

MEDTRONIC INC
Form S-4
August 26, 2002

As Filed with the Securities and Exchange Commission on August 26, 2002

Registration No: 333-

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form S-4
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Medtronic, Inc.

(Exact name of registrant as specified in its charter)

Minnesota

*(State or other jurisdiction of
incorporation or organization)*

3845

*(Primary Standard Industrial
Classification Code Number)*

41-0793183

*(I.R.S. Employer
Identification Number)*

World Headquarters

**710 Medtronic Parkway
Minneapolis, Minnesota 55432
(763) 514-4000**

*(Address, including zip code, and telephone number, including area code,
of registrant's principal executive offices)*

Richard F. Hamm, Jr.
Vice President and Deputy General Counsel
Medtronic, Inc.

**World Headquarters
710 Medtronic Parkway
Minneapolis, Minnesota 55432
(763) 514-4000**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

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200 South Sixth Street, Suite 4000
Minneapolis, Minnesota 55402-1425
(612) 492-7000

Michael E. Stansbury, Esq.
Kelly L. Schmitt, Esq.
Perkins Coie LLP
1201 Third Avenue, Suite 4800
Seattle, WA 98101-3099
(206) 583-8888

Approximate date of commencement of proposed sale of the securities to the public: Upon consummation of the Merger, as described in this Registration Statement.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered(1)	Proposed maximum offering price per share	Proposed maximum aggregate offering price	Amount of registration fee(2)
Common stock, par value \$.10 per share(3)	5,537,411 shares	Not Applicable	Not Applicable	\$945.25

- (1) Represents the approximate maximum number of shares issuable upon consummation of the merger as described in the Registration Statement, assuming the Average Stock Price for Medtronic, Inc. common stock is equal to \$42.00.
- (2) The registration fee was calculated pursuant to Section 6 of the Securities Act of 1933 (the Securities Act) and Rule 457(f)(2), based on the anticipated maximum number of outstanding shares of Spinal Dynamics Corporation common and preferred stock at the merger's effective time (18,025,453), on the basis of \$0.57 per share, the book value of the Spinal Dynamics securities as of June 30, 2002.
- (3) Each share of Medtronic common stock includes a Preferred Stock Purchase Right pursuant to Medtronic's Shareholder Rights Plan.

The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Preliminary Proxy Statement/ Prospectus, Subject to Completion
[Spinal Dynamics Logo] (Logo To Come)
MERGER PROPOSED YOUR VOTE IS VERY IMPORTANT

The board of directors of Spinal Dynamics Corporation has unanimously approved a merger involving Spinal Dynamics and Medtronic, Inc. The merger will be structured as a stock merger or a cash merger, at the election of the Spinal Dynamics board of directors depending on the price of Medtronic's common stock shortly before the merger, with each resulting in different consideration payable to you. If the merger is structured as a stock merger, Spinal Dynamics will merge with and into an existing subsidiary of Medtronic, with that subsidiary continuing to be a wholly owned subsidiary of Medtronic, and you will receive shares of Medtronic common stock or, at your election but subject to certain limits, a combination of cash and Medtronic common stock in exchange for each share of your Spinal Dynamics stock, which in either case will be valued at approximately \$15.64. Alternatively, the merger may be structured as a cash merger, where a newly formed subsidiary of Medtronic will merge with and into Spinal Dynamics, with Spinal Dynamics becoming a wholly owned subsidiary of Medtronic, and you will receive solely cash in the amount of approximately \$15.64 for each share of your Spinal Dynamics stock.

The Spinal Dynamics board believes the merger will provide stockholders with greater liquidity for their interest in Spinal Dynamics, either directly through cash or through Medtronic common stock. It also believes that the merger will provide resources and create synergies and efficiencies that will accelerate product development, technological innovation and enable an earlier and stronger entry in the United States market.

I cordially invite you to attend our special meeting of stockholders to vote on a proposal to approve the merger and adopt the merger agreement and specified related proposals. We cannot complete the merger unless the holders of a majority of all the outstanding shares of Spinal Dynamics common and preferred stock, voting together as a single class, and the holders of a majority of all the outstanding shares of Spinal Dynamics preferred stock, voting as a separate class, approve the merger and adopt the merger agreement.

Your board of directors has determined that the merger is fair to you and in your best interests. The board unanimously recommends that you vote to approve the merger and adopt the merger agreement at the special meeting. In addition, directors, executive officers and other affiliates of Spinal Dynamics, who together own 74.3% of outstanding shares of common stock and preferred stock, have agreed to vote in favor of the merger.

Medtronic common stock is traded on the New York Stock Exchange under the symbol MDT.

Your vote at the special meeting, in person or by proxy, is very important. Even if you plan to attend the meeting, please mark, sign and return the enclosed proxy card promptly, so that your shares of stock are voted at the special meeting. **If you do not return your proxy card, the effect will be a vote against the merger unless you attend the meeting and vote for the merger.** To change your vote, send in a later-dated, signed proxy card to Rick Wypych, Director of Finance and Administration at Spinal Dynamics at the address on the proxy card. If you do attend the meeting, you can of course vote your shares in person.

The date, time, and place of the meeting are:

, 2002

10:00 a.m., local time
Perkins Coie LLP
1201 Third Avenue, Suite 4800
Seattle, WA 98101

This Proxy Statement/ Prospectus gives you detailed information about the merger. You can also obtain information about Medtronic from documents filed with the Securities and Exchange Commission. Please read this entire document carefully.

We enthusiastically support the merger and urge you to vote **FOR** the merger and the merger agreement.

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Thank you, and I look forward to seeing you at the special meeting.

Charles R. Clark, III
Chief Executive Officer and President

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved any Medtronic securities to be issued in the merger or determined if this Proxy Statement/ Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Proxy Statement/ Prospectus dated _____, 2002, and first mailed to stockholders on or about _____, 2002.

(inside front cover page)

This prospectus incorporates important business and financial information about Medtronic that is not included in or delivered with the document. This information is available to you without charge if you are a stockholder of Spinal Dynamics. You can obtain any of the documents from Medtronic or the SEC. Documents incorporated by reference are available from Medtronic without charge, except for any exhibits to those documents unless we have specifically incorporated by reference a particular exhibit in this Proxy Statement/ Prospectus. Stockholders may obtain documents incorporated by reference in this Proxy Statement/ Prospectus by requesting them in writing or by telephone from Medtronic at the following address:

**Medtronic, Inc.
World Headquarters
710 Medtronic Parkway
Minneapolis, Minnesota 55432
Attention: Investor Relations Department
(763) 514-3035**

If you would like to request documents from Medtronic, please do so by _____, 2002 to receive them before the Special Meeting.

SPINAL DYNAMICS CORPORATION

**9655 S.E. 36th Street, Suite 110
Mercer Island, WA 98040-3732**

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

To be held _____, 2002

To the Stockholders of Spinal Dynamics Corporation:

A Special Meeting of the stockholders of Spinal Dynamics Corporation, a Delaware corporation (Spinal Dynamics), will be held at the offices of Perkins Coie LLP, located at 1201 Third Avenue, Suite 4800, Seattle, WA 98101, on _____, 2002, at 10:00 a.m., local time, for the following purposes:

1. To consider and vote upon a proposal to approve and adopt an Agreement and Plan of Merger dated as of June 27, 2002 (the Merger Agreement), among Medtronic, Inc. (Medtronic), Medtronic Sofamor Danek, Inc. (MSD), MSD Merger Corp. (Merger Subsidiary) and Spinal Dynamics, under which either (i) Spinal Dynamics will merge with and into MSD, with MSD continuing as the surviving corporation and a wholly owned subsidiary of Medtronic, and the Spinal Dynamics stockholders will receive shares of Medtronic common stock or, at the election of each such stockholder but subject to certain limits, a combination of cash and Medtronic common stock in exchange for each share of their Spinal Dynamics common stock, or (ii) Merger Subsidiary will merge with and into Spinal Dynamics, with Spinal Dynamics continuing as the surviving corporation and a wholly owned subsidiary of Medtronic, and the Spinal Dynamics stockholders will receive solely cash for each share of their Spinal Dynamics common stock, all as described in the accompanying Proxy Statement/ Prospectus.
2. To increase the number of authorized shares of Series D convertible preferred stock of Spinal Dynamics from 4,126,113 to 4,878,611 to enable Spinal Dynamics, if required under the Merger Agreement, to issue to Medtronic or one of its affiliates up to 799,232 shares of Series D convertible preferred stock.
3. To transact such other business as may properly come before the Special Meeting or any adjournment or postponement, including a proposal to adjourn or postpone the Special Meeting.

The record date for the Special Meeting is the close of business on _____, 2002. Only Spinal Dynamics stockholders of record at that time are entitled to notice of and to vote at the Special Meeting or any adjournment or postponement of it. To approve the merger and adopt the merger agreement, (i) the holders of a majority of all the outstanding shares of Spinal Dynamics common and preferred stock, voting together as a single class, and (ii) the holders of a majority of all the outstanding shares of Spinal Dynamics preferred stock, voting as a separate class, must vote in favor of the merger.

Under Delaware law, Spinal Dynamics stockholders have the right to dissent from the merger and seek an appraisal of the fair value of their shares in connection with the merger and to be paid that value in cash.

The attached Proxy Statement/ Prospectus contains more detailed information regarding the merger and the Merger Agreement and includes a copy of the Merger Agreement.

Your vote is important. Even if you expect to attend the Special Meeting, please complete, sign and date the enclosed proxy and return it promptly in the enclosed postage-paid envelope. If no instructions are indicated on your proxy, your shares will be voted FOR the merger. If you do not return your proxy or vote in person, the effect is a vote against the merger. You can revoke your proxy at any time before it is exercised by giving written notice to the Secretary of Spinal Dynamics, or filing another proxy, or attending the Special Meeting and voting in person.

If the merger agreement is approved and adopted and the merger is consummated, you will be sent a letter of transmittal with instructions for surrendering your certificates representing shares of Spinal Dynamics

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common stock and/or preferred stock. Please do not send your share certificates until you receive these materials.

The Spinal Dynamics board of directors unanimously recommends that you vote FOR the merger.

BY ORDER OF THE BOARD OF DIRECTORS

Vincent E. Bryan, Jr.,
Executive Vice President, Treasurer and Secretary

, 2002

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LIST OF ANNEXES:

- Annex A: Agreement and Plan of Merger
Annex B: Delaware General Corporation Law Section 262
Annex C: Cash Election Form
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QUESTIONS AND ANSWERS ABOUT THE MERGER

Q. Please describe the merger.

A. The merger will be structured as either a stock merger or a cash merger, with each resulting in different consideration payable to you. The merger will be a stock merger unless the board of directors of Spinal Dynamics elects to have the consideration received in the merger consist solely of cash (based on the price of Medtronic common stock shortly before the merger) and Medtronic does not override this election, as described in this Proxy Statement/ Prospectus. If the merger is structured as a stock merger, Spinal Dynamics will merge with and into an existing subsidiary of Medtronic, with that subsidiary continuing to be a wholly owned subsidiary of Medtronic. If the merger is structured as a cash merger, a newly formed subsidiary of Medtronic will merge with and into Spinal Dynamics, with Spinal Dynamics becoming a wholly owned subsidiary of Medtronic.

Q. What will I receive in the merger?

A. *Merger Consideration.* The merger consideration will consist of shares of Medtronic common stock or cash and will be valued at approximately \$269.5 million, comprised of approximately \$250 million of closing consideration and approximately \$19.5 million of escrow consideration. The closing consideration will be available to Spinal Dynamics stockholders shortly after the effective time of the merger, and the escrow consideration will be deposited into escrow and become available to Spinal Dynamics stockholders, less any valid claims that Medtronic may have for indemnification under the merger agreement, one year after the effective time of the merger. Based on the fully-diluted number of shares of Spinal Dynamics common stock currently outstanding, the value of the closing consideration per share of Spinal Dynamics common stock would be approximately \$14.51 and the value of the escrow consideration per share of Spinal Dynamics common stock would be approximately \$1.13. The closing consideration and escrow consideration per share of Spinal Dynamics common stock together equal approximately \$15.64 and constitute the total merger consideration per share of Spinal Dynamics common stock.

Stock Merger. If the merger is structured as a stock merger, Spinal Dynamics will merge with and into MSD, an existing subsidiary of Medtronic, with MSD continuing to be a wholly owned subsidiary of Medtronic. Each Spinal Dynamics stockholder will receive closing consideration consisting of shares of Medtronic common stock or, at such stockholder's election, cash. In order to have the stock merger qualify as a reorganization for federal income tax purposes, only a limited amount of the total consideration in the merger may consist of cash. To the extent that Spinal Dynamics stockholders elect to receive, in the aggregate, an amount of cash exceeding this limit, each stockholder who elected to receive cash will, on a pro rata basis, instead receive less cash and correspondingly more Medtronic common stock. Spinal Dynamics stockholders will also receive, subject to potential claims of Medtronic for indemnification under the merger agreement, escrow consideration consisting of shares of Medtronic common stock, regardless of whether such stockholder elected to receive cash as closing consideration.

When the closing consideration or escrow consideration is to be paid in shares of Medtronic common stock in a stock merger, the Medtronic common stock will be valued at the average of the stock's closing sale price for the 14 consecutive trading days ending on and including the trading day that is four trading days prior to the effective time, with a minimum value of \$42.00 and a maximum value of \$47.77. Accordingly, if the value of Medtronic common stock as determined in accordance with the formula is less than \$42.00 per share, the value of \$42.00 will nevertheless be used for purposes of the merger agreement. Likewise, if the value in accordance with the formula is greater than \$47.77, the value of \$47.77 will be used.

Cash Merger. If the merger is structured as a cash merger, a newly formed subsidiary of Medtronic, MSD Merger Corp., will merge with and into Spinal Dynamics, with Spinal Dynamics becoming a wholly owned subsidiary of Medtronic. Spinal Dynamics stockholders will receive cash in the amount of approximately \$14.51 as closing consideration and cash in the amount of approximately \$1.13 as escrow consideration, subject to potential claims of Medtronic for indemnification under the merger agreement, in exchange for each share of Spinal Dynamics common stock owned.

Q. What do I need to do now?

A. Please sign, date and mail your proxy card in the enclosed return envelope as soon as possible. You can also attend the Special Meeting in person and vote, even though you may have previously returned your proxy card. If you do not return your proxy or vote in person, it will have the effect of a vote against the merger.

If you would like to receive a portion of the consideration you will receive in the merger, if structured as a stock merger, in cash, then you should complete the Cash Election Form attached as Annex C and return it to the address specified in the form. You should not send the Cash Election Form with your proxy card. The deadline to return your Cash Election Form is 5:00 p.m., Central Time, on _____, 2002, unless the planned closing date for the merger is changed.

Q. What do I do if I want to change my vote?

A. Just send in a later-dated, signed proxy card before the Special Meeting to Rick Wypych, Director of Finance and Administration at Spinal Dynamics at the address on the proxy card or attend the meeting in person and vote.

Q. Should I send in my stock certificates now?

A. No. After we complete the merger, we will send you written instructions that describe how to exchange your Spinal Dynamics stock certificates for cash or Medtronic stock certificates.

Q. Will I owe federal income tax on what I receive in the merger?

A. The merger, if structured as a stock merger, is intended to qualify as a reorganization for U.S. federal income tax purposes. We expect that your exchange of Spinal Dynamics stock for Medtronic stock in the merger will be tax free for U.S. federal income tax purposes, except to the extent that (a) you elect to receive cash instead of Medtronic shares, (b) you receive cash for fractional Medtronic shares, or (c) you receive cash because you asserted your appraisal rights. If the merger is structured as a cash merger, the merger will not qualify as a reorganization for U.S. federal income tax purposes and you may owe federal income tax on the cash consideration you receive in the merger. The tax consequences of the merger to you will depend on the facts of your own situation. You should talk to your tax advisor for a full understanding of the tax consequences to you of the merger.

Q. When do you expect to complete the merger?

A. We are working toward completing the merger on October 11, 2002. Medtronic and Spinal Dynamics need to obtain both Spinal Dynamics stockholder approval and regulatory approvals. Medtronic shareholders do not need to approve the merger.

Q. Whom should I call with questions?

A. If you have any questions about the merger, please call Rick Wypych, Director of Finance and Administration at Spinal Dynamics, at (206) 275-2715.

SUMMARY

*This summary highlights selected information from this Proxy Statement/ Prospectus and may not contain all of the information that is important to you. To understand the merger fully and for a more complete description of the legal terms of the merger, you should read carefully this entire document and the documents to which we have referred you. See *Where You Can Find More Information* on page 43. We have included page references in parentheses to direct you to a more complete description of some of the topics presented in this summary.*

The Companies

Spinal Dynamics Corporation

9655 S.E. 36th Street, Suite 110
Mercer Island, WA 98040-3732
(206) 275-2715

Spinal Dynamics Corporation was incorporated in the state of Delaware in 1997. Since its beginning, Spinal Dynamics has focused on designing and developing innovative surgical procedures and functional reconstructive implant devices to improve the treatment of spinal diseases. Spinal Dynamics' first product is the Bryan Cervical Disc System®, which includes a patented intervertebral disc prosthesis and innovative surgical instruments.

Following extensive pre-clinical laboratory testing, a clinical study of the Bryan Cervical Disc System was initiated in Europe in January 2000. The European study led to CE mark approval in November 2000. In February 2001, Spinal Dynamics granted exclusive worldwide distribution rights, excluding the United States, for the Bryan Cervical Disc System to MSD. Shortly thereafter, the product was commercially launched outside the United States. To date, over 800 patients have been treated with the Bryan Cervical Disc System in various countries.

In November 2001, the United States Food and Drug Administration approved Spinal Dynamics request to begin a United States Investigational Device Exemption, or IDE, study regarding the Bryan Cervical Disc System. In May 2002, the first patient was treated under the IDE study.

Medtronic, Inc.

World Headquarters
710 Medtronic Parkway
Minneapolis, Minnesota 55432
(612) 514-4000

Medtronic is the world's leading medical technology company, providing lifelong solutions for people with chronic disease. Medtronic was founded in 1949, incorporated as a Minnesota corporation in 1957 and today serves physicians, clinicians and patients in more than 120 countries worldwide. Its primary products include those for bradycardia pacing, tachyarrhythmia management, atrial fibrillation management, heart failure management, coronary and peripheral vascular disease, heart valve replacement, extracorporeal cardiac support, minimally invasive cardiac surgery, malignant and non-malignant pain, movement disorders, spinal and neurosurgery, neurodegenerative disorders, and ear, nose and throat surgery, neurological disorders and diabetes.

The Special Meeting (Page 9)

The Special Meeting will be held on _____, 2002, at 10:00 a.m., local time, at Perkins Coie LLP, located at 1201 Third Avenue, Suite 4800, Seattle, WA 98101. At the Special Meeting, you will be asked to approve and adopt the merger and the merger agreement and an increase in the authorized shares of Series D convertible preferred stock.

Recommendation to Spinal Dynamics Stockholders (Page 10)

The Spinal Dynamics board of directors believes that the merger is in the best interests of Spinal Dynamics and its stockholders. The board unanimously recommends that you vote *for* approval of the merger and adoption of the merger agreement and the increase in the authorized shares of Series D convertible preferred stock.

Record Date (Page 10)

You can vote at the Special Meeting only if you owned shares of Spinal Dynamics common stock or preferred stock at the close of business on _____, 2002, which was the record date.

Vote Required to Approve and Adopt the Merger and to Approve Increase in Authorized Shares (Page 10)

Both the merger and the increase in the authorized number of shares of Series D convertible preferred stock require the approval of (i) the holders of a majority of all the outstanding shares of Spinal Dynamics common and preferred stock, voting together as a single class, and (ii) the holders of a majority of all the outstanding shares of Spinal Dynamics preferred stock, voting as a separate class. If you do not return your proxy or vote in person, it will have the effect of a vote against the merger.

Medtronic shareholders do not need to vote to approve the merger.

Voting Power; Voting by Management (Page 10)

On the record date, 3,793,106 shares of Spinal Dynamics common stock, and 12,269,998 shares of Spinal Dynamics preferred stock, divided into preferred stock Series A, B, C and D, were outstanding. Of these, 11,931,821 shares (approximately 74.3% of the shares entitled to vote) were beneficially owned by directors and executive officers of Spinal Dynamics and certain stockholders (not including options held by such persons), all of whom have executed agreements to vote the Spinal Dynamics common and/or preferred stock owned by them in favor of the merger. Each share of Spinal Dynamics common or preferred stock entitles the holder to one vote.

Revoking Proxies (Page 10)

You can revoke a proxy previously given by you by giving written notice to Rick Wypych, Director of Finance and Administration at Spinal Dynamics, at the address on the proxy card, by filing another proxy, or by attending the Special Meeting and voting in person.

Summary of the Merger

The merger agreement (Annex A) is attached at the back of this Proxy Statement/ Prospectus. We encourage you to read the merger agreement, as it is the legal document that governs the merger.

The merger will be structured as either a stock merger or a cash merger, with each resulting in different consideration payable to Spinal Dynamics stockholders. The merger will be a stock merger unless the board of directors of Spinal Dynamics elects to have the consideration received in the merger consist solely of cash (based on the price of Medtronic common stock shortly before the merger) and Medtronic does not override this election, as described in this Proxy Statement/ Prospectus. If the merger is structured as a stock merger, Spinal Dynamics will merge with and into MSD, an existing subsidiary of Medtronic, with MSD continuing to be a wholly owned subsidiary of Medtronic, and the Spinal Dynamics stockholders will receive shares of Medtronic common stock or, at the election of each such stockholder but subject to certain limits, a combination of cash and Medtronic common stock in exchange for each share of their Spinal Dynamics common stock, which in either case will be valued at approximately \$15.64. If the merger is structured as a cash merger, a newly formed subsidiary of Medtronic, MSD Merger Corp., will merge with and into Spinal Dynamics, with Spinal Dynamics becoming a wholly owned subsidiary of Medtronic, and the Spinal Dynamics stockholders will receive solely cash in the amount of approximately \$15.64 for each share of their Spinal Dynamics common stock.

Effective Time of the Merger (Page 12)

Medtronic and Spinal Dynamics hope to complete the merger by October 11, 2002, if regulatory approvals and other required matters are completed by that time.

What You Will Receive in the Merger (Page 11)

Merger Consideration. The merger consideration will consist of shares of Medtronic common stock or cash and will be valued at approximately \$269.5 million, comprised of approximately \$250 million of closing consideration and approximately \$19.5 million of escrow consideration. The closing consideration will be available to Spinal Dynamics stockholders shortly after the effective time of the merger, and the escrow consideration will be deposited into escrow and become available to Spinal Dynamics stockholders, less any valid claims that Medtronic may have for indemnification under the merger agreement, one year after the effective time of the merger. Based on the fully-diluted number of shares of Spinal Dynamics common stock currently outstanding, the value of the closing consideration per share of Spinal Dynamics common stock would be approximately \$14.51 and the value

of the escrow consideration per share of Spinal Dynamics common stock would be approximately \$1.13. The closing consideration and escrow consideration per share of Spinal Dynamics common stock together equal approximately \$15.64 and constitute the total merger consideration per share of Spinal Dynamics common stock.

Stock Merger. If the merger is structured as a stock merger, Spinal Dynamics will merge with and into MSD, an existing subsidiary of Medtronic, with MSD continuing to be a wholly owned subsidiary of Medtronic. Each Spinal Dynamics stockholder will receive closing consideration consisting of shares of Medtronic common stock or, at such stockholder's election, cash. In order to have the stock merger qualify as a reorganization for federal income tax purposes, only a limited amount of the total consideration in the merger may consist of cash. To the extent that Spinal Dynamics stockholders elect to receive, in the aggregate, an amount of cash exceeding this limit, each stockholder who elected to receive cash will, on a pro rata basis, instead receive less cash and correspondingly more Medtronic common stock. Spinal Dynamics stockholders will also receive, subject to potential claims of Medtronic for indemnification under the merger agreement, escrow consideration, consisting of shares of Medtronic common stock, regardless of whether such stockholder elected to receive cash as closing consideration.

When the closing consideration or escrow consideration is to be paid in shares of Medtronic common stock in a stock merger, the Medtronic common stock will be valued at the average of the stock's closing sale price for the 14 consecutive trading days ending on and including the trading day that is four trading days prior to the effective time, with a minimum value of \$42.00 and a maximum value of \$47.77. Accordingly, if the value of Medtronic common stock as determined in accordance with the formula is less than \$42.00 per share, the value of \$42.00 will nevertheless be used for purposes of the merger agreement. Likewise, if the value in accordance with the formula is greater than \$47.77, the value of \$47.77 will be used.

Each share of Medtronic common stock that Spinal Dynamics stockholders receive in the merger, if structured as a stock merger, will also represent one preferred stock purchase right under Medtronic's Shareholder Rights Plan.

Medtronic will not issue any fractional shares. Instead, in the case of a stock merger, the number of shares of Medtronic common stock that a Spinal Dynamics stockholder will be entitled to receive as closing consideration at the effective time or as escrow consideration (less any claims made under the escrow agreement) at the termination of the escrow will each be aggregated separately, and in lieu of any resulting fractional share the stockholder will receive an amount of cash (without interest) based on the average market price of Medtronic common stock as of the date of the merger.

Please do not send in your stock certificates until you receive written instructions to do so, after the merger.

Cash Merger. If the merger is structured as a cash merger, a newly formed subsidiary of Medtronic, MSD Merger Corp., will merge with and into Spinal Dynamics, with Spinal Dynamics becoming a wholly owned subsidiary of Medtronic. Spinal Dynamics stockholders will receive cash in the amount of approximately \$14.51 as closing consideration and cash in the amount of approximately \$1.13 as escrow consideration, subject to potential claims of Medtronic for indemnification under the merger agreement, in exchange for each share of Spinal Dynamics common stock owned.

Cash Election Form (Page 18)

If the merger is structured as a stock merger, Spinal Dynamics stockholders who wish to receive all or a portion of the closing consideration in cash should complete and return the Cash Election Form attached as Annex C. The aggregate amount of cash that will be paid in the case of a stock merger is limited for tax reasons. Therefore, if the cash elections made by all Spinal Dynamics stockholders exceeds that limit, the cash election for each stockholder will be reduced on a pro rata basis and each such stockholder will receive correspondingly less cash and more Medtronic common stock. The deadline to return your Cash Election Form is one day prior to the closing date of the merger, which is currently scheduled for October 11, 2002.

What Happens to Stock Options And Warrants (Page 21)

Following the merger, each outstanding option to buy Spinal Dynamics common stock issued under Spinal Dynamics' stock option plan will become an option to buy Medtronic common stock. Options

will continue to be governed by the terms of the Spinal Dynamics stock incentive compensation plan. However, the number of shares of Medtronic common stock that optionholders can purchase by exercising the options, and the exercise price, will be adjusted to reflect the conversion ratio in the merger.

Following the merger, each warrant to purchase shares of Spinal Dynamics preferred stock that is not exercised pursuant to its terms before the effective time of the merger will be terminated in accordance with its terms without payment of any consideration therefor and without any conversion thereof.

Ownership of Medtronic Stock Following the Merger (Page 17)

Following the merger, if structured as a stock merger, and assuming existing Spinal Dynamics stockholders do not elect to receive any cash in the merger, existing Spinal Dynamics stockholders will own less than 0.5% of the outstanding common stock of Medtronic (based upon the number of shares of Medtronic and Spinal Dynamics stock outstanding on _____, 2002).

Federal Income Tax Consequences (Page 27)

Stock Merger. The merger, if structured as a stock merger, is intended to qualify as a reorganization for U.S. federal income tax purposes. Spinal Dynamics expects that neither it nor its stockholders will recognize gain or loss for U.S. federal income tax purposes upon the exchange of Spinal Dynamics stock for Medtronic stock in the merger, except gain, if any, will be recognized to the extent that Spinal Dynamics stockholders elect to receive cash in the merger. Stockholders of Spinal Dynamics may recognize gain or loss (a) upon their receipt of cash instead of fractional Medtronic shares or (b) upon the exercise of their appraisal rights. Spinal Dynamics has received a legal opinion from its counsel that the merger, if structured as a stock merger, will constitute a reorganization for U.S. federal income tax purposes.

Cash Merger. If the merger is structured as a cash merger, the merger will not qualify as a reorganization for U.S. federal income tax purposes and you may recognize gain or loss upon the exchange of Spinal Dynamics stock for the cash consideration in the merger.

Tax matters are complicated, and the tax consequences of the merger to you will depend on the facts of your own situation. We urge you to contact your own tax advisor to understand fully how the merger will affect you, including how any U.S. federal, state and local, or foreign income and other tax laws may apply to you.

Spinal Dynamics Reasons for the Merger (Page 15)

The Spinal Dynamics board believes that the merger will provide stockholders with greater liquidity for their interest in Spinal Dynamics, either directly through cash or through Medtronic common stock. It also believes that the merger will provide resources and create synergies and efficiencies that will accelerate Spinal Dynamics product development and technological innovation and enable an earlier and stronger entry into the United States market.

Interests of Spinal Dynamics Officers and Directors in the Merger (Page 23)

When considering the recommendation by the Spinal Dynamics board to vote *for* the merger, you should be aware that certain directors and executive officers of Spinal Dynamics have interests in the merger that are different from, and may conflict with, your interests. Directors and officers of Spinal Dynamics will receive certain benefits upon completion of the merger, including partially accelerated vesting of stock options. Spinal Dynamics president is not expected to remain with the surviving corporation and, as a result, may receive a severance benefit of \$270,113, which constitutes one year's salary. If we complete the merger, Medtronic will continue certain indemnification arrangements for directors and officers of Spinal Dynamics. The Spinal Dynamics board was aware of these interests and considered them in approving the merger.

Regulatory Approvals (Page 31)

Medtronic and Spinal Dynamics must both make filings with certain United States antitrust authorities before they can complete the merger. The merger cannot be completed until a specified waiting period (typically 30 or more days) has passed after the date of each filing. The waiting period may be extended by requests for additional information. On _____, 2002,

Medtronic and Spinal Dynamics each filed the required notification and report forms with the United States antitrust agencies.

We cannot predict whether we will obtain all required regulatory approvals for the merger, or whether any approvals will include conditions that may be detrimental to Medtronic or Spinal Dynamics.

Conditions to the Merger (Page 25)

The merger will be completed only if certain conditions, including the following, are met or waived:

the Spinal Dynamics stockholders approve and adopt the merger;

the waiting periods under the United States anti-trust laws expire or terminate;

the shares of Medtronic common stock which Spinal Dynamics stockholders will receive in the case of a stock merger have been duly authorized for listing on the New York Stock Exchange, subject to official notice of issuance;

no court orders prevent the merger or impose material limitations on the ownership or operation of Spinal Dynamics after the merger;

Spinal Dynamics receives an opinion from its tax counsel that the merger, if structured as a stock merger, will qualify as a reorganization;

the representations and warranties made by Medtronic and Spinal Dynamics continue to be accurate except for inaccuracies that would not have a material adverse effect;

certain employee stockholders enter into noncompetition agreements; and

not more than a certain number of key employees of Spinal Dynamics indicate they will not continue as employees after the merger.

Termination of the Merger Agreement (Page 26)

Even if the Spinal Dynamics stockholders approve the merger and adopt the merger agreement, Medtronic and Spinal Dynamics can agree at any time to terminate the merger agreement without completing the merger. The merger agreement can also be terminated if any of the following occurs:

the merger is not completed by October 31, 2002 (or, if there is additional regulatory review, January 31, 2003); or

a court or other governmental authority prohibits the merger.

Medtronic and Spinal Dynamics can each unilaterally terminate the merger agreement if the other has materially breached any representation, warranty or obligation under the merger agreement such that specified conditions to closing will not be satisfied.

Earnest Deposit (Page 24)

Medtronic and Spinal Dynamics have also entered into an escrow agreement under which Medtronic has deposited a \$12.5 million earnest payment with an escrow agent in connection with the merger. If the merger agreement is terminated (other than by Medtronic as a result of a breach of the merger agreement by Spinal Dynamics) or on October 11, 2002 if the merger has not become effective and Spinal Dynamics has not breached the merger agreement, the \$12.5 million earnest deposit will be released to Spinal Dynamics in exchange for issuing 799,232 shares of Spinal Dynamics Series D convertible preferred stock to Medtronic. At the Special Meeting, Spinal Dynamics stockholders will be asked to approve an increase in the number of authorized shares of Series D convertible preferred stock to enable Spinal Dynamics, if required under the merger agreement, to issue these shares to Medtronic.

Spinal Dynamics Cannot Solicit Other Offers (Page 22)

Spinal Dynamics has agreed not to encourage, solicit, discuss or negotiate with anyone (other than Medtronic) regarding a merger, sale or license of a specified portion of Spinal Dynamics' assets or stock.

Dissenters Rights (Page 31)

As a Spinal Dynamics stockholder, you need not vote for the merger. You have the right to dissent from the merger and request an appraisal of the fair value of your Spinal Dynamics capital stock pursuant to Delaware law.

The provisions of Delaware law relating to the exercise of appraisal rights are complicated. You may lose your appraisal rights if you fail to strictly adhere to such provisions. Therefore, if you exercise your appraisal rights to seek an appraisal of the fair value of your shares, you may wish to consult with a qualified attorney.

Comparative Prices of Medtronic and Spinal Dynamics Stock (Page 32)

Medtronic common stock is listed on the New York Stock Exchange. On June 27, 2002, the last trading day before the public announcement of the proposed merger, Medtronic common stock closed at \$43.30. On _____, 2002, Medtronic common stock closed at \$ _____.

Spinal Dynamics stock is not publicly traded. The most recent private sale of stock by Spinal Dynamics was made on February 16, 2001 when Spinal Dynamics sold shares of its Series D convertible preferred stock at \$6.00 per share.

Listing of Medtronic Common Stock

If the merger is structured as a stock merger, Medtronic will list the shares of its common stock to be issued in the merger on the New York Stock Exchange.

Differences in Rights of Medtronic s and Spinal Dynamics Stockholders (Page 33)

The rights of Spinal Dynamics stockholders are governed by Delaware law and the Certificate of Incorporation and Bylaws of Spinal Dynamics. If the merger is completed as a stock merger, Spinal Dynamics stockholders will become shareholders of Medtronic, and their rights will be governed by Minnesota law and the Articles of Incorporation and Bylaws of Medtronic. The rights of Spinal Dynamics stockholders and Medtronic shareholders differ in certain material respects.

Another significant difference between Medtronic common stock and Spinal Dynamics common stock is that Medtronic has historically paid regular quarterly cash dividends on Medtronic common stock, and Spinal Dynamics has never paid any cash dividends.

Forward-Looking Statements (Page 44)

This document (and documents to which we refer you in this document) includes various forward-looking statements about Medtronic, Spinal Dynamics and the combined company that are subject to risks and uncertainties. Forward-looking statements include information concerning future results of operations of Medtronic, Spinal Dynamics and the combined company. Also, statements that use the words anticipates, believes, estimates, expects, intends, may, could, possible, plans, projects, should, will, forecasts or similar forward-looking statements. Many factors, some of which are discussed elsewhere in this document and in documents to which we have referred you, could affect the future financial results of Medtronic, Spinal Dynamics and the combined company. These factors could cause actual results to differ materially from those expressed in forward-looking statements contained in this document or related documents. These factors include adverse changes in economic conditions and in the markets served by Medtronic and Spinal Dynamics and a significant delay in the completion of the merger.

SPECIAL MEETING

Medtronic and Spinal Dynamics are sending this Proxy Statement/ Prospectus to the stockholders of Spinal Dynamics in connection with the solicitation by the board of directors of Spinal Dynamics of proxies to be voted at the Special Meeting. This Proxy Statement/ Prospectus is first being mailed to stockholders of Spinal Dynamics on or about _____, 2002.

Date, Place, and Time

The Special Meeting will be held at 10:00 a.m., local time, on _____, 2002, at the offices of Perkins Coie LLP, located at 1201 Third Avenue, Suite 4800, Seattle, WA 98101.

Purpose

At the Special Meeting, Spinal Dynamics stockholders will be asked to vote on a proposal to approve and adopt the Agreement and Plan of Merger dated as of June 27, 2002 (for convenience, referred to as the merger agreement) attached to this Proxy Statement/ Prospectus as Annex A. That document provides for, at the election of the board of directors of Spinal Dynamics and depending on the price of Medtronic common stock, either:

a stock merger in which Spinal Dynamics will merge with and into Medtronic Sofamor Danek, Inc. (MSD), an existing wholly-owned subsidiary of Medtronic, as a result of which MSD will continue to be a wholly owned subsidiary of Medtronic, and the Spinal Dynamics stockholders will receive shares of Medtronic common stock or, at the election of each such stockholder but subject to certain limits, a combination of cash and Medtronic common stock in exchange for each share of their Spinal Dynamics common stock, which in either case will be valued at approximately \$15.64; or

a cash merger in which MSD Merger Corp., a newly formed Delaware corporation and wholly owned subsidiary of Medtronic (Merger Subsidiary), will merge with and into Spinal Dynamics, as a result of which Spinal Dynamics will become a wholly owned subsidiary of Medtronic, and the Spinal Dynamics stockholders will receive cash in the amount of approximately \$15.64 for each share of their Spinal Dynamics common stock.

Other terms and provisions related to the merger are contained in the merger agreement.

Spinal Dynamics stockholders will also be asked to vote upon a proposal to increase the number of authorized shares of Spinal Dynamics Series D convertible preferred stock from 4,126,113 shares to 4,878,611 shares. This increase is necessary to enable Spinal Dynamics to issue 799,232 shares of Series D convertible preferred stock to Medtronic, if required under the merger agreement, in connection with a termination of the merger agreement (other than by Medtronic as a result of a breach of the merger agreement by Spinal Dynamics) or a delay in completing the merger past October 11, 2002 if Spinal Dynamics has not breached the merger agreement. Medtronic has deposited into an escrow account a \$12.5 million earnest payment, which would be paid to Spinal Dynamics as consideration for the issuance of these shares of Series D convertible preferred stock to Medtronic.

Spinal Dynamics stockholders may also be asked to vote upon a proposal to adjourn or postpone the Special Meeting, in order to (among other things) allow additional time for the companies to solicit additional votes to approve the merger and adopt the merger agreement. If any matters other than approval of the merger and adoption of the merger agreement and an increase in the authorized number of shares of Series D convertible preferred stock are properly presented for consideration at the Special Meeting, the persons named by stockholders in the enclosed form of proxy will have discretion, as proxies, to vote on those matters.

Under Delaware law, stockholders can consider at the Special Meeting only the matters contained in the notice for the Special Meeting.

Record Date; Voting Rights; Quorum; Required Vote

The close of business on _____, 2002 is the record date for determining the holders of Spinal Dynamics common stock and preferred stock who are entitled to receive notice of and to vote at the Special Meeting or at any adjournment or postponement of the Special Meeting.

Spinal Dynamics has one class of common stock and four series of preferred stock (Series A, B, C and D) outstanding, each of which has a par value \$.001 per share. Each holder of Spinal Dynamics common or preferred stock outstanding on the record date is entitled to one vote for each share held. The holders of a majority of the outstanding shares of Spinal Dynamics capital stock entitled to vote must be present at the Special Meeting, in person or by proxy, to constitute a quorum to transact business.

The approval of holders of a majority of all the outstanding shares of Spinal Dynamics common and preferred stock, voting together as a single class, as well as the holders of a majority of all the outstanding shares of Spinal Dynamics preferred stock, voting as a separate class, is necessary to approve and adopt the merger and the increase in the authorized number of shares of Series D convertible preferred stock. On the record date, 3,793,106 shares of Spinal Dynamics common stock and 12,269,998 shares of Spinal Dynamics preferred stock were outstanding, held by approximately 73 holders of record. Of such shares, 11,931,821 shares (approximately 74.3% of the outstanding shares of Spinal Dynamics common stock and preferred stock and 76.5% of the outstanding Spinal Dynamics preferred stock) were beneficially owned by directors, executive officers and other affiliates of Spinal Dynamics (not including options held by such persons) who have executed agreements to facilitate the merger under which they agreed to vote all shares of Spinal Dynamics common stock and preferred stock beneficially owned by them in favor of the merger. The shares subject to such agreements are sufficient to approve the merger even if no other stockholders voted in favor of the merger.

Abstentions will be treated as shares present in determining whether Spinal Dynamics has a quorum for the Special Meeting, but abstentions will have the same effect as a vote against approval and adoption of the merger and the increase in the authorized number of shares of Series D convertible preferred stock. See The Merger Agreements to Facilitate Merger.

The board of directors of Spinal Dynamics has unanimously approved the merger and the increase in the authorized number of shares of Series D convertible preferred stock. The board of directors of Medtronic has approved the merger and the issuance of shares of Medtronic common stock in the merger if structured as a stock merger. See The Merger Background of the Merger. Minnesota law does not require that Medtronic shareholders approve the merger. Medtronic, as the sole shareholder of MSD and Merger Subsidiary, has approved and adopted the merger.

Recommendation of the Board of Directors of Spinal Dynamics

The board of directors of Spinal Dynamics recommends that the stockholders vote FOR the approval of the merger and adoption of the merger agreement and the increase in the authorized shares of Series D convertible preferred stock. See The Merger Interests of Spinal Dynamics Directors and Officers in the Merger for a discussion of conflicts of interest that certain directors and members of management may have in connection with the merger.

Proxies; Revocation

A proxy card is enclosed for use by Spinal Dynamics stockholders. The board of directors of Spinal Dynamics requests that stockholders **sign and return the proxy card in the accompanying envelope.** No postage is required if mailed within the United States. If you have questions or requests for assistance in completing and submitting Proxy cards, please contact Rick Wypych, Director of Finance and Administration at Spinal Dynamics.

All properly executed proxies that are not revoked will be voted at the Special Meeting as instructed on those proxies. Proxies containing no instructions will be voted in favor of the merger and the increase in the number of authorized shares of Series D convertible preferred stock. A stockholder who executes and returns a

proxy may revoke it at any time before it is voted, but only by executing and returning a proxy bearing a later date, by giving written notice of revocation to an officer of Spinal Dynamics, or by attending the Special Meeting and voting in person.

STOCKHOLDERS SHOULD NOT SEND THEIR STOCK CERTIFICATES OR THEIR CASH ELECTION FORMS WITH THEIR PROXY CARDS.

Solicitation of Proxies

In addition to soliciting proxies by mail, Spinal Dynamics' directors, officers, and employees may, if they do not receive extra compensation for doing so, solicit proxies personally or by telephone or fax. Spinal Dynamics has no current intention to pay any compensation in connection with its solicitation of proxies. Medtronic and Spinal Dynamics have each agreed to pay for half of the expenses relating to the printing of this Proxy Statement/ Prospectus and the filing of it with the Securities and Exchange Commission (the "SEC").

THE MERGER

The following summary of the merger and certain terms of the merger agreement and related matters is not complete and is qualified in its entirety by reference to the merger agreement, which is attached as Annex A and is incorporated in this document by reference.

General

Medtronic, MSD, Merger Subsidiary, and Spinal Dynamics have entered into the merger agreement, which provides for a merger involving Spinal Dynamics and Medtronic. The merger will be structured as either a stock merger or a cash merger, with each resulting in different consideration payable to the Spinal Dynamics stockholders. The merger will be a stock merger unless

the average price of Medtronic's common stock on the fourteen consecutive NYSE trading days ending four NYSE trading days prior to the merger's effective time is less than \$42.00, which, under the merger agreement, is the minimum price at which Medtronic common stock would be valued for purposes of converting Spinal Dynamics shares into Medtronic shares in a stock merger; and

the board of directors of Spinal Dynamics elects that the consideration received in the merger will consist solely of cash; and

Medtronic does not override this election by agreeing to waive the \$42.00 minimum valuation in the merger.

Merger Consideration. The merger consideration will consist of shares of Medtronic common stock or cash and will be valued at approximately \$269.5 million, comprised of approximately \$250 million of closing consideration and approximately \$19.5 million of escrow consideration. The closing consideration will be available to Spinal Dynamics stockholders shortly after the effective time of the merger, and the escrow consideration will be deposited into escrow and become available to Spinal Dynamics stockholders, less any valid claims that Medtronic may have for indemnification under the merger agreement, one year after the effective time of the merger. Based on the fully-diluted number of shares of Spinal common stock currently outstanding, the value of the closing consideration per share of Spinal Dynamics common stock would be approximately \$14.51 and the value of the escrow consideration per share of Spinal Dynamics common stock would be approximately \$1.13. The closing consideration and escrow consideration per share of Spinal Dynamics common stock together equal approximately \$15.64 and constitute the total merger consideration per share of Spinal Dynamics common stock.

Stock Merger. If the merger is structured as a stock merger, Spinal Dynamics will merge with and into MSD, an existing subsidiary of Medtronic, with MSD continuing to be a wholly owned subsidiary of Medtronic. Each Spinal Dynamics stockholder will receive closing consideration consisting of shares of Medtronic common stock or, at such stockholder's election, cash. In order to have the stock merger qualify as

a reorganization for federal income tax purposes, only a limited amount of the total consideration in the merger may consist of cash. To the extent that Spinal Dynamics stockholders elect to receive, in the aggregate, an amount of cash exceeding this limit, each stockholder who elected to receive cash will, on a pro rata basis, instead receive less cash and correspondingly more Medtronic common stock. Spinal Dynamics stockholders will also receive, subject to potential claims of Medtronic for indemnification under the merger agreement, escrow consideration, consisting of shares of Medtronic common stock, regardless of whether such stockholder elected to receive cash as closing consideration.

When the closing consideration or escrow consideration is to be paid in shares of Medtronic common stock in a stock merger, the Medtronic common stock will be valued at the average of the stock's closing sale price for the 14 consecutive trading days ending on and including the trading day that is four trading days prior to the effective time, with a minimum value of \$42.00 and a maximum value of \$47.77. Accordingly, if the value of Medtronic common stock as determined in accordance with the formula is less than \$42.00 per share, the value of \$42.00 will nevertheless be used for purposes of the merger agreement. Likewise, if the value in accordance with the formula is greater than \$47.77, the value of \$47.77 will be used.

Each share of Medtronic common stock that you receive in the merger, if structured as a stock merger, will also represent one preferred stock purchase right under Medtronic's Shareholder Rights Plan.

Medtronic will not issue any fractional shares. Instead, in the case of a stock merger, the number of shares of Medtronic common stock that a Spinal Dynamics stockholder will be entitled to receive as closing consideration at the effective time or as escrow consideration (less any claims made under the escrow agreement) at the termination of the escrow will each be aggregated separately, and in lieu of any resulting fractional share the stockholder will receive an amount of cash (without interest) based on the average market price of Medtronic common stock as of the date of the merger.

Please do not send in your stock certificates until you receive written instructions to do so, after the merger.

Cash Merger. If the merger is structured as a cash merger, a newly formed subsidiary of Medtronic, MSD Merger Corp., will merge with and into Spinal Dynamics, with Spinal Dynamics becoming a wholly owned subsidiary of Medtronic. Spinal Dynamics stockholders will receive cash in the amount of approximately \$14.51 as closing consideration and cash in the amount of approximately \$1.13 as escrow consideration, subject to potential claims of Medtronic for indemnification under the merger agreement, in exchange for each share of Spinal Dynamics common stock owned.

For a more detailed description of how the Spinal Dynamics common stock converts into Medtronic common stock or cash in the merger, see [Conversion of Spinal Dynamics Capital Stock in the Merger](#).

Effective Time of the Merger

On October 11, 2002 or soon thereafter, if the conditions to consummation of the merger described below have been satisfied or waived, and unless the merger agreement has been terminated as provided below, documents will be filed with the Secretary of State of the State of Delaware and, in the case of a stock merger, the Secretary of State of the State of Indiana, at which time the merger will become effective (the effective time).

Background of the Merger

The terms of the merger agreement are the result of arm's-length negotiations between representatives of Medtronic and Spinal Dynamics. The following is a brief discussion of the background of these negotiations, the merger and related transactions.

In October 1999, David Miller, then President of MSD's Cervical/ Trauma division, met with Dr. Vincent Bryan, the founder of Spinal Dynamics, during the annual National Ankylosing Spondylitis Society meeting in Chicago and indicated that MSD was interested in exploring a possible business relationship with Spinal Dynamics. In December 1999, Mr. Miller and Brad Coates, then Director of

Research and Development of the division, met with Dr. Bryan and Charles R. Clark, the chief executive officer of Spinal Dynamics, in Seattle. They reviewed the general business, technology and products of Spinal Dynamics and Medtronic's interest in participating in a Spinal Dynamics preferred stock financing that was planned for the first half of 2000.

Following the execution of a confidentiality agreement and several meetings in early 2000 for the purpose of further reviewing the business of Spinal Dynamics, Mr. Miller telephoned Mr. Clark on June 1, 2000 to express Medtronic's interest in making an investment in the company. On June 29, 2000, Shawn McCormick, Director of Business Development at Medtronic, telephoned Mr. Clark to confirm this interest if Medtronic could also obtain distribution rights to Spinal Dynamics' cervical disc prosthesis.

Over the next several months, Mr. Clark continued discussions with Mr. McCormick while simultaneously pursuing discussions with several other prospective investors. On October 3, 2000, Mr. Clark and Dr. Bryan met in Minneapolis with Mr. McCormick and Mr. Coates, who had become President of the MSD Cervical/ Trauma division, to discuss terms for a potential Medtronic investment in Spinal Dynamics. The parties tentatively reached agreement on the basic terms of Medtronic's investment in shares of a new Series D Convertible Preferred Stock, based on a price of \$6.00 per share and other rights and preferences substantially similar to those reflected in Spinal Dynamics' existing preferred stock, and a related distribution agreement for the exclusive distribution of Spinal Dynamics' prosthetic disc in territories outside of the United States. The financing would include other investors and Medtronic's investment was expected to be between \$10 million and \$15 million.

During the next several weeks, the parties exchanged term sheets regarding the investment and draft letters of intent regarding the distribution agreement to negotiate the terms of each part of the transaction. Medtronic also conducted its due diligence investigation and, in mid-October 2000, advised Spinal Dynamics that it would need additional time to complete its review of the relevant intellectual property. Also in mid-October, Spinal Dynamics advised Medtronic that it was contemplating a bridge financing, consisting of convertible debt and warrants, with its existing venture capital investors to provide additional time to complete the proposed Series D preferred stock financing and invited Medtronic to participate. Medtronic responded positively.

On October 20, 2000, the Spinal Dynamics board of directors approved the terms of the bridge financing, including promissory notes payable April 2001 bearing interest at 8% per annum, secured by tangible assets and convertible into securities issued in the next financing completed by Spinal Dynamics. The notes were to be accompanied by five-year warrants to purchase such securities in accordance with a formula. The bridge financing for a total of \$3 million was completed on October 23, 2000, with Medtronic purchasing \$500,000 principal amount of notes. By virtue of the closing of the preferred stock financing in February 2001, the warrants became warrants to purchase 25,000 shares of Series D preferred stock.

Following completion of the bridge financing, Medtronic proceeded with its additional due diligence and the parties continued negotiation of the terms of the distribution agreement.

On January 31, 2001, the Spinal Dynamics board of directors approved the Series D preferred stock financing with Medtronic as the lead investor and further approved the form, terms and provisions of the distribution agreement among Spinal Dynamics, Medtronic, Inc. and MSD that had resulted from the negotiations. On February 16, 2001, the Series D preferred stock financing closed on total proceeds of \$23.6 million, with Medtronic purchasing \$14.0 million of stock, and the distribution agreement was executed. Under the distribution agreement, Spinal Dynamics appointed MSD as its exclusive distributor of its Bryan Cervical Disc system and related products outside the United States for a term of three years. The agreement also established purchase prices for the product and annual minimum purchase orders and provided for termination of the agreement in the event of a change in control of Spinal Dynamics upon payment of a fee established in accordance with a formula based on past revenue.

On October 11, 2001, at a regularly scheduled board meeting, the Spinal Dynamics Board of Directors discussed future financing and strategic alternatives available to the company. As a part of these discussions, consideration was given to exploring the interest of MSD in a possible business combination. On October 16,

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2001 Mr. Clark raised the subject by telephone with Mr. Coates, who advised him that MSD believed that there would be benefits to such a business combination. Mr. Coates suggested that Mr. Clark and Dr. Bryan travel to MSD's Memphis headquarters to pursue further discussions.

On October 25 and 26, 2001, Mr. Clark and Dr. Bryan met in Memphis with MSD executives, including Michael DeMane, President of MSD, Mr. Coates, and executives representing other MSD divisions and functional departments. During these meetings, Mr. Clark and Dr. Bryan provided the MSD executives with a summary of Spinal Dynamics's current financial status, business plans, and technology under the provisions of the existing non-disclosure agreement in place between the two companies.

Following this meeting, Mr. Coates telephoned Mr. Clark to advise him that MSD was interested in pursuing further discussions regarding a potential business combination and requested a meeting to include Mr. McCormick, Medtronic's Director of Corporate Development. On November 19, 2001, Mr. Coates and Mr. McCormick met with Mr. Clark and Dr. Bryan in Seattle to discuss the terms of a potential merger of Spinal Dynamics with MSD. During this meeting, the parties agreed to the general terms of a merger of Spinal Dynamics with MSD in which the consideration to be received by the Spinal Dynamics stockholders would be shares of Medtronic common stock.

Following this meeting, Mr. Clark and Mr. McCormick had multiple telephone conversations in which they discussed the terms of the proposed merger in greater detail. On November 29, 2001, Mr. McCormick provided Mr. Clark with a letter of intent including resolution of many of the terms of a proposed transaction that they had discussed. Mr. Clark and Mr. McCormick continued telephone negotiations over the next two weeks to resolve the remaining outstanding issues relating to the terms of indemnification and escrow. During the week of December 3, 2001, Medtronic personnel visited Seattle for extensive due diligence activities, including review of documents and interviews with Spinal Dynamics personnel. On December 4, 2001, Mr. McCormick and Mr. DeMane presented the proposed merger with Spinal Dynamics to the Medtronic Board for informational purposes only. On December 12, 2001, Mr. Clark presented the terms contained in the letter of intent to the Spinal Dynamics Board at a regularly scheduled board meeting. After discussion, the Spinal Dynamics Board approved the letter of intent and authorized the officers of the company to move forward with the transaction.

On January 2, 2002, Medtronic's counsel provided Spinal Dynamics with an initial draft of an Agreement and Plan of Merger. Medtronic continued to proceed in further due diligence and the parties engaged in discussions and negotiations regarding the specific terms of the merger agreement.

On January 24, 2002, Mr. McCormick and Mr. DeMane gave the Medtronic Board of Directors an updated presentation regarding the proposed Spinal Dynamics merger at that day's previously scheduled board meeting. After discussing with the Board the dilutive effects of the proposed transaction, executive officers of Medtronic determined not to seek Board approval for the proposed transaction. Mr. McCormick telephoned Mr. Clark the following day to advise him of this result, indicating that Medtronic would be willing to consider alternative transactions.

On January 29, 2002, Mr. Clark and Dr. Bryan met with Mr. McCormick and Mr. Coates in Denver to discuss potential alternative business transactions. Mr. McCormick suggested a convertible debt financing transaction which Mr. Clark found unacceptable. Mr. McCormick indicated that Medtronic was still interested and would work on developing alternative proposals that Medtronic senior management would be willing to sponsor before the Medtronic Board of Directors.

On February 7, 2002, Mr. Coates advised Dr. Bryan by telephone that Medtronic was considering a plan that would involve a third party acquisition of Spinal Dynamics under terms essentially equivalent to those earlier agreed upon with Medtronic. Medtronic would have future rights to acquire Spinal Dynamics from the third party. Medtronic evaluated various alternatives along these lines during the next several months.

On April 12, 2002, Mr. McCormick telephoned Mr. Clark to advise him that Medtronic wished to resume direct discussions with Spinal Dynamics concerning a business combination. Mr. Clark, Dr. Bryan, Mr. McCormick and Mr. Coates initiated merger discussions a second time at a meeting in Memphis on April 23, 2002. They agreed to a price of \$269.5 million and to revisions of the indemnification and escrow

provisions included in the earlier transaction documents. Also Medtronic agreed to prepare a draft merger agreement.

On April 30, 2002, Medtronic delivered a revised merger agreement to Mr. Clark. Multiple telephone exchanges ensued over the next four weeks, primarily between Mr. Clark and Mr. McCormick and the parties' respective counsel, resulting in a revised merger agreement that Mr. Clark presented to the Spinal Dynamics Board of Directors during a regularly scheduled board meeting on May 31, 2002. After further discussion, the board authorized the officers to complete negotiations for presentation of final documents to the board. Additional refinements were made to the merger agreement and associated documents during June and were approved by the board of Spinal Dynamics on June 26, 2002 and by the board of Medtronic on June 27, 2002.

On June 27, 2002, the parties executed the merger agreement and the related agreements, and, on June 28, 2002, Medtronic and Spinal Dynamics issued a joint press release announcing the signing of the merger agreement.

Spinal Dynamics Reasons for the Merger; Recommendation of the Spinal Dynamics Board of Directors

The board of directors of Spinal Dynamics has determined that the terms of the merger and the merger agreement are fair to, and in the best interests of, Spinal Dynamics and its stockholders. Accordingly, Spinal Dynamics' board of directors has unanimously approved the merger and the merger agreement and recommends that you vote FOR approval and adoption of the merger. In reaching its decision, Spinal Dynamics' board of directors identified several potential benefits of the merger, including the following:

the ability to provide Spinal Dynamics stockholders with cash or with equity that enjoys greater liquidity than is currently available for Spinal Dynamics stock;

the ability to leverage Medtronic's expertise and resources to conduct the clinical trials required for U.S. regulatory approvals, to implement a United States sales organization, and to scale up manufacturing for the successful commercialization of Spinal Dynamics' products in the United States;

the ability of Spinal Dynamics to access Medtronic's significantly larger US sales channel and customer base; and

the ability to direct more resources towards research and development and additional clinical studies for future applications.

Spinal Dynamics' board of directors consulted with Spinal Dynamics' senior management and its legal advisors in reaching the decision to approve the merger. Spinal Dynamics' board of directors did not engage a financial advisor in connection with the merger and did not receive a fairness opinion regarding the consideration to be received by Spinal Dynamics stockholders in the merger. Among the factors considered by Spinal Dynamics' board of directors in its deliberations were the following:

the financial condition, results of operations, cash flow, business and prospects of Spinal Dynamics, before and after giving effect to the merger;

Spinal Dynamics' need for the type of worldwide distribution network that Medtronic will provide;

the consideration Medtronic will issue in the merger in light of current financial market conditions and comparable merger transactions; and

the fairness to Spinal Dynamics and its stockholders of the terms of the merger agreement and related agreements.

Spinal Dynamics board of directors also identified and considered a number of uncertainties and risks in its deliberations concerning the merger, including the following:

the risk that the potential benefits sought in the merger may not be fully realized, if at all;

the risk of management and employee disruption as a result of the merger, including the risk that key personnel may choose not to remain employed with the combined company;

the risk of the need for significant additional funding in order to commercialize the Spinal Dynamics product in the United States if the merger were not to take place; and

other applicable risks associated with the businesses of Medtronic described in this proxy statement/ prospectus.

The above discussion of the information and factors considered by the Spinal Dynamics board is not all-inclusive but is believed to include all material factors considered by the Spinal Dynamics board. In view of the variety of factors considered by the Spinal Dynamics board, the Spinal Dynamics board did not find it practicable to quantify or otherwise attempt to assign relative weights to the specific factors considered in making its determination. In addition, individual members of the Spinal Dynamics board may have given different weights to different factors. Consequently, the Spinal Dynamics board did not quantify the assumptions and results of its analysis in reaching its determination that the merger is fair to, and in the best interests of, Spinal Dynamics and its stockholders.

The Spinal Dynamics board of directors believes that the merger is advisable and in the best interests of Spinal Dynamics and its stockholders. The Spinal Dynamics board, therefore, unanimously recommends that its stockholders vote FOR approval of the merger and adoption of the merger agreement.

See Background of the Merger, Certain Federal Income Tax Considerations, and Comparative Stock Prices and Dividends.

Medtronic's Reasons for the Merger

Medtronic believes that the acquisition of Spinal Dynamics will complement Medtronic's current spinal products. Medtronic also believes that the two companies' businesses are very complementary and offer significant customer synergies without significant overlap or duplication in product lines.

Conversion of Spinal Dynamics Common Stock in the Merger

At the effective time, all issued and outstanding Spinal Dynamics common stock will be converted into Medtronic common stock or cash with a total value of \$269.5 million, minus the amount by which expenses of the merger incurred by Spinal Dynamics exceed \$300,000 (this amount will be referred to as the merger consideration). Under the merger agreement, the merger consideration is divided into the closing consideration, valued at approximately \$250 million, and the escrow consideration, valued at approximately \$19.5 million.

The amount of consideration that the Spinal Dynamics stockholders will receive in the merger in exchange for each share of Spinal Dynamics common stock owned is determined under the merger agreement by dividing the closing consideration and escrow consideration by the number of outstanding shares of Spinal Dynamics common stock (assuming the conversion of all outstanding shares of preferred stock and the exercise of all outstanding stock options and warrants), which was 17,226,221 shares as of the record date for the Special Meeting. Based on this number, the closing consideration per share of Spinal Dynamics common stock would be \$14.51276, which will be available to Spinal Dynamics stockholders shortly after the effective time, and the escrow consideration per share of Spinal Dynamics common stock would be \$1.131995, which will be deposited into escrow and become available to Spinal Dynamics stockholders one year after the effective time, less any valid claims that Medtronic may have for indemnification under the merger agreement. The closing consideration and escrow consideration per share of Spinal Dynamics common stock together equal \$15.644755 and constitute the total merger consideration per share of Spinal Dynamics common stock.

These amounts will be paid under the merger agreement in either Medtronic common stock or cash, depending on whether the merger is structured as a cash merger or a stock merger and, if structured as a stock merger, whether the Spinal Dynamics stockholder elects cash consideration for a portion of its Spinal Dynamics common stock. If the merger is structured as a stock merger, the escrow consideration allocated to all Spinal Dynamics stockholders will consist solely of Medtronic common stock and the closing consideration to be received by each Spinal Dynamics stockholder will consist of Medtronic common stock or, at the election of such stockholder and subject to certain limitations relating to tax considerations, cash for all or a portion of such closing consideration. If the merger is structured as a cash merger, all closing consideration and escrow consideration will consist of cash and no Medtronic common stock will be available to Spinal Dynamics stockholders.

Under the merger agreement, when the closing consideration or escrow consideration is to be paid in shares of Medtronic common stock, the Medtronic common stock will be valued at the average (rounded to the nearest full cent, with the cents rounded up if the third decimal place is 5 or more) of the stock's closing sale prices (rounded to the nearest full cent) as reported on the New York Stock Exchange (NYSE) for the fourteen (14) consecutive NYSE trading days ending on and including the NYSE trading day that is four NYSE trading days prior to the effective time, appropriately adjusted for any stock splits or stock dividends during such period. For purposes of the merger agreement, however, the value of Medtronic common stock may not be less than \$42.00 or greater than \$47.77. Accordingly, if the value of Medtronic common stock as determined in accordance with the formula is less than \$42.00 per share, the value of \$42.00 will nevertheless be used for purposes of the merger agreement. Likewise, if the value in accordance with the formula is greater than \$47.77, the value of \$47.77 will be used.

Spinal Dynamics stockholders should understand these limits could affect the value of the stock consideration that they receive in the merger. If the value of Medtronic common stock as determined in accordance with the average price formula is less than \$42.00 per share, the amount of closing consideration and escrow consideration per share of Spinal Dynamics common stock will be less than the amounts identified above. Likewise, if the value of Medtronic common stock as so determined is greater than \$47.77, the amount of closing consideration and escrow consideration will be correspondingly greater.

Based on the foregoing figures and using \$42.00 as the assumed average stock price of Medtronic common stock solely for illustrative purposes of this paragraph, approximately 5,537,411 shares of Medtronic common stock would be issued in exchange for Spinal Dynamics capital stock upon consummation of the merger, if all of the merger consideration consisted of Medtronic common stock. Such shares would represent less than 0.5% of the shares of Medtronic common stock that would be outstanding after consummation of the merger.

As soon as practicable after the effective time in the case of a stock merger, each Spinal Dynamics stockholder will receive a certificate representing the number of shares of Medtronic common stock and, depending on such stockholder's election, an amount of cash to which such stockholder is entitled under the merger agreement for closing consideration. All Spinal Dynamics stockholders, regardless of whether they elected to receive cash for a portion of their Spinal Dynamics stock, will receive shares of Medtronic common stock with respect to the escrow consideration, which will be held in escrow to secure potential claims of Medtronic for indemnification under the merger agreement.

As soon as practicable after the effective time in the case of a cash merger, each Spinal Dynamics stockholder will receive cash for the closing consideration that such stockholder is entitled to receive in the merger; cash equal to the escrow consideration to be received by such stockholder in the merger will be held in escrow to secure potential claims of Medtronic against Spinal Dynamics under the merger agreement.

In order to receive the merger consideration described above, Spinal Dynamics stockholders must first surrender their certificates representing shares of Spinal Dynamics capital stock. Instructions regarding this surrender will be provided to Spinal Dynamics stockholders shortly after the effective time of the merger. See Exchange of Spinal Dynamics Stock Certificates. Spinal Dynamics stockholders should not surrender their stock certificates until they receive these materials.

Spinal Dynamics stockholders should understand that, because the market price of Medtronic common stock fluctuates, the amount of shares of Medtronic common stock issued in exchange for Spinal Dynamics capital stock in a stock merger cannot be determined before the effective time of the merger. The market value of the Medtronic shares that Spinal Dynamics stockholders will receive in a stock merger (whether measured at the effective time of the merger or the date of the Special Meeting or another date) may be less than or greater than the average stock price of Medtronic common stock used for purposes of determining the conversion ratio. In addition, because the value of Medtronic shares fluctuates, the market value of the Medtronic common stock that Spinal Dynamics stockholders will receive in the merger may increase or decrease following the merger. See *Comparative Stock Prices and Dividends* for information regarding the historical market prices of Medtronic common stock.

Fractional Shares

Medtronic will not issue any certificates or scrip representing fractional shares of Medtronic common stock in the merger. In the case of a stock merger, the number of shares of Medtronic common stock that a Spinal Dynamics stockholder will be entitled to receive as closing consideration at the effective time or as escrow consideration (less any claims made under the escrow agreement) at the termination of the escrow will each be aggregated separately, and in lieu of any resulting fractional share the stockholder will receive an amount of cash (without interest) determined by multiplying (1) the average market price of Medtronic common stock used for purposes of determining the conversion ratio by (2) such fractional share.

Cash Election Procedures and Limitations

If the merger is structured as a stock merger, a Spinal Dynamics stockholder may nevertheless elect to receive all or a portion of the closing consideration to which such stockholder is entitled in cash by completing and returning the Cash Election Form attached as Annex C. The deadline for returning the Cash Election Form is the day immediately preceding the closing date of the merger. Any Spinal Dynamics stockholder considering an election to receive cash should maintain contact with Spinal Dynamics regarding timing of the scheduled closing date and any developments relating to the possible election of Spinal Dynamics to have the merger proceed as a cash merger and possible waiver by Medtronic of the \$42.00 minimum valuation of Medtronic common stock to override such election.

Notwithstanding an election to receive cash for all or a portion of the closing consideration in a stock merger, the right of a Spinal Dynamics stockholder to receive cash is limited in that, in order to have the merger qualify as a reorganization for federal income tax purposes, only a limited amount of the total consideration in the merger may consist of consideration other than Medtronic shares. The aggregate amount of cash that all Spinal Dynamics stockholders may receive as closing consideration in a stock merger may not be greater than

the product of (i) the fraction, the numerator of which is .45 of the ratio of the price at which Medtronic common stock would be valued for purposes of converting Spinal Dynamics shares into Medtronic shares in a stock merger if Medtronic waives the \$42.00 minimum share valuation to that price if Medtronic does not waive the \$42.00 minimum share valuation, and the denominator of which is .55 plus .45 of that same ratio (if the value of Medtronic common stock is greater than \$42.00 and less than \$47.77 then this fraction will be .45) multiplied by (ii) \$250 million, minus

the number of shares of Spinal Dynamics common stock (after giving effect to the conversion of all Spinal Dynamics preferred stock and the exercise of all warrants) owned beneficially or of record by Medtronic or any of its affiliates (but excluding any shares of Series D convertible preferred stock issued to Medtronic under the merger agreement) multiplied by the closing consideration to be received for each share of Spinal Dynamics common stock, minus

the number of shares of Spinal Dynamics stock with respect to which stockholders have exercised appraisal rights, multiplied by the closing consideration to be received for each share of Spinal Dynamics common stock.

Based on this formula, if the value of Medtronic common stock exceeds \$42.00 per share for purposes of the merger or if Medtronic waives the \$42.00 minimum value and assuming no stockholders exercise appraisal rights, approximately \$78.2 million of closing consideration will be available for cash elections by Spinal Dynamics stockholders. If the value of Medtronic common stock is less than \$42.00 per share and Medtronic does not waive the \$42.00 minimum value, the cash available for elections will be less in accordance with such formula.

If cash elections are made for an aggregate amount of cash in excess of the amount calculated above, then the shares of Spinal Dynamics common stock for which a stockholder has made a cash election will be converted into a right to receive cash and Medtronic common stock in the following manner:

A cash proration factor will be determined, which will be equal to a fraction, the numerator of which equals the maximum cash conversation number divided by the closing consideration per share of Spinal Dynamics common stock, and the denominator of which equals the total number of shares of Spinal Dynamics common stock with respect to which effective cash elections were made;

The number of shares of Spinal Dynamics common stock covered by each cash election to be converted into the right to receive cash as closing consideration will be determined by multiplying the cash proration factor by the total number of shares of Spinal Dynamics common stock covered by that cash election, rounded to the next lowest whole number; and

Shares of Spinal Dynamics common stock covered by a cash election and not converted into a right to receive cash as closing consideration (as set forth above) will be converted into the right to receive as closing consideration shares of Medtronic common stock, as if a cash election had not been made for such shares.

All shares of Spinal Dynamics common stock for which a cash election is not made will be converted into the right to receive shares of Medtronic common stock as closing consideration in a stock merger.

Escrow Fund

The escrow fund will be used to indemnify Medtronic and its affiliates against losses, claims, expenses, and other damages arising out of, based upon or resulting from (i) any breach of representations of warranties or representations made by Spinal Dynamics or on behalf of Spinal Dynamics stockholders, (ii) any breach of any covenant or obligation of Spinal Dynamics under the merger agreement, (iii) specified claims that the manufacture, marketing, distribution, use or sale of the Bryan Cervical Disc System (whether in clinical trials or if it were sold commercially) infringes, misappropriates or otherwise conflicts with the intellectual property rights of any person (excluding Medtronic and any of its affiliates), (iv) any significant alteration or redesign of the Bryan Cervical Disc System required to maintain the current conditional investigational device exemption, or IDE, issued by the United States Food and Drug Administration, or the FDA, or to obtain an unconditional IDE, for purposes of which any alteration or redesign which delays or is reasonably likely to delay receipt of FDA pre-market approval will be considered significant, or (v) any claim by a third party based on specified product liability claims disclosed to Medtronic in connection with the signing of the merger agreement. The escrow fund will also be used to reimburse Medtronic for any expenses incurred by Spinal Dynamics in connection with the merger in excess of \$300,000, but only to the extent such excess expenses have not been estimated at the time of closing and deducted from the aggregate \$269.5 million value of Medtronic common stock. Medtronic's ability to recover damages from the escrow fund will terminate one year after the effective time of the merger (except with respect to then pending claims). The amount of Medtronic common stock or cash Spinal Dynamics stockholders will receive when the escrow fund terminates will be reduced, on a pro rata basis, by the amount of any claims or other payments paid from the escrow fund or that are pending on the one-year anniversary.

If the merger is structured as a stock merger, the escrow fund will consist of (i) Medtronic common stock having a value equal to the escrow consideration per share of Spinal Dynamics common stock multiplied by the number of shares of Spinal Dynamics common stock outstanding at the effective time, (ii) any dividends paid with regard to such shares, and (iii) any interest earned on cash, if any, held in the escrow fund. If the

merger is structured as a cash merger, the escrow fund will consist of (x) cash equal to the escrow consideration per share of Spinal Dynamics common stock multiplied by the number of shares of Spinal Dynamics common stock outstanding at the effective time, and (y) any interest earned on cash held in the escrow fund. Wells Fargo Bank Minnesota, N.A. is the escrow agent. The escrow fund is governed by the merger agreement and the escrow agreement that is attached to the merger agreement.

Indemnification beyond Escrow Fund

Spinal Dynamics stockholders are obligated to indemnify Medtronic and its affiliates beyond the value of the escrow fund only in cases of fraudulent misrepresentation by Spinal Dynamics. Each Spinal Dynamics stockholder may be held severally, but not jointly, liable for the stockholder's pro rata portion of the claims, liabilities, expenses or damages with respect to any such fraudulent misrepresentation, but only up to the stockholder's pro rata portion of the merger consideration.

Exchange of Spinal Dynamics Stock Certificates

As soon as practicable after the effective time, Wells Fargo Bank Minnesota, N.A., Medtronic's transfer agent, acting as exchange agent, will mail a letter of transmittal to Spinal Dynamics stockholders. The letter of transmittal will include instructions regarding the surrender of certificates representing shares of Spinal Dynamics capital stock in exchange for certificates representing shares of Medtronic common stock and/or cash, as applicable.

Promptly after receipt of these Spinal Dynamics stock certificates and properly executed letters of transmittal, the exchange agent will, in the case of a stock merger, distribute to each of the former Spinal Dynamics stockholders who did not elect to receive cash one or more certificates representing the number of whole shares of Medtronic common stock, plus cash in lieu of any fractional share, that constitutes the closing consideration to which such stockholder is entitled in the merger, together with any dividends to which such stockholder is entitled with respect to such Medtronic common stock. Each Spinal Dynamics stockholder who elects to receive cash for all or a portion of shares of Spinal Dynamics common stock owned by such stockholder will receive, subject to the limitations described above, the amount of cash consideration to which the stockholder is entitled as closing consideration in the merger. All Spinal Dynamics stockholders, regardless of whether they elected to receive cash, will receive shares of Medtronic common stock with respect to the escrow consideration to which such stockholder is entitled in the merger, which will be registered in the name of, and deposited with, Wells Fargo Bank Minnesota, N.A., as escrow agent, to secure potential claims of Medtronic against Spinal Dynamics' stockholders for a period of one year after the effective time of the merger.

Promptly after receipt of these Spinal Dynamics stock certificates and properly executed letters of transmittal, the exchange agent will, in the case of a cash merger, distribute to each Spinal Dynamics stockholder the amount of cash that the stockholder is entitled to receive as closing consideration in the merger. The escrow consideration to which such stockholder is entitled in the merger will be deposited with Wells Fargo Bank Minnesota, N.A., as escrow agent, to secure potential claims of Medtronic against Spinal Dynamics' stockholders for a period of one year after the effective time of the merger.

At the expiration of the escrow, Spinal Dynamics stockholders will receive, in the case of a cash merger, cash or, in the case of a stock merger, a certificate representing the stockholder's pro rata portion of the number of whole shares in the escrow account, as well as the stockholder's pro rata portion of cash in lieu of fractional shares without interest thereon and dividends and interest earned on the escrow account, subject to any reduction as described in the Escrow Fund above.

After the effective time, Spinal Dynamics stock certificates will evidence the right to receive the shares of Medtronic common stock or cash into which they were converted. Holders of Spinal Dynamics capital stock converted into shares of Medtronic common stock will be entitled to any dividends that become payable to persons who are holders of record of Medtronic common stock as of a record date on or after the effective time, but only after they have surrendered their certificates representing shares of Spinal Dynamics common stock for exchange. Each Spinal Dynamics stockholder entitled to such dividends will receive the dividends

relating to the shares of Medtronic common stock the Spinal Dynamics stockholder had received as closing consideration, without interest, at the time that such certificates representing shares of Spinal Dynamics capital stock are surrendered for exchange, subject to any applicable abandoned property escheat, or similar law. The dividends relating to the shares of Medtronic common stock received as escrow consideration will be paid into the escrow account. Holders of Spinal Dynamics capital stock will not be entitled, however, to dividends that become payable before or after the effective time to persons who were holders of record of Medtronic common stock as of a record date prior to the effective time.

Shareholder Rights Plan

Each Spinal Dynamics stockholder entitled to receive shares of Medtronic common stock pursuant to the merger, if structured as a stock merger, will receive, together with each share of Medtronic common stock, one Medtronic Preferred Stock Purchase Right pursuant to the Medtronic Shareholder Rights Plan. Such Right will be represented by the certificate representing such share of Medtronic common stock. See Comparison of Rights of Medtronic and Spinal Dynamics Shareholders Shareholder Rights Plan.

Treatment of Stock Options and Warrants

The officers, directors, and certain employees of and consultants to Spinal Dynamics hold outstanding options to purchase shares of Spinal Dynamics common stock. With respect to grants of options to officers, directors and employees of Spinal Dynamics, 25% of the options under each such grant will become exercisable as of the effective time under the terms of Spinal Dynamics 1998 stock incentive compensation plan. All options granted under the Spinal Dynamics stock incentive compensation plan that are not exercised and remain outstanding at the effective time will be assumed by Medtronic and, following the effective time, will be exercisable upon the same terms and conditions as such options were exercisable prior to the merger, except that the exercise price and the number of shares of Medtronic common stock that can be purchased upon exercise of the options will be revised to reflect conversion of the options on the same basis as shares of Spinal Dynamics common stock are converted into shares of Medtronic common stock in the merger. As promptly as practicable after the effective time, Medtronic will provide to each holder of a Spinal Dynamics stock option a written statement informing such holder of the assumption by Medtronic of such option. Any option assumed by Medtronic will become fully exercisable upon the subsequent termination of the officer, director or employee holding that option, unless that termination is done for cause by Medtronic or without good reason by that officer, director or employee.

Each warrant to purchase shares of preferred stock of Spinal Dynamics that is not exercised prior to, and remains issued and outstanding as of, the effective time of the merger will be canceled. No payment of any consideration will be made with respect to any such warrant.

Representations and Warranties

In the merger agreement, Spinal Dynamics makes certain representations and warranties to Medtronic regarding Spinal Dynamics, including as to: (1) the accuracy of certain descriptions and lists regarding Spinal Dynamics real property, equipment, intellectual property rights, leases and other agreements, permits and licenses, bank accounts, insurance policies, certain of Spinal Dynamics employees, its employee plans, powers of attorneys given, and tax information; (2) its corporate existence; (3) the authorization, execution, and enforceability of the merger agreement and related agreements; (4) Spinal Dynamics capital structure; (5) the accuracy of certain financial statements provided to Medtronic; (6) the absence of certain undisclosed liabilities; (7) the absence of any need for certain third-party consents and other approvals; (8) compliance with laws; (9) the absence of material litigation; (10) the absence of material adverse changes since December 31, 2001; (11) certain tax matters; (12) agreements between Spinal Dynamics and its officers, directors, employees, advisory board members or material consultants, and other material contracts to which Spinal Dynamics is a party; (13) the right to use intellectual property; (14) Spinal Dynamics assets, accounts receivable, and inventories; (15) the status of regulatory approval of Spinal Dynamics product, the Bryan Cervical Disk System; (16) compliance of Spinal Dynamics products and services with warranties given and with governmental and regulatory specifications; (17) the validity of certain insurance policies; (18) the

absence of labor agreements; (19) Spinal Dynamics benefit plans; (20) the absence of contracts with related parties; (21) the absence of recent problems in relations with suppliers; (22) the absence of any product liability claims; (23) compliance with environmental laws and regulations; (24) Spinal Dynamics business and marketing plan; (25) the absence of certain business practices; (26) Spinal Dynamics minute books; (27) the absence of brokerage commissions, finder's fees, or other payments in connection with the merger; (28) the accuracy of information provided in connection with this Proxy Statement/ Prospectus; (29) the inapplicability of certain Delaware antitakeover laws to the merger; (30) the accuracy of certain information for regulatory filings; (31) the holdings of stockholders executing agreements to facilitate the merger; (32) the accuracy and completeness of any representation and warranty made in the merger agreement; and (33) the conversion of all Spinal Dynamics preferred stock prior to the effective time of the merger.

Medtronic, MSD and Merger Subsidiary also make certain representations and warranties to Spinal Dynamics regarding Medtronic, MSD and Merger Subsidiary, including as to: (1) their corporate existence; (2) the authorization, execution, and enforceability of the merger agreement and related agreements; (3) the capital structure of Medtronic, MSD and Merger Subsidiary; (4) the absence of any need for certain third-party consents and other approvals; (5) the accuracy of Medtronic's recent SEC reports and financial statements; (6) the legal compliance and the accuracy of information contained in the registration statement that includes this Proxy Statement/ Prospectus; (7) the absence of brokerage commissions, finder's fees, or other payments in connection with the merger; (8) the absence of actions by Medtronic that would prevent the merger from constituting a tax-free transaction; and (9) the accuracy of certain information for regulatory filings.

Certain Covenants by Spinal Dynamics

Conduct of Business of Spinal Dynamics Pending the Merger. With certain exceptions, Spinal Dynamics has agreed that, prior to consummation of the merger, unless Medtronic agrees otherwise, it will conduct its business only in the ordinary course and consistent with past practice, keep substantially intact its business organization, keep available its officers and employees services, and maintain satisfactory relationships with third parties that are material to its business. Spinal Dynamics also agreed that, among other things, it will not: amend its Certificate of Incorporation or Bylaws; authorize, issue, sell, or pledge any stock or rights to purchase stock (except that it can issue stock upon the exercise of outstanding options under its 1998 stock incentive compensation plan); split, combine, or reclassify its stock; declare or pay any dividend or other distribution; redeem or acquire any of its stock; change any material term of its outstanding securities; create, incur, or assume any indebtedness other than trade payables incurred in the ordinary course of business; create, assume, or incur any material lien; increase or modify the compensation or benefits of any of its directors, officers, or other employees (except under existing agreements or in the ordinary course of business and consistent with past practice or as required by law); sell or dispose of any material property other than in the ordinary course of business or pursuant to contractual obligations existing at the time of the merger agreement; buy or agree to buy another business; buy any assets or make capital expenditures, except under certain circumstances; enter into, materially change, or terminate any material agreements, except as permitted by the merger agreement; materially change its general credit policies; remove any equipment or other personal property from any building except in the ordinary course of business; materially alter its accounting principles; institute, settle, or compromise any claim involving amounts in excess of a specified amount; knowingly take any action that would cause any of its representations, warranties, or agreements in the merger agreement to be inaccurate or breached such that the closing conditions in the merger agreement will not be satisfied as of the closing date; or agree to do any of the things described above.

Access. Pursuant to the merger agreement, Spinal Dynamics also agreed to give Medtronic and its representatives access to Spinal Dynamics offices, properties, books, and records; to furnish to Medtronic and its representatives any financial and operating data and other information that Medtronic may reasonably request; and to have its employees and representatives cooperate with Medtronic in Medtronic's investigation of the business of Spinal Dynamics.

No Solicitation of Competing Transactions. Spinal Dynamics has agreed that neither Spinal Dynamics nor any of its representatives or affiliates will, directly or indirectly, solicit, knowingly encourage, initiate, or

participate in discussions or negotiations with, or knowingly provide any nonpublic information to, any person, entity, or group (other than Medtronic or its affiliates or agents) that proposes an alternative transaction with respect to Spinal Dynamics or any subsidiary, or knowingly facilitate an alternative transaction. An alternative transaction means a tender offer, exchange offer, merger, or similar transaction, or a transaction or series of related transactions pursuant to which a third party acquires more than 50% of the stock of Spinal Dynamics or more than 50% of the combined assets of Spinal Dynamics. Spinal Dynamics has agreed that it will notify Medtronic promptly if it receives any such proposal.

The Spinal Dynamics board can, however, prior to approval of the merger and adoption of the merger agreement by Spinal Dynamics stockholders, furnish nonpublic information to or enter into negotiations with a third party that makes an unsolicited superior proposal, but only if (1) the Spinal Dynamics board determines in good faith, after obtaining legal consultation, that it is required by law to do so to comply with its fiduciary duties to stockholders, (2) prior to doing so, Spinal Dynamics receives a confidentiality agreement from the third party with terms no less favorable to Spinal Dynamics than its confidentiality agreement with Medtronic, gives Medtronic all nonpublic information that it gives to the third party, and gives written notice to Medtronic that it is furnishing nonpublic information or entering into negotiations with the person proposing the superior proposal, and (3) Spinal Dynamics keeps Medtronic informed of the status of any negotiations. For these purposes, a superior proposal is a proposal for an alternative transaction that the Spinal Dynamics board reasonably and in good faith determines is more favorable to Spinal Dynamics stockholders than the merger. None of the foregoing provisions, however, permits either party to terminate the merger agreement or permits Spinal Dynamics to enter into an alternative transaction as long as the merger agreement is still in effect.

Certain Covenants by Medtronic

Conduct of Business of Medtronic Pending the Merger. Medtronic has agreed that, prior to consummation of the merger, unless Spinal Dynamics agrees otherwise, it will not: alter its accounting principles; knowingly take any action that would suspend trading of Medtronic common stock on the NYSE; knowingly take any action that would cause any of its representations, warranties, or agreements in the merger agreement to be inaccurate or breached as of the closing date; or agree or consent to do any of the things described above.

Employee Matters. Medtronic has agreed to use its commercially reasonable efforts to provide employee benefits and programs to Spinal Dynamics employees that, in the aggregate, are substantially comparable to or more favorable than those in existence as of the date of the merger agreement. Medtronic has also agreed to honor all employment and severance agreements and all severance, incentive, and bonus plans as in effect immediately prior to the effective time. Spinal Dynamics employees will be credited with service accrued prior to the effective time of the merger for purposes of employee benefit plans, subject to certain exceptions.

Voting. Medtronic has agreed (i) to vote in favor of the merger, (ii) if requested by Spinal Dynamics, to approve certain payments to Spinal Dynamics executives under certain tax laws, and (iii) to approve an increase in the authorized number of shares of Series D convertible preferred stock.

Interests of Spinal Dynamics Directors and Officers in the Merger

In considering the recommendation of the Spinal Dynamics board with respect to the merger agreement and the transactions contemplated by that agreement, stockholders of Spinal Dynamics should be aware that certain members of the management and board of directors of Spinal Dynamics have certain interests in the merger that are different from, and may be in conflict with, the interests of stockholders of Spinal Dynamics generally. All such interests are described below, to the extent material, and Spinal Dynamics believes that, except as described below, such persons do not have any material interest in the merger that is different from those of Spinal Dynamics stockholders generally. The Spinal Dynamics board of directors was aware of the interests of its directors and officers and considered them when it approved the merger agreement and the merger.

Employment Agreement with Charles Clark. Pursuant to an employment agreement with Spinal Dynamics dated November 6, 1997, Spinal Dynamics President and Chief Executive Officer, Charles Clark, will receive, if terminated without cause, a lump sum severance payment equal to one year's base salary. Mr. Clark's annual salary is \$270,113. Mr. Clark is not expected to remain with the surviving corporation and, as a result, may receive this lump sum severance payment.

Acceleration of Stock Option Vesting. Stock options held by an officer or director of Spinal Dynamics will become exercisable as to 25% of such options as of the effective time under the terms of Spinal Dynamics' 1998 stock incentive compensation plan. In addition, any such option assumed by Medtronic will become fully exercisable upon the subsequent termination of the officer or director holding that option, unless that termination is done for cause by Medtronic or without good reason by that officer or director or employee. All directors will cease to be directors at the effective time of the merger and will therefore be entitled to exercise their options in full.

Indemnification. Spinal Dynamics has entered into indemnification agreements with its directors and executive officers that confirm the indemnification to which these individuals are entitled under Spinal Dynamics' bylaws as well as under Delaware law. The indemnification obligations contained in these indemnification agreements will become binding on the surviving corporation upon completion of the merger. See Indemnification of Spinal Dynamics Officers and Directors.

Agreements to Facilitate Merger

Pursuant to agreements to facilitate the merger between Medtronic and certain executive officers, directors and other affiliates of Spinal Dynamics, such persons have agreed to vote all of the outstanding shares of Spinal Dynamics common stock and preferred stock beneficially owned by them in favor of the approval, adoption, consent, and ratification of the merger. Nothing in the agreements restricts or limits the right of a stockholder or optionholder to act in his or her capacity as an officer or director of Spinal Dynamics consistent with his or her fiduciary obligations. The agreements terminate upon termination of the merger agreement. As of the record date, the stockholders who executed the agreements to facilitate the merger beneficially owned an aggregate 11,931,821 outstanding shares of Spinal Dynamics common stock and preferred stock (not including options held by such persons), representing approximately 74.3% of the Spinal Dynamics common stock and preferred stock and 76.5% of preferred stock outstanding on the record date. The shares subject to the agreements to facilitate are sufficient to approve the merger even if no other stockholders voted in favor of the merger.

Earnest Deposit

Medtronic and Spinal Dynamics have entered into an earnest money escrow agreement under which Medtronic has deposited \$12.5 million with Well Fargo Bank Minnesota, N.A., as escrow agent, in connection with the merger. If the merger agreement is terminated other than by Medtronic as a result of a breach of the merger agreement by Spinal Dynamics, or if on October 11, 2002 the merger agreement has not been terminated and the closing has not occurred for any reason other than a breach by Spinal Dynamics of any of its representations, warranties or covenants, the \$12.5 million earnest deposit will be transferred to Spinal Dynamics in exchange for 799,232 shares of Series D convertible preferred stock of Spinal Dynamics. The number of shares of Series D convertible preferred stock issuable to Medtronic in these circumstances is subject to adjustment for any reorganization, reclassification, subdivision, recapitalization, split-up, combination, exchange of shares, stock dividend or other similar transaction. At the Special Meeting, Spinal Dynamics stockholders will be asked to approve an increase in the number of authorized shares of Series D convertible preferred stock from 4,126,133 to 4,878,611 to enable Spinal Dynamics to issue these shares to Medtronic if required under the merger agreement.

If (1) the \$12.5 million earnest payment is not released to the Company as described above because Medtronic attempts to terminate the merger agreement as a result of an alleged breach of the merger agreement by Spinal Dynamics or because Medtronic claims that the closing of the merger has not occurred because of a breach by Spinal Dynamics of any of its representations, warranties or covenants, (2) it is later

finally determined by a court of competent jurisdiction that Medtronic was not entitled to so terminate the merger agreement or Spinal Dynamics was not in such breach, as applicable, and (3) Medtronic does not, on or before the date of Medtronic's attempted termination, offer to purchase 799,232 fully paid and nonassessable shares of the Company's Series D convertible preferred stock (subject to adjustment for any reorganization, reclassification, subdivision, recapitalization, split-up, combination, exchange of shares, stock dividend or other similar transaction) for \$12.5 million, then Medtronic will pay to Spinal Dynamics in cash the sum of \$12.5 million as liquidated damages for Medtronic's failure to release the earnest deposit to Spinal Dynamics. This liquidated damages payment will be the sole and exclusive remedy of Spinal Dynamics for Medtronic's failure to release the earnest deposit to Spinal Dynamics.

See Amendment and Termination of the Merger Agreement; Effects of Termination.

Conditions to Consummation of the Merger; Waiver

The respective obligations of Medtronic, MSD, Merger Subsidiary and Spinal Dynamics to complete the merger are subject to the satisfaction at or prior to the merger of certain conditions, including, among others: (a) the approval of the merger and adoption of the merger agreement by the Spinal Dynamics stockholders; (b) if the merger is a stock merger, the effectiveness of the Registration Statement; (c) the expiration or termination of the waiting periods applicable to the consummation of the merger under certain antitrust laws; (d) if the merger is a stock merger, the shares of Medtronic common stock issuable in the merger having been duly authorized for listing by the New York Stock Exchange, subject to official notice of issuance; and (e) the absence of an order, decree, or injunction by any court that makes the merger illegal or prohibits consummation of the merger or would impose any material limitations on the ownership or operation of Spinal Dynamics after the merger.

In addition, the obligations of Medtronic, MSD and Merger Subsidiary to effect the merger are subject to the satisfaction at or prior to the merger of certain conditions, including that: (a) each representation and warranty of Spinal Dynamics contained in the merger agreement is true and correct on the date of the merger (as though made that date) except for (i) those representations and warranties that address matters only as of the date of the merger agreement or another particular date, which representations and warranties must be true and correct as of such date, and (ii) except for any inaccuracies that do not have a material adverse effect on Spinal Dynamics; (b) Spinal Dynamics has performed in all material respects its obligations under the merger agreement required to be performed by it at or prior to the closing; (c) Medtronic has received letters from Spinal Dynamics' affiliates, representing that such affiliates will sell or otherwise dispose of the Medtronic common stock they will receive in the merger only if these shares are covered by a registration statement or if an exemption from registration is available to the affiliates; (d) Spinal Dynamics has obtained all necessary consents, permits and approvals, in form and substance reasonably acceptable to Medtronic; (e) Medtronic has received noncompetition agreements from certain Spinal Dynamics employees; (f) at least 10 of the 13 key employees of Spinal Dynamics listed on an exhibit to the merger agreement have agreed to continue their employment with Spinal Dynamics following the merger on the current terms and conditions of their employment; (g) Spinal Dynamics shall not have received any notice or other communication from the U.S. Food and Drug Administration restricting the authorization to enroll up to 336 patients under Spinal Dynamics investigational device exemption; (h) the toxicology data resulting from Spinal Dynamics' 12-month in vivo analysis of the Bryan Cervical Disc System shall not be adverse compared to the toxicology data resulting from Spinal Dynamics' 6-month in vivo analysis of the Bryan Cervical Disc System for purposes of maintaining the IDE; and (i) Spinal Dynamics' counsel, Perkins Coie LLP, has delivered specified legal opinions to Medtronic.

In addition, the obligations of Spinal Dynamics to effect the merger are subject to the satisfaction at or prior to the merger of certain conditions, including that: (a) each representation and warranty of Medtronic contained in the merger agreement is true and correct on the date of the merger (as though made that date) except for (i) those representations and warranties that address matters only as of the date of the merger agreement or another particular date, which representations and warranties must be true and correct as of such date, and (ii) any inaccuracies that do not have a material adverse effect on Medtronic; (b) Medtronic, MSD and Merger Subsidiary have performed their material obligations under the merger agreement required to be performed by

them at or prior to the closing; (c) Spinal Dynamics has received an opinion of Perkins Coie LLP, to the effect that the merger, if structured as a stock merger, will constitute a tax-free reorganization for federal income tax purposes, and that opinion will not have been withdrawn or materially changed; and (d) Spinal Dynamics has received specified legal opinions from Medtronic's counsel, Fredrikson & Byron, P.A.

Either Medtronic or Spinal Dynamics may waive (to the extent permitted by applicable law) any failure to comply with any obligation, covenant, agreement, or condition in the merger agreement that is for the benefit of that party. Any waivers granted by Medtronic are conclusively binding on MSD and Merger Subsidiary.

Amendment and Termination of the Merger Agreement; Effects of Termination

Subject to applicable law, any of the provisions of the merger agreement may be amended by written agreement of the respective parties at any time prior to the effective time of the merger. After approval of the merger and adoption of the merger agreement by the Spinal Dynamics stockholders, however, no amendment may be made that reduces the amount or changes the type of consideration into which each share of Spinal Dynamics common stock converts upon consummation of the merger, or which otherwise requires stockholder approval or adoption under applicable law (unless Spinal Dynamics obtains that approval and adoption).

Even if the Spinal Dynamics stockholders approve the merger and adopt the merger agreement, the boards of Directors of Medtronic and Spinal Dynamics can agree at any time prior to the effective time to terminate the merger agreement without completing the merger.

Either company can terminate the merger agreement if:

the merger is not completed by October 31, 2002 (or, if the companies receive requests for additional information from regulatory agencies, January 31, 2003), except that neither company can terminate the merger agreement if its own material breach of its obligations under the merger agreement is the reason the merger has not been completed, or

a final court or governmental order prohibits the merger, or

the other party has materially breached its representations, warranties, or obligations under the merger agreement such that the conditions to the terminating company's obligation to complete the merger will not be satisfied. If the breach is curable by the breaching company before October 31, 2002 or January 31, 2003, as applicable, the non-breaching company cannot terminate the merger agreement as long as the breaching company is exercising its reasonable best efforts to cure the breach.

Expenses and Fees

Whether or not the merger is consummated, all expenses incurred in connection with the merger (including but not limited to financial advisory, accounting and legal fees) and the transactions contemplated thereby will be paid by the party incurring such costs and expenses, except that Medtronic and Spinal Dynamics will each pay or reimburse the other party for one-half of the expenses related to the printing and filing of the Registration Statement and this Proxy Statement/ Prospectus and the filing fees required under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, or the HSR Act.

If the expenses Spinal Dynamics expects to incur in connection with the merger since March 31, 2002 exceed \$300,000, as estimated by Spinal Dynamics as of the closing date in good faith and based on reasonable assumptions and information, then the amount of Medtronic common stock issued or cash paid in connection with the merger will be reduced by such excess amount. In addition, if the expenses actually incurred by Spinal Dynamics exceed the estimated expenses and also exceed \$300,000, then Medtronic will be entitled to recover these expenses, to the extent of the excess of actual expenses over estimated expenses, from the escrow fund.

Stockholder Representatives

If Spinal Dynamics stockholders approve the merger and adopt the merger agreement, Vincent A. Bryan, Charles R. Clark and Frank Fischer will be jointly appointed as agent and attorney-in-fact for each Spinal Dynamics stockholder, without further act of any stockholder. They will be responsible for and on behalf of Spinal Dynamics stockholders for any acts in connection with the escrow fund and the satisfaction of indemnification claims of Medtronic, including but not limited to giving and receiving notices and communications, authorizing or objecting to the delivery of shares from the escrow fund to Medtronic in satisfaction of indemnification claims, negotiating settlements and compromises of such claims and demanding arbitration of such claims. Any decision, act, consent or instruction of two of the three stockholder representatives will constitute a decision of all Spinal Dynamics stockholders and will be final, binding and conclusive upon each of such stockholders. Medtronic and Wells Fargo as escrow agent may rely upon the stockholder representatives' decisions as being the decisions of all of Spinal Dynamics stockholders, and are relieved from any liability to any person for any acts done by them in accordance with such a decision of the stockholder representatives.

The stockholder representatives are not liable for any act done or omitted while acting as stockholder representatives under the merger agreement in good faith in the exercise of reasonable judgment. By approving the merger, Spinal Dynamics stockholders severally agree to indemnify the stockholder representatives for such actions or omissions.

Restrictions on Resale of Medtronic Common Stock

The issuance of Medtronic common stock in the merger has been registered under the Securities Act and will be freely transferable by the recipients, except stockholders of Spinal Dynamics who may be deemed to control or be under common control with Spinal Dynamics at the time of the Special Meeting (Affiliates). Affiliates may not sell their shares of Medtronic common stock acquired in connection with the merger except pursuant to an effective registration statement under the Securities Act covering such shares, or in compliance with Rule 145 under the Securities Act or another applicable exemption from the registration requirements of the Securities Act. Spinal Dynamics has delivered to Medtronic, and agreed to update as necessary, a list identifying all persons who, based on Spinal Dynamics' reasonable judgment after consulting with legal counsel, are Affiliates of Spinal Dynamics for purposes of Rule 145. Spinal Dynamics has delivered to Medtronic from each person already identified as an Affiliate, and has agreed to use all reasonable efforts to cause each person who is subsequently identified as an Affiliate to deliver to Medtronic at or prior to the effective time, an agreement that such person will not offer to sell, sell, or otherwise dispose of any shares of Medtronic common stock received in the merger in violation of the Securities Act. It is expected that Affiliates will be able to sell such shares without registration and in accordance with the volume, manner of sale, and other applicable limitations of the Securities Act and the rules and regulations of the SEC thereunder.

It is estimated that Affiliates of Spinal Dynamics will receive a maximum of approximately 4,480,376 shares of Medtronic common stock upon consummation of the merger, if structured as a stock merger (assuming full exercise of all outstanding Spinal Dynamics options held by such Affiliates, assuming no Spinal Dynamics stockholders elect to receive cash and assuming an average share price for Medtronic common stock of \$42.00). Such shares would constitute less than 0.5% of the total number of shares of Medtronic common stock anticipated to be outstanding immediately after the merger. See Conversion of Spinal Dynamics Capital Stock in the Merger.

Certain Federal Income Tax Consequences

The following is a discussion of certain material United States federal income tax consequences of the merger that generally are applicable to Spinal Dynamics stockholders. This discussion addresses only those Spinal Dynamics stockholders that hold their Spinal Dynamics shares as a capital asset, and does not address all the United States federal income tax consequences that may be relevant to particular Spinal Dynamics

stockholders in light of their individual circumstances, or to stockholders that are subject to special rules under United States federal income tax law, such as:

dealers in securities or foreign currencies;

foreign holders;

tax-exempt organizations;

financial institutions;

insurance companies;

persons that hold their shares as a hedge or as part of a straddle, constructive sale, conversion transaction, or other risk reduction transaction; or

holders that acquired their Spinal Dynamics shares upon exercise of Spinal Dynamics stock options or in other compensatory transactions. Furthermore, this discussion does not address the tax consequences of the merger under state, local and foreign tax laws or the tax consequences of transactions completed before or after the merger, such as the exercise of options or rights to purchase Spinal Dynamics shares in anticipation of the merger. The following discussion is based on the Internal Revenue Code, laws, applicable Treasury Regulations, judicial authority and administrative rulings and practice in effect as of the date of this proxy statement/prospectus, all of which are subject to change, possibly with retroactive effect.

Spinal Dynamics stockholders are strongly urged to consult their own tax advisors as to the specific consequences to them of the merger, including the applicability of United States federal, state and local, and foreign income and other tax laws in their particular circumstances.

Neither Medtronic nor Spinal Dynamics has requested nor will request a ruling from the Internal Revenue Service with regard to any of the tax consequences of the merger. Perkins Coie LLP, counsel to Spinal Dynamics, has rendered its opinion to Spinal Dynamics that:

the merger, if structured as a stock merger, will constitute a reorganization under Section 368 of the Internal Revenue Code; and

each of Spinal Dynamics, Medtronic and MSD will be a party to such reorganization.

The opinion of counsel is based on the facts, representations and assumptions set forth or referred to in the opinion, including representations contained in certificates executed by officers of Spinal Dynamics and Medtronic. The opinion of counsel represents only counsel's best legal judgment and is not binding on the Internal Revenue Service or the courts. No assurance can be given that the Internal Revenue Service or the courts will not take a contrary position. Future legislative, judicial or administrative changes or interpretations could alter or modify the statements and conclusions set forth in the opinion, and these changes or interpretations could be retroactive and could affect the tax consequences of the merger to Medtronic, Spinal Dynamics and its stockholders.

If the merger were not to qualify as a reorganization under Section 368 of the Internal Revenue Code, a Spinal Dynamics stockholder would recognize gain or loss with respect to each share of Spinal Dynamics stock surrendered equal to the difference, if any, between the stockholder's tax basis in the share of Spinal Dynamics stock and the sum of the fair market value, as of the effective time of the merger, of the Medtronic common stock plus the cash, if any, received in exchange therefor. In that event, a stockholder's aggregate tax basis in the Medtronic common stock received would equal its fair market value, and the stockholder's holding period for that Medtronic common stock would begin the day after the closing date of the merger.

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Based on the assumption that the merger, if structured as a stock merger, will constitute a reorganization, and subject to the assumptions, limitations, and qualifications referred to herein and in the opinion of counsel, the material United States federal income tax consequences of the merger can be summarized as follows:

Spinal Dynamics stockholders that exchange their shares of Spinal Dynamics common stock solely for Medtronic stock will not recognize gain or loss except to the extent of cash received in lieu of a fractional share of Medtronic common stock;

A Spinal Dynamics stockholder that receives both Medtronic common stock and cash (as a result of an election to receive cash instead of Medtronic common stock) will be required to recognize the gain, if any, that he or she realizes in the transaction, but not in excess of the cash received by that stockholder. The gain realized by a stockholder will equal the amount by which the sum of the fair market value of the Medtronic common stock (at the effective time of the merger) plus the cash received by that stockholder exceeds the stockholder's tax basis in his or her Spinal Dynamics stock surrendered;

The aggregate tax basis of Medtronic common stock received by each Spinal Dynamics stockholder in the merger, including escrowed shares, will be the same as the aggregate tax basis of the Spinal Dynamics common stock surrendered, (1) reduced by (a) any amount of tax basis allocable to a fractional share interest in Medtronic common stock for which cash is received and (b) the amount of cash received by a Spinal Dynamics stockholder electing to receive cash instead of Medtronic common stock, and (2) increased by the amount of gain recognized by the stockholder in the merger (but not by gain recognized upon the receipt of cash in lieu of a fractional share interest in Medtronic common stock);

The holding period of each share of Medtronic common stock received by a Spinal Dynamics stockholder in the merger, including escrowed shares, will include the period during which the Spinal Dynamics stockholder held his or her Spinal Dynamics stock surrendered in exchange therefor;

Cash payments in lieu of a fractional share will be treated as if a fractional share of Medtronic common stock had been issued in the merger and then redeemed by Medtronic. Capital gain or loss generally should be recognized by a Spinal Dynamics stockholder equal to the difference (if any) between the amount of cash received and the stockholder's allocable tax basis in the fractional share (which will be a pro rata portion of the stockholder's tax basis in the Medtronic common stock received in the merger), provided that the payment is not treated as a dividend for tax purposes;

Spinal Dynamics stockholders that exercise appraisal rights and receive payment for Spinal Dynamics stock in cash generally should recognize gain or loss for federal income tax purposes, measured by the difference, if any, between the amount of cash received and their tax basis in the shares, provided that the payment is not treated as a dividend distribution for tax purposes. The receipt of cash by a Spinal Dynamics stockholder in these circumstances should not be treated as a dividend distribution if, after the payment, the Spinal Dynamics stockholder owns no shares of Medtronic stock or Spinal Dynamics stock, actually or constructively; and

No gain or loss will be recognized by a Spinal Dynamics stockholder upon the receipt of escrowed shares of Medtronic stock that are distributed to the stockholder upon termination of the escrow arrangement. Spinal Dynamics stockholders should consult with their own tax advisors with respect to the tax consequences applicable to their individual situations in the event that escrowed shares are released to Medtronic to satisfy indemnity claims.

As to each Spinal Dynamics stockholder receiving Medtronic common stock and cash, the recognized portion of the realized gain will be treated (i) as a capital gain, or (ii) if the exchange has the effect of the distribution of a dividend under the tests set forth in Sections 356 and 302 of the Internal Revenue Code, then, as a dividend to the extent of the stockholder's ratable share of Spinal Dynamics' accumulated earnings and profits, if any. In determining whether an exchange has the effect of the distribution of a dividend, the application of Section 302 of the Internal Revenue Code is determined as if the gain is recognized as a result of a post-reorganization redemption of the acquiring corporation's stock. Thus, each stockholder will be

treated as having received solely Medtronic common stock for the stockholder's Spinal Dynamics stock, all or a portion of which Medtronic stock will then be treated as having been redeemed by Medtronic for an amount equal in value to the cash that stockholder actually received.

The determination as to whether an exchange has the effect of the distribution of a dividend is made on a stockholder-by-stockholder basis. Under Section 302 of the Internal Revenue Code, a redemption will be treated as a sale or exchange of stock (and not as a dividend) if it is substantially disproportionate with respect to a stockholder, or if it is not essentially equivalent to a dividend. In applying the dividend tests under Section 302 of the Internal Revenue Code to a particular Spinal Dynamics stockholder, stock of Spinal Dynamics or Medtronic that is held by a person related to the Spinal Dynamics stockholder may be deemed to be owned by that stockholder, in accordance with the rules under Section 318 of the Internal Revenue Code.

A distribution will be substantially disproportionate with respect to a particular stockholder if that stockholder's actual and constructive proportionate interest in Medtronic after his or her shares are treated as redeemed is less than 80% of that stockholder's actual and constructive proportionate interest in Medtronic immediately prior to such redemption and, after such redemption, the stockholder owns, actually and constructively, less than 50% of the total combined voting power of all Medtronic stock entitled to vote. The rules of Section 318 are also applicable to the discussion in this paragraph.

Even if a stockholder fails to meet the 80% test described above, an exemption from dividend treatment may nevertheless be available depending upon the individual stockholder's facts and circumstances. For example, under the facts and published rulings of the Internal Revenue Service, the receipt of cash by a stockholder whose relative stock interest in the acquiring corporation was minimal (approximately .0001%) and who exercised no control over the affairs of the acquiring corporation was treated as not essentially equivalent to a dividend. The constructive ownership rules of Section 318 described above are also applicable to the discussion in this paragraph. Spinal Dynamics stockholders should consult their personal tax advisors as to the possible application of the effect of the ruling to their situations.

If the merger is structured as a cash merger, a Spinal Dynamics stockholder will recognize gain or loss with respect to each share of Spinal Dynamics stock surrendered equal to the difference, if any, between the stockholder's tax basis in the share of Spinal Dynamics stock and the cash received in exchange therefor.

Certain noncorporate Spinal Dynamics stockholders may be subject to backup withholding at a rate of 30% on cash payments received in the merger. Backup withholding will not apply, however, to a stockholder who furnishes a correct taxpayer identification number and certifies that he or she is not subject to backup withholding on the substitute Form W-9 included in the letter of transmittal, who provides a certificate of foreign status on Form W-8, or who is otherwise exempt from backup withholding. A stockholder who fails to provide the correct taxpayer identification number on Form W-9 may be subject to a \$50 penalty imposed by the Internal Revenue Service.

Each Spinal Dynamics stockholder will be required to retain records and file with such holder's United States federal income tax return a statement setting forth certain facts relating to the merger.

Indemnification of Spinal Dynamics Officers and Directors

Spinal Dynamics has, in connection with the execution of the merger agreement, entered into indemnification agreements with each of its directors and executive officers that provide for the indemnification of these persons consistent with the Spinal Dynamics certificate of incorporation and bylaws and to the full extent provided by Delaware law, including the advance of attorneys' fees and other expenses. Also, under the merger agreement, the certificate of incorporation and the bylaws of Merger Subsidiary contain the same provisions as Spinal Dynamics certificate of incorporation and bylaws regarding the indemnification of

directors, officers, employees or agents, including advance of attorneys' fees and other expenses, and exculpation from liability. Unless required by law, neither these provisions nor the provisions in MSD's articles of incorporation or bylaws relating to indemnification, as applicable, may be amended, repealed or otherwise modified to the disadvantage of the individuals protected thereunder for a period of six years from the effective time. Upon completion of the merger, these indemnification provisions will become binding on Medtronic. See *Interests of Spinal Dynamics Directors and Officers in the Merger*.

Regulatory Requirements

Under the HSR Act, certain acquisition transactions, including the merger, cannot be consummated unless certain information has been furnished to the Federal Trade Commission and the Antitrust Division of the United States Department of Justice and certain waiting period requirements have been satisfied. Medtronic and Spinal Dynamics each furnished such information on *October 1, 2002*. Pursuant to the HSR Act, the merger cannot be completed until at least 30 days after the parties furnished the required information, unless the Federal Trade Commission and the Antitrust Division terminate the waiting period earlier. If the parties receive any requests for additional information relating to their filings, those requests will extend the waiting period until 20 days after the companies substantially comply with any such request. It is possible, therefore, that the necessary waiting periods may not expire until after the Special Meeting is held and the Spinal Dynamics stockholders vote on the merger.

The Department of Justice and the Federal Trade Commission frequently scrutinize the legality under the antitrust laws of transactions such as the merger. At any time before or after the consummation of the merger, the Department of Justice or the Federal Trade Commission could take any action under the antitrust laws that it deems necessary or desirable in the public interest, including seeking to enjoin the consummation of the merger or seeking the divestiture of substantial assets of Spinal Dynamics or Medtronic. Spinal Dynamics and Medtronic believe that the merger will not violate the antitrust laws. There can be no assurance, however, that a challenge to the merger on antitrust grounds will not be made or, if such a challenge is made, what the results will be.

Other than as described in this Proxy Statement/ Prospectus, the merger does not require the approval of any federal, state, or other agency. See *Conditions to Consummation of the Merger; Waiver*.

Appraisal and Dissenters' Rights

Medtronic shareholders are not entitled to dissenters' or appraisal rights in connection with the merger. However, stockholders of record of Spinal Dynamics on the record date have the right to demand appraisal of and receive payment in cash equal to the fair value of their shares in accordance with Section 262(a) of the Delaware General Corporation Law. This proxy statement/ prospectus serves as notice of such rights. Any stockholder of Spinal Dynamics who wishes to exercise these appraisal rights or preserve the right to do so should review the appraisal rights provision carefully. Stockholders who do not comply with the requirements of this provision will lose their appraisal rights. A brief summary of the procedures to perfect rights under Section 262(a) is set forth below.

To exercise appraisal rights under Delaware law, a Spinal Dynamics stockholder must:

deliver a written demand for appraisal to the Secretary of Spinal Dynamics, 9655 S.E. 36th Street, Suite 110, Mercer Island, WA 98040-3732, which must be received by Spinal Dynamics prior to the vote on the merger identifying the stockholder and the stockholder's intent to demand appraisal;

continuously hold the dissenting shares from the date the demand was made through the effective time of the merger; and

not vote any of the shares in favor of the merger.

Neither voting (in person or by proxy) against, abstaining from voting on or failing to vote on the proposal to approve and adopt the merger and the merger agreement will constitute a written demand for

appraisal within the meaning of Section 262 of the Delaware General Corporation Law. The written demand for appraisal must be in addition to and separate from any such proxy or vote.

Within ten days after the effective time, the corporation surviving the merger, or the surviving corporation, will mail a notice setting forth the effective time of the merger to those stockholders who have properly exercised their appraisal rights. The Delaware Court of Chancery will determine the value of the shares upon a petition by either Spinal Dynamics or any stockholder who has complied with the above requirements for seeking appraisal. Such petition must be made within 120 days after the effective date of the merger. At any time within 60 days after the effective date, however, any stockholder has the right to withdraw such stockholder's demand for appraisal and accept the terms offered in the merger. Within 120 days after the effective time, upon written request, the dissenting stockholder is entitled to receive from the surviving corporation a statement setting forth the following information: the aggregate number of shares not voted in favor of the merger or with respect to which appraisal rights have been demanded and the aggregate number of holders of such dissenting shares. Spinal Dynamics must mail the statement within 10 days after the period for making appraisal demands has expired under Delaware General Corporation Law Section 262(d). If no petition is filed by either the surviving corporation or the dissenting stockholder within such 120 day period, the appraisal rights of the dissenting stockholder will cease. In the event the surviving corporation or the dissenting stockholder files a valid petition for appraisal, the Court of Chancery will hold a hearing on the petition and appraise the shares. The court will determine a fair value, exclusive of any value arising from the merger itself or from an expectation of the merger. The court may also include a fair rate of interest, if any, to be paid on the amount it determines to be the fair value. The court will direct the surviving corporation to pay such fair value and interest, if any, to the demanding stockholders. The court will determine the costs of the proceeding and apportion them among the parties to the proceeding, as it deems equitable.

The receipt of payment for its stock by the dissenting stockholder may result in the recognition of gain or loss for federal income tax purposes.

THE FOREGOING SUMMARY DOES NOT PURPORT TO BE A COMPLETE STATEMENT OF THE PROVISIONS OF SECTION 262 OF THE DELAWARE GENERAL CORPORATION LAW AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH SECTION, A COPY OF WHICH IS ATTACHED AS ANNEX B. SPINAL DYNAMICS STOCKHOLDERS WHO ARE CONSIDERING DISSENTING SHOULD CONSULT LEGAL COUNSEL.

COMPARATIVE STOCK PRICES AND DIVIDENDS

There is no market price for Spinal Dynamics capital stock because it is not publicly traded. On February 16, 2001, Spinal Dynamics sold shares of its Series D convertible preferred stock at a per share purchase price of \$6.00.

Medtronic common stock is listed and traded on the New York Stock Exchange (symbol: MDT), and it is a condition to all parties obligations to consummate the merger, if structured as a stock merger, that the Medtronic common stock to be issued in the merger be approved for such listing.

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The following table sets forth, for the fiscal quarters indicated, the high and low closing sales prices per share of Medtronic common stock on the NYSE and the cash dividends paid per share of Medtronic common stock.

	Medtronic Common Stock		
	High	Low	Dividends
Fiscal 2001			
First Quarter	\$57.00	\$47.00	\$ 0.05
Second Quarter	\$56.25	\$47.50	\$ 0.05
Third Quarter	\$61.00	\$48.00	\$ 0.05
Fourth Quarter	\$54.60	\$40.71	\$ 0.05
Fiscal 2002			
First Quarter	\$48.59	\$41.76	\$0.0575
Second Quarter	\$48.38	\$38.99	\$0.0575
Third Quarter	\$51.24	\$39.71	\$0.0575
Fourth Quarter	\$49.46	\$43.81	\$0.0575
Fiscal 2003			
First Quarter	\$47.45	\$33.74	\$0.0625
Second Quarter (through , 2002)			

Spinal Dynamics has never paid cash dividends. Under the merger agreement, Spinal Dynamics has agreed not to pay any dividends on Spinal Dynamics common stock prior to the merger. Medtronic has paid regular quarterly cash dividends on Medtronic common stock since 1978. It is expected that the board of directors of Medtronic will continue the practice of declaring cash dividends on a quarterly basis; however, no assurance can be given as to the amount of future dividends, which will necessarily be dependent on future earnings, financial requirements of Medtronic and its subsidiaries, and other factors.

In the merger, if structured as a stock merger, shares of Spinal Dynamics common stock will be converted into shares of Medtronic common stock based on the conversion ratio for the merger, which will be calculated by dividing (a) approximately \$269.5 million divided by the Average Market Price of Medtronic common stock, by (b) the number of Spinal Dynamics common and preferred stock issued and outstanding plus the amount of shares subject to stock options and warrants at the effective time. Average Market Price means the average of the closing sale prices of Medtronic common stock for the fourteen consecutive NYSE trading days ending on and including the NYSE trading day that is four NYSE trading days prior to the effective time. On June 27, 2002, the last trading day preceding public announcement of the merger, the reported closing sale price of Medtronic common stock on the NYSE was \$43.30 per share, resulting in an implied conversion ratio (if it were determined based on the closing sale price that day) of 0.3612 of a share of Medtronic common stock for each share of Spinal Dynamics stock. On , 2002, the latest practicable trading day prior to the printing of this Proxy Statement/ Prospectus, the closing sale price of Medtronic common stock on the NYSE was \$ per share, resulting in an implied conversion ratio (if it were determined based on the closing sale price that day) of . Stockholders are urged to obtain current market quotations.

As of July 31, 2002, there were approximately 47,957 registered holders of Medtronic common stock and approximately 73 registered holders of Spinal Dynamics common and preferred stock.

COMPARISON OF RIGHTS OF MEDTRONIC AND SPINAL DYNAMICS SHAREHOLDERS

Medtronic is incorporated under the laws of Minnesota and Spinal Dynamics is incorporated under the laws of Delaware. Following the merger with Medtronic, if effected as a stock merger, stockholders of Spinal Dynamics will become shareholders of Medtronic, and their rights will be governed by the laws of Minnesota rather than Delaware. The rights of Medtronic shareholders under Medtronic's Restated Articles of Incorporation as amended (Medtronic's Articles) and Medtronic's Bylaws differ in certain material respects

from the rights of Spinal Dynamics stockholders under Spinal Dynamics Certificate of Incorporation (Spinal Dynamics Certificate) and Spinal Dynamics Bylaws. Certain significant differences between the rights of Medtronic shareholders and Spinal Dynamics stockholders are summarized below. This summary may not contain all the information that is important to you, including the articles/certificate of incorporation and bylaws of each company. You should read carefully this entire document and the other documents to which we refer for a more complete understanding of the differences in the right of holders of Spinal Dynamics securities and Medtronic common stock.

Nomination, Election, Classification, and Removal of Directors

Nomination. Medtronic's Articles provide that nominations for the election of directors may be made by or at the direction of the Medtronic board of directors or by any shareholder entitled to vote in the election of directors generally. Nominations by shareholders must be made pursuant to timely notice in writing to the Secretary of Medtronic. To be timely, a shareholder's notice must be delivered to or mailed and received at the principal executive offices of Medtronic not less than 50 days nor more than 90 days prior to the meeting; provided, however, that if less than 60 days' notice or prior public disclosure of the date of the meeting is given or made to the shareholders, notice by the shareholder to be timely must be so received not later than the close of business on the tenth day following the day on which such notice of the date of the meeting was mailed or such public disclosure was made. The notice must set forth certain information concerning such shareholder and his or her nominee(s), including their names and addresses, the principal occupation or employment of the nominee(s), the class and number of shares of capital stock of Medtronic that are beneficially owned by such persons, such other information as would be required to be included in a proxy statement soliciting proxies for the election of the nominees of such shareholder, and the consent of each nominee to serve as a director of Medtronic if so elected.

Spinal Dynamics Certificate and Bylaws do not address the issue of nomination of directors, but pursuant to a stockholders agreement entered into between Spinal Dynamics and certain of its stockholders, Spinal Dynamics must take all necessary steps to nominate to the board of directors, and the stockholders must vote their shares of capital stock in favor of, the following candidates: three candidates designated by the holders of a majority of the outstanding shares of preferred stock, two candidates designated by the holders of a majority of the outstanding shares of common stock, two candidates selected jointly by the holders of the common stock, voting as a separate group, and holders of preferred stock, voting as a separate group, and the chief executive officer of Spinal Dynamics.

Election; Classification. Medtronic's Articles provide for a classified board of directors, under which directors are elected to three-year terms, with one-third of the directors being elected each year. Spinal Dynamics Certificate and Bylaws do not similarly classify its board of directors, and directors are elected each year for a one-year term. Spinal Dynamics directors are elected by all holders of Spinal Dynamics capital stock voting as a single class. Both Medtronic's Articles and Spinal Dynamics Bylaws provide for vacancies on the board to be filled by a vote of the majority of the remaining board members.

Removal. Medtronic's Articles provide that directors may be removed, with or without cause, only by the vote of not less than 75% of the voting power of all then outstanding voting shares. Spinal Dynamics Bylaws provide that directors may be removed, with or without cause, by the vote of holders of a majority of shares entitled to vote on the election of directors.

Amendment of Provisions. Medtronic's Articles require the affirmative vote of not less than 75% of the voting power of all then outstanding voting shares to amend, repeal or adopt any provisions inconsistent with these provisions regarding classification, removal and nomination of directors. Spinal Dynamics Bylaws may be amended or repealed and new bylaws adopted by its board of directors or stockholders.

The above-described provisions of Medtronic's Articles regarding directors will be subject to the terms of the certificate of designation or other instrument creating any class or series of preferred stock giving the holders of such class or series of preferred stock the right, voting separately as a class, to elect one or more directors (such as is often required by the terms of preferred stock in the event that dividend payments are in arrears for a period of time). See Preferred Stock.

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The provisions regarding nomination, classification, and removal of directors afford some assurance of stability in the composition of the Medtronic board of directors, but may discourage or deter attempts by individuals or entities to take control of Medtronic by electing their own slate of directors. To the extent that potential acquirers of Medtronic stock are deterred by the classified board, such provision also may deter certain mergers, tender offers, or other future takeover attempts which some or a majority of holders of Medtronic common stock may deem to be in their best interests. In addition, the classified Medtronic board would delay shareholders who do not favor the policies of Medtronic's board of directors from removing a majority of the Medtronic board of directors for two years, unless they can obtain the requisite vote.

Liability of Directors. Medtronic's Articles exempt directors from personal liability to the