

# **CYBERONICS, INC.**

## **CORPORATE GOVERNANCE GUIDELINES**

(as amended and restated as of February 26, 2013)

### **1. Director Qualification Standards**

The Board of Directors (the “Board”) of Cyberonics, Inc. (the “Company”) will have a majority of directors who meet the criteria for independence required by the rules of the NASDAQ Stock Market LLC (“Nasdaq”). The Nominating & Governance Committee is responsible for establishing criteria for selecting new directors and actively seeking individuals to become board members for recommendation to the Board. This assessment will include candidates’ qualification as independent, as well as consideration of the entirety of each candidate’s credentials, which may include, but need not be limited to, a high ethical character, accomplishments within his or her respective field, relevant business or financial expertise or experience, ability to exercise sound business judgment and diversity of gender, ethnic background and professional experience. Nominees for directorship will be selected by the Nominating & Governance Committee in accordance with the policies and principles in its charter and then recommended to the Board. The invitation to join the Board should be extended by the Board itself and by the Chairman of the Nominating & Governance Committee.

The Board consists of seven members. The number of directors constituting the Board of Directors may be increased or decreased by resolution of the Board. However, no reduction in the number of directors shall have the effect of removing any director before that director’s term of office expires. The Nominating & Governance Committee is responsible for reviewing, on an annual basis, the advisability or need for any change in the number of directors or in the persons comprising the Board.

No director shall serve on the boards of more than four other public companies. In addition, no director shall serve on the audit committees of more than two other public company boards, if such director also serves on the Company’s Audit Committee, unless the Board specifically determines that such service would not impair the director’s ability to serve effectively on the Company’s Audit Committee.

The Board does not believe it should establish term or age limits. While term limits could help ensure that fresh ideas and viewpoints are available to the Board, they hold the disadvantage of losing the contribution of directors who have been able to develop, over a period of time, increasing insight into the Company and its operations and, therefore, provide an increasing contribution to the Board as a whole. As an alternative to term limits, the Nominating & Governance Committee reviews each director’s continuation on the Board every year.

### **2. Director Responsibilities**

The basic responsibility of the directors is to exercise their business judgment to act in what they reasonably believe to be in the best interests of the Company and its shareholders. In discharging that obligation, directors should be entitled to rely on the honesty and integrity of the Company’s senior executives and its outside advisors and auditors. The

directors shall also be entitled to (i) have the Company purchase reasonable directors' and officers' liability insurance on their behalf, (ii) the benefits of indemnification to the fullest extent permitted by law and the Company's certificate of incorporation, bylaws and any indemnification agreements, and (iii) exculpation as provided by state law and the Company's certificate of incorporation.

Directors are expected to attend Board meetings and meetings of committees on which they serve, and to spend the time needed and meet as frequently as necessary to properly discharge their responsibilities. Information and data that are important to the Board's understanding of the business to be conducted at a Board or committee meeting should be distributed in writing to the directors before the meeting, and directors are expected to review these materials in advance of the meeting. Attendance at Board and committee meetings shall be considered by the Nominating & Governance Committee in assessing each Board member's performance.

The Nominating & Governance Committee is responsible for recommending to the Board, as necessary, a member who shall serve as Chairman of the Board (the "Chairman"). The Board shall elect the Chairman from among the members of the Board. The Board has adopted a policy requiring the separation of the offices of the Chairman and the Chief Executive Officer. The Chairman shall not be an executive officer of the Company.

The Chairman will establish the agenda for each Board meeting in consultation with the Chief Executive Officer ("CEO"). Each Board member is free to suggest the inclusion of items on the agenda. Each Board member is free to raise at any Board meeting subjects that are not on the agenda for that meeting. The Board will review the Company's long-term strategic plans and the principal issues that the Company will face in the future during at least one Board meeting each year.

The non-management directors will meet in executive session at least quarterly. The Chairman will be responsible for conducting the meeting of the non-management directors in executive sessions.

### **3. Board Committees**

The Board will have at all times an Audit Committee, a Compensation Committee and a Nominating & Governance Committee. All of the members of these committees will be independent directors under the criteria established by the Nasdaq or applicable securities laws. Committee members will be appointed by the Board upon recommendation of the Chairman in consultation with the Nominating & Governance Committee, in accordance with all other such criteria as may be established by the Nasdaq from time to time, with consideration given to the desires of individual directors.

Each committee will have its own charter. The charters will set forth the purposes, goals and responsibilities of the committees, as well as qualifications for committee membership, procedures for committee member appointment and removal, committee structure and operations, and committee reporting to the Board. The charters will also provide that each committee will annually evaluate its performance.

The chairperson of each committee, in consultation with the committee members, will determine the frequency and length of the committee meetings, consistent with any requirements set forth in the committee's charter. The chairperson of each committee, in consultation with the appropriate members of the committee and management, will develop the committee's agenda.

The Board may, from time to time, establish or maintain additional committees as necessary or appropriate.

#### **4. Director Access to Management and Independent Advisors**

The Board and each committee have the power to hire independent legal, financial, or other advisors as they may deem necessary, without consulting or obtaining the approval of any officer of the Company in advance.

Directors have full and free access to officers and employees of the Company. Any meetings or contacts that a director wishes to initiate may be arranged through the CEO or the Secretary or directly by the director. The directors will use their judgment to ensure that any such contact is not disruptive to the business operations of the Company and will, to the extent not inappropriate, copy the CEO on any written communications between a director and an officer or employee of the Company.

If the CEO, Chief Financial Officer or Secretary wishes to have additional Company personnel attendees at Board or committee meetings on a regular basis, this suggestion should be approved by the Chairman, as to Board meetings, or the chairperson of the committee, as to committee meetings.

#### **5. Director Compensation**

The Compensation Committee will make a recommendation to the Board regarding the form and amount of director compensation in accordance with the policies and principles set forth in its charter, and the Compensation Committee will conduct an annual review of director compensation. The Compensation Committee will consider that directors' independence may be jeopardized if director compensation and perquisites exceed customary levels, if the Company makes substantial charitable contributions to organizations with which a director is affiliated, or if the Company enters into consulting contracts with (or provides other indirect forms of compensation to) a director or an organization with which the director is affiliated.

#### **6. Director Orientation and Continuing Education**

The Board will take such measures as it deems appropriate to ensure that its members may act on a fully informed basis. Each new Board member shall be provided with information regarding and the opportunity to fully review the Company's business, personnel and operations in conjunction with accepting a seat on the Board. In addition, the officers of the Company, as well as the Board, shall take steps to ensure that Board members remain fully informed as to the operation of the Company, as well as their duties and responsibilities as members of the Board. To that end, each member of the Board shall attend at least one director

education program every three fiscal years. The Nominating & Governance Committee shall be responsible for ensuring compliance with this standard. Additional steps with respect to director orientation and continuing education shall be taken as necessary to comply with securities laws and Nasdaq rules.

## **7. CEO Evaluation and Management Succession**

The Compensation Committee will annually review and approve corporate goals and objectives relevant to the compensation of the CEO, evaluate the performance of the CEO in light of those goals and objectives and set the compensation of the CEO based on this evaluation.

The Nominating & Governance Committee shall make an annual report to the Board on succession planning. The entire Board will work with the Nominating & Governance Committee to evaluate potential successors to the CEO. The CEO should at all times make available his or her recommendations and evaluations of potential successors, along with a review of any development plans recommended for such individuals.

## **8. Annual Performance Evaluation of the Board**

The Board will conduct an annual self-evaluation to determine whether it and its committees are functioning effectively. The Nominating & Governance Committee will receive comments from all directors and report annually to the Board with an assessment of the Board's performance. This will be discussed with the full Board following the end of each fiscal year. The assessment will focus on the Board's contribution to the Company and specifically focus on areas in which the Board or management believes that the Board could improve.

## **9. Corporate Code of Business Conduct and Ethics**

Each of the Company's officers, agents and employees, as well as each of its Directors, is expected to act in accordance with the principles set forth in the Company's Corporate Code of Business Conduct and Ethics. This Code reflects the Company's expectation of high ethical, moral and legal principles in every aspect of business conduct.