individual Defendants acted with any intent to defraud the investing public, the Class has suffered any damage, that the price of ArthroCare securities was artificially inflated by reasons of alleged misrepresentations, non-disclosures or otherwise, or that the Class was harmed by the conduct alleged in the Complaint. Defendants also have taken into account the uncertainty and risks inherent in any litigation, especially in a complex case such as this. Nonetheless, Defendants have concluded that continuing the Action would take a long time and be expensive, and that it is desirable that the Action be fully and finally settled in the manner and upon the terms and conditions set forth in the Stipulation. The Settlement shall in no event be construed or deemed to be evidence of or an admission or concession on the part of Defendants with respect to any claim or of any fault or liability or wrongdoing or damage whatsoever, or any infirmity in the defenses that Defendants have or could have asserted. Defendants expressly deny that Lead Plaintiff has asserted a valid claim and denies any and all allegations of fault, liability, wrongdoing or damages whatsoever.

5. How much will my payment be?

The \$74 million total settlement amount, plus interest, minus all taxes, approved costs, fees and expenses, will be called the "Net Settlement Fund." The Net Settlement Fund will be distributed based on the acceptable Claim Forms that are submitted by members of the Class ("Authorized Claimants") pursuant to the Plan of Allocation described below, or as otherwise ordered by the Court. Your share of the Net Settlement Fund will depend on the total number of

ArthroCare securities (including options) represented by all valid Claim Forms submitted by Authorized Claimants, the total amount of those claims relative to the Net Settlement Fund, how many ArthroCare securities you held, and when you bought and sold them. Authorized Claimants will be entitled to only one check, negotiable within 60 days of the date of the check.

Plan of Allocation

The Plan of Allocation, which reflects an assessment of the damages that Class Members are estimated to have suffered as a result of the conduct alleged in the Complaint, subject to Court approval or modification without further notice, is as follows:

(a) If there are sufficient funds in the Net Settlement Fund, each Authorized Claimant will receive an amount equal to his loss, as defined below (“Recognized Loss”). If, however, the amount in the Net Settlement Fund is not sufficient to pay the total Recognized Losses of all Authorized Claimant, then each Authorized Claimant will be paid the percentage of the Net Settlement Fund that his Recognized Loss bears to the total of the Recognized Losses of all Authorized Claimants (“pro rata share”).

(b) The Claims Administrator will determine each Authorized Claimant’s pro rata share of the Net Settlement Fund based on the per share calculations below multiplied by the number of securities purchased or otherwise acquired by Class Members. Class Period sales will be first matched with any pre-Class Period holdings and then matched with purchases during the Class Period in chronological order (“FIFO Matching”). Sales matched to pre-Class Period purchases shall have no loss or gain for the purpose of calculating Recognized Loss. The price per share will not include commissions, taxes and fees, and the purchase or sale date is the trade date, not the settlement date. If the Authorized Claimant had a market gain from the total of all transactions in ArthroCare securities during the Class Period, the value of the Recognized Claim will be zero.

(c) The Plaintiffs’ damage expert concluded that the measurable losses on ArthroCare securities related to the allegations in the lawsuit occurred on seven days (“Event Days”) during the Class Period:

- a. July 21, 2008 – first restatement announcement
- b. December 19 and December 22, 2008 – second restatement announcement
- c. January 15, 16, and 20, 2009 – NASDAQ delisting
- d. February 18, 2009 – final restatement.

Recognized Losses are based on when Authorized Claimants made their qualifying purchases and sales relative to the Event Days, more specifically, as follows:

Additional information related to Stock

(d) Table 1 below provides the recoverable loss amounts per share of stock purchased during the Class Period and held at close of trading prior to each Event Day. If any of the eligible shares held just prior to an Event Day were sold on that Event Day, the recoverable loss for that event on the sold shares is the lesser of (i) the full day recoverable loss listed in Table 1 and (ii) the previous day’s close listed in Table 1 minus the sale price received on the Event Day (thus, if you sold eligible shares on an Event Day and avoided some of the full day’s loss, then your recoverable-out-of-pocket loss for those shares will be less than the full day recoverable loss listed in Table 1).

Table 1 – Recoverable Loss Calculation Table for Eligible ARTC shares – per share loss

<u>Event Number</u>	<u>Event Day</u>	<u>Previous Trading Day</u>	<u>Previous Trading Day Close</u>	<u>Per Share Recoverable Loss</u>	<u>Event Day Close</u>
1	7/21/08	7/18/08	\$40.03	\$16.78	\$23.21
2	12/19/08	12/18/08	\$16.23	\$10.22	\$5.92
3	12/22/08	12/19/08	\$5.92	\$1.33	\$4.52
4	1/15/09	1/14/09	\$8.02	\$0.63	\$6.24
5	1/16/09	1/15/09	\$6.24	\$0.65	\$4.42
6	1/20/09	1/16/09	\$4.42	\$0.39	\$3.12
7	2/18/09	2/17/09	\$5.10	\$0.21	\$4.50

The per share recoverable loss amounts listed in Table 1 are additive for eligible shares held across multiple Event Days; that is, a share purchased during the Class Period prior to and including 7/18/08 and held through the end of the Class Period can make a claim for the full recoverable losses for all seven events.¹

Additional information Related to Options

(e) If you purchased or otherwise acquired call options or sold put options in ArthroCare stock during the Class Period but prior to the final day of the Class Period and had open call contracts that you purchased or open put contracts that you sold at the close of trading on the day prior to an Event Day, you are eligible to file a claim to the settlement fund for losses on eligible call and put option positions. Tables available from the Claims Administrator (www.arthrocaresecuritiessettlement.com) provide recoverable loss amounts, if any, for all open call and put contracts listed on the Chicago Board Option Exchange (CBOE) at the close of trading on the day prior to each Event Day. If you sold or closed out your option contracts on an Event Day, your recoverable loss amount for the sold or closed contracts is the lesser of (i) the recoverable loss amount provided in the tables and (ii) an amount equal to the previous option price provided in the table less the sale or close-out price of your closed contracts. The per contract recoverable loss amounts listed in the tables are additive for eligible shares held across multiple Event Days.

(f) Claims paid to option claimants are limited to 17% of the total amount paid to both shareholders and option holders. If option claims exceed 17% of total claims, distributions based on option claims will be reduced pro-rata to reflect the percentage of 17% of the total claims represented by each option claim holder.

The Court has reserved jurisdiction to allow, disallow, or adjust on equitable grounds the claim of any member of the Class. Payment pursuant to the Plan of Allocation shall be conclusive against all Authorized Claimants. No Person shall have any claim against Lead Counsel, Lead Plaintiff, the Claims Administrator, Defendants and their Related Parties (defined below), or any person designated by Lead Counsel based on distributions made substantially in accordance with the Stipulation and the Settlement contained therein, the Plan of Allocation, or further order(s) of the Court. All members of the Class who fail to submit a Claim Form within the designated period, or such other period as may be ordered by the Court, or otherwise allowed, will be forever barred from receiving any payments pursuant to the Settlement, but will, in all other respects, be subject to and bound by the terms of the Settlement, including the Release of the Settled Claims.

6. What rights am I giving up by agreeing to the Settlement?

If the Settlement is approved, the Court will enter a judgment (the “Judgment”). The Judgment will dismiss with prejudice the claims asserted against Defendants in the Action and will provide that all Class Members shall be deemed to have – and by operation of the Judgment shall have – fully and finally released, relinquished, waived, discharged and dismissed each and every Settled Claim (as defined below) against the Released Parties (as defined below), and shall forever be prevented from prosecuting any or all Settled Claims against any Released Party.

“Settled Claims” means any and all claims, rights, causes of action, liabilities or any other matters, whether known or Unknown Claims, foreseen or unforeseen, whether arising under federal, state, common or foreign law, that (a) Lead Plaintiff or any other member of the Class asserted in the Action or could have asserted in any forum, that arise out of, are based upon or relate in any way to the allegations, transactions, facts, matters or occurrences, disclosures, representations or omissions involved, set forth or referred to in the Action; or (b) relate in any way to any violation of state, federal or any foreign jurisdiction’s securities or other laws, any misstatement, omission or disclosure (including in financial statements), any breach of duty, any negligence or fraud, or any other alleged wrongdoing or misconduct by the Released Parties relating in any way to the purchase or other acquisition the publicly-traded securities of ArthroCare, or the purchase or other acquisition of call options or sale of put options in ArthroCare common stock, by members of the Class during the Class Period. Regardless of the above, “Settled Claims” does not include claims relating to the enforcement of the Settlement.

¹ Pursuant to Section 21(D)(e)(1) of the Private Securities Litigation Reform Act of 1995 (“PSLRA”), Plaintiffs’ damages for shares held after a 90-day period following the last corrective disclosure (beginning on the date of the corrective disclosure) are limited in securities class actions by the mean stock trading price for the 90-day period. Pursuant to Section 21(D)(e)(2) of the PSLRA, if the plaintiff sold the stock in the same 90-day period, his or her damages may not exceed the difference between the purchase price and the mean trading price of the security during the period between the corrective disclosure and the date of sale. The 90-day period in this case starts on February 18, 2009 and ends on May 19, 2009. The mean closing price of ArthroCare common stock during this 90-day period was \$6.23.

“Released Parties” means the Company and the Individual Defendants, and their Related Parties.

“Related Parties” refers means, as to the Company and the Individual Defendants, their respective past or present heirs, executors, estates, administrators, predecessors, successors, assigns, parents, subsidiaries, associates, affiliates, employers, employees, agents, spouses, any members of an Individual Defendants’ immediate family, or any trust of which any Individual Defendant is the settler or which is for the benefit of any Individual Defendant and/or member(s) of his family, insurers, reinsurers, directors, managing directors, officers, partners, principals, members, managing members, board members, attorneys, Defendants’ Counsel, accountants, outside auditors, financial and other advisors, investment bankers, underwriters, lenders, and any other representatives of any of these persons or entities.

The Judgment also will provide that Defendants and each of the other Released Parties will be deemed by operation of law to have fully, finally, and forever released, waived, discharged and dismissed each and every one of the Released Parties’ Claims (as defined below), and shall forever be enjoined from prosecuting any or all of the Released Parties’ Claims against Lead Plaintiff, its officers, directors, employees, agents and attorneys, and all other Class Members.

“Released Parties’ Claims” means any and all claims, rights, causes of action, liabilities or any other matters, whether known or Unknown Claims, foreseen or unforeseen, whether arising under federal, state, common or foreign law, that have been or could have been asserted in the Action or any forum by the Released Parties or their attorneys against Lead Plaintiff, the Class Members or their attorneys, which have been or could have been asserted by the Defendants or their Related Parties against Lead Plaintiff and all other Class Members concerning the subject matter of the Complaint, or otherwise asserted in connection with the litigation (except for claims to enforce the Settlement).

7. What payment are the attorneys for the Class seeking? How will the lawyers be paid?

Lead Counsel has not received any payment for its services in pursuing claims against Defendants on behalf of the Class, nor has Lead Counsel been reimbursed for its out-of-pocket expenses. Before final approval of the Settlement, Lead Counsel intends to apply to the Court for an award of attorneys’ fees from the Settlement Fund in an amount up to 30% of the Settlement Fund plus interest at the same rate and for the same time period as earned by the Settlement Fund. At the same time, Lead Counsel also intends to apply for the reimbursement of certain Litigation Expenses in an amount not to exceed \$2.75 million plus interest at the same rate and for the same time period as earned by the Settlement Fund. Litigation Expenses will include reimbursement of the time and expenses of Lead Plaintiff in accordance with 15 U.S.C. § 78u-4(a)(4). The sums approved by the Court will be paid from the Settlement Fund. Members of the Class are not personally liable for the payment of these sums.

Defendants take no position on the request by Lead Counsel for attorneys’ fees and reimbursement of litigation expenses.

8. How do I participate in the Settlement? What do I need to do?

If, during the period from December 11, 2007 and February 18, 2009, inclusive, you purchased or otherwise acquired the publicly traded securities of ArthroCare, or purchased or otherwise acquired call options or sold put options in ArthroCare common stock, and suffered a loss thereby, and you are not excluded by the definition of the Class, and you do not elect to exclude yourself from the Class, then you are a member of the Class and you will be bound by the proposed Settlement if the Court approves it, and by any judgment or determination of the Court affecting the Class. If you are a Class Member, you must submit a Claim Form and supporting documentation on or before June 25, 2012, to establish your right to share in the Settlement. A Claim Form is included with this Notice, or you may go to the website maintained by the Claims Administrator for the Settlement to request that a Claim Form be mailed to you. The website is www.arthrocaresecuritiessettlement.com. You may also request a Claim Form by calling toll-free 1-877-847-5795. Copies of the Claim Form can also be downloaded from Lead Counsel’s website at www.chitwoodlaw.com. Those who exclude themselves from the Class, and those who do not submit timely and valid Claim Forms with adequate supporting documentation, will not be eligible to share in the Settlement. Please keep all records of your ownership of, or transactions in, ArthroCare publicly traded securities, as they may be needed to document your claim.

As a Class Member, you are represented by Lead Plaintiff and Lead Counsel, unless you enter an appearance through counsel of your own choice at your own expense. You are not required to retain your own counsel, but if you choose to do so, such counsel must file a notice of appearance on your behalf and must serve copies of his or her notice

of appearance on the attorneys listed in the section entitled, “When and where will the Court decide whether to approve the Settlement?” below.

If you do not wish to remain a Class Member, you may exclude yourself from the Class by following the instructions in the section entitled, “What if I do not want to be a part of the Class and the Settlement? How do I exclude myself?” below.

If you wish to object to the Settlement or any of its terms, the proposed Plan of Allocation, or Lead Counsel’s application for attorneys’ fees and reimbursement of Litigation Expenses, and if you do not exclude yourself from the Class, you may present your objections by following the instructions in the section entitled, “When and where will the Court decide whether to approve the Settlement?” below.

9. What if I do not want to be a part of the Settlement? How do I exclude myself?

If you want to preserve your rights to sue or continue to sue Defendants on your own regarding the legal issues in the case, you must take steps to exclude yourself from this class action – sometimes referred to as “opting out” of the Class. Each Class Member will be bound by all determinations and judgments in this lawsuit, including those concerning the Settlement, whether favorable or unfavorable, unless such person or entity mails, by first-class mail (or its equivalent outside the United States), or otherwise delivers a written Request for Exclusion from the Class, addressed to In re ArthroCare Corporation Securities Litigation, c/o Rust Consulting, Inc., P.O. Box 2689, Faribault, MN 55021-9689. The exclusion request must be *received* by the Claims Administrator no later than May 10, 2012. You will not be able to exclude yourself from the Class after that date.

Each Request for Exclusion must (i) state the name and address of the person or entity requesting exclusion; (ii) state that such person or entity requests exclusion from the Class in *In re ArthroCare Corporation Securities Litigation*, No. 1:08-cv-00574-SS; (iii) be signed by the person or entity requesting exclusion; (iv) provide a telephone number for that person or entity; and (v) provide the date(s), price(s) and number(s) of shares of all purchases, acquisitions and sales of ArthroCare’s publicly traded securities, or call options, and your sale of ArthroCare put options in the period from December 11, 2007 to February 18, 2009. Requests for exclusion will not be valid if they are not received by the time stated above, unless the Court determines otherwise. Keep a copy of everything you mail, in case something is lost during shipping or processing. You cannot exclude yourself by phone or by e-mail.

If you do not want to be part of the Class, you must follow these instructions for exclusion even if you have pending, or later file, another lawsuit, arbitration or other proceeding concerning any of the Settled Claims. If a person or entity requests to be excluded from the Class, that person or entity will not receive any benefit provided for in the Settlement. You will not be legally bound by anything that happens in this lawsuit. You may be able to sue (or continue to sue) Defendants in the future. ***If you exclude yourself, do not send in a Proof of Claim and Release form because you have given up any rights to ask for any money from the Settlement Fund.***

10. When and where will the Court decide whether to approve the Settlement?

The Final Approval Hearing will be held on May 25, 2012, at 9:30 a.m. before the Honorable Sam Sparks, at the United States District Court for the Western District of Texas, Austin Division, 200 West 8th Street, Courtroom 2, Austin, Texas 78701. The Court reserves the right to approve the Settlement, the Plan of Allocation or the request for attorneys’ fees and reimbursement of Litigation Expenses at or after the Final Approval Hearing without further notice to the members of the Class.

Any member of the Class who does not request exclusion from the Class in the manner set forth in Question 9 above may object to the Settlement, the Plan of Allocation, or Lead Counsel’s request for an award of attorneys’ fees and reimbursement of Litigation Expenses. Objections or oppositions must be in writing. Your objection must be filed with the Court and served on the following counsel on or before May 10, 2012:

Court

Clerk of the Court
UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF TEXAS
AUSTIN DIVISION
200 West 8th St., Room 130
Austin, TX 78701

Lead Counsel for the Class

CHITWOOD HARLEY HARNES LLP
Robert W. Killorin
2300 Promenade II
1230 Peachtree Street, N.E.
Atlanta, GA 30309

Counsel for ArthroCare

DLA PIPER US LLP
Robert W. Brownlie
401 B Street, Suite 1700
San Diego, CA 92101

Counsel for Michael Baker

FENWICK & WEST LLP
Jay Pomerantz
801 California Street
Mountain View, CA 94041

Counsel for Michael Gluk

LOCKE LORD LLP
Jason S. Lewis
2200 Ross Avenue, Suite 2200
Dallas, TX 75201

Any objection must include: (a) the full name, address and phone number of the objecting Class Member; (b) a list of all of the Class Member's Class Period transactions in ArthroCare's publicly traded securities, including the purchase or acquisition of call options or selling of put options, and including brokerage confirmation receipts or other competent documentary evidence of such transactions; (c) a written statement of all grounds for the objection accompanied by any legal support for the objection; (d) copies of any papers, briefs or other documents upon which the objection is based; (e) a list of all persons, if any, who will be called to testify in support of the objection; (f) a statement of whether the objector intends to appear at the Final Approval Hearing; (g) a list of other cases in which the objector or the objector's counsel have appeared either as settlement objectors or as counsel for objectors in the preceding five years; and (h) the objector's signature, even if represented by counsel.

By objecting to the Settlement, the Plan of Allocation and/or the application by Lead Counsel for an award of attorneys' fees and reimbursement of Litigation Expenses, or otherwise requesting to be heard at the Final Approval Hearing, a person or entity shall be deemed to have submitted to the jurisdiction of the Court with respect to the person's or entity's objection or request to be heard and the subject matter of the Settlement, including, but not limited to, enforcement of the terms of the Settlement (including, but not limited to, the release of the Settled Claims provided for in the Stipulation and the Judgment).

The Court may approve the Settlement even if you object. You may not object to the Settlement or any aspect of it if you are not a Class Member or if you excluded yourself from the Class.

11. Do I have to come to the Hearing? May I speak at the Hearing if I do not like the Settlement?

If you do not wish to object in person to the proposed Settlement, the proposed Plan of Allocation, and/or the application for attorneys' fees and reimbursement of Litigation Expenses, you do not need to attend the Final Approval Hearing. You can object to or participate in the Settlement without attending the Final Approval Hearing.

You may file a written objection without having to appear at the Final Approval Hearing. See the requirements above for what must be in your objection. If you intend to appear at the Final Approval Hearing through counsel, the objection must also state the identity of all attorneys who will appear on your behalf at the Final Approval Hearing. Any member of the Class who does not make his, her or its objection in the manner provided for in this Notice shall be deemed to have waived such objection and shall forever be foreclosed from making any objection to the fairness or adequacy of the Settlement as reflected in the Stipulation, to the Plan of Allocation or to the application by Lead Counsel for an award of attorneys' fees and reimbursement of Litigation Expenses. You may not appear at the Final Approval Hearing to present your objection, however, unless you *first* filed and served a written objection in accordance with the procedures described above, unless the Court orders otherwise.

If you wish to speak at the Hearing in opposition to the approval of the Settlement, the Plan of Allocation, or Lead Counsel's request for an award of attorneys' fees and reimbursement of Litigation Expenses, and if you have filed and served a timely written objection as described above, you also must notify the above counsel on or before May 10, 2012 concerning your intention to appear. Persons who intend to object and desire to present evidence at the Final Approval Hearing must include in their written objections the identity of any witnesses they may call to testify and exhibits they intend to introduce into evidence at the hearing.

If you object to the Settlement, the Plan of Allocation and/or Lead Counsel's request for an award of attorneys' fees and reimbursement of Litigation Expenses, or otherwise request to be heard at the Final Approval Hearing in the manner stated above, you are submitting to the jurisdiction of the Court with respect to the subject matter of the Settlement, including, but not limited to, the Release of the Settled Claims contained in the Judgment. If the Court overrules your objection and approves the Settlement or the part of the Settlement to which you have objected, you only will share in the Settlement Fund if you file a Claim Form in the manner stated in Question 8 above and the Claims Administrator approves your claim.

You are not required to hire an attorney to represent you in making written objections or in appearing at the Final Approval Hearing. However, if you decide to hire an attorney, which will be at your own expense, he or she must file a notice of appearance with the Court and serve it on Lead Counsel so that the notice is received on or before May 10, 2012.

The Final Approval Hearing may be adjourned by the Court without further written notice to the Class. If you intend to attend the Final Approval Hearing, you should confirm the date and time with Lead Counsel.

UNLESS THE COURT ORDERS OTHERWISE, ANY CLASS MEMBER WHO DOES NOT OBJECT IN THE MANNER DESCRIBED ABOVE WILL BE DEEMED TO HAVE WAIVED ANY OBJECTION AND SHALL BE FOREVER PREVENTED FROM MAKING ANY OBJECTION TO THE PROPOSED SETTLEMENT, THE PROPOSED PLAN OF ALLOCATION, OR LEAD COUNSEL'S REQUEST FOR AN AWARD OF ATTORNEYS' FEES AND REIMBURSEMENT OF LITIGATION EXPENSES. CLASS MEMBERS DO NOT NEED TO APPEAR AT THE HEARING OR TAKE ANY OTHER ACTION TO INDICATE THEIR APPROVAL.

12. What if I bought shares on someone else's behalf?

If you purchased or otherwise acquired ArthroCare publicly traded securities or purchased or otherwise acquired call options or sold put options in ArthroCare common stock during the Class Period as nominee for a beneficial owner, you are directed to: (a) request, within fourteen (14) days of receipt of the Notice, additional copies of the Notice and the Claim Form from the Claims Administrator for such beneficial owners; or (b) send a list of the names and addresses of such beneficial owners to the Claims Administrator at In re ArthroCare Corporation Securities Litigation c/o Rust Consulting, Inc., P.O. Box 2689, Faribault, MN 55021-9689 within fourteen (14) days after receipt of the Notice. If you choose option (a) above, you may request enough Notices from the Claims Administrator (at no charge) to complete your mailing. Also, if you choose option (a) above, you must mail the Notice within fourteen (14) days of receipt of the additional copies of the Notice from the Claims Administrator, and then send a statement to the Claims Administrator confirming that the mailing was made as directed. Please also retain the list of names and addresses for use in connection with any possible future notice to the Class.

You may seek reimbursement of your reasonable expenses actually incurred in complying with these instructions, subject to approval of Lead Counsel or the Court. All communications concerning this matter should be addressed to the Claims Administrator.

13. Can I see the Court file? Whom should I contact if I have questions?

This Notice summarizes the Settlement. More detailed information about the matters involved in the Action is available at www.arthrocaresecuritiessettlement.com, including, among other documents, copies of the Stipulation, the Claim Form and the Complaint. All inquiries concerning this Notice or the Claim Form should be directed to the Claims Administrator at In re ArthroCare Corporation Securities Litigation c/o Rust Consulting, Inc., P.O. Box 2689, Faribault, MN 55021-9689, 1-877-847-5795, info@arthrocaresecuritiessettlement.com, or Lead Counsel Robert W. Killorin or Ze'eva K. Banks at Chitwood Harley Harnes LLP, 2300 Promenade II, 1230 Peachtree Street, N.E., Atlanta, Georgia 30309, 1-888-873-3999, RKillorin@chitwoodlaw.com or ZKBanks@chitwoodlaw.com.

PLEASE DO NOT CONTACT THE COURT REGARDING THIS NOTICE.

DATED: February 10, 2012

BY ORDER OF THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF TEXAS

THE HONORABLE SAM SPARKS
UNITED STATES DISTRICT JUDGE

ArthroCare Corporation Securities Litigation
c/o Rust Consulting, Inc.
P.O. Box 2689
Faribault, MN 55021-9689

IMPORTANT COURT DOCUMENTS