

MEDTRONIC INC
Form DEF 14A
July 23, 2004

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ☒
Filed by a Party other than the Registrant ☐

Check the appropriate box:

- ☐ Preliminary Proxy Statement
- ☐ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- ☒ Definitive Proxy Statement
- ☐ Definitive Additional Materials
- ☐ Soliciting Material Pursuant to §240.14a-12

Medtronic, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- ☒ No fee required.
- ☐ Fee computed on table below per Exchange Act Rules 14a-6(I)(1) and 0-11.
 - 1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

- ☐ Fee paid previously with preliminary materials.
- ☐ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

SEC 1913
(02-02)

Persons who potentially are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

Edgar Filing: MEDTRONIC INC - Form DEF 14A

710 Medtronic Parkway

Minneapolis, Minnesota 55432

Telephone: 763-514-4000

July 23, 2004

Dear Shareholder:

You are cordially invited to join us for our Annual Meeting of Shareholders to be held on Thursday, August 26, 2004, at 10:30 a.m. (Central Daylight Time) at Medtronic's World Headquarters, 710 Medtronic Parkway, Minneapolis (Fridley), Minnesota.

The Notice of Annual Meeting of Shareholders and the Proxy Statement that follow describe the business to be conducted at the meeting. We will also report on matters of current interest to our shareholders.

We invite you to join us beginning at 9:30 a.m. to view Medtronic's interactive product displays. Product specialists will be available to answer your questions before and after the Annual Meeting.

Your vote is important. Whether you own a few shares or many, it is important that your shares are represented. If you cannot attend the Annual Meeting in person, you may vote your shares by internet or telephone as described in the following materials or by completing and signing the proxy card and promptly returning it in the envelope provided.

We look forward to seeing you at the Annual Meeting.

Sincerely,

Arthur D. Collins, Jr.

Chairman of the Board and Chief Executive Officer

When Life Depends on Medical Technology

VOTING METHODS

If you are a shareholder of record, hold shares through a Medtronic stock benefit plan, or through a broker or bank, you may vote your shares through the internet, by telephone or by mail. You may also revoke your proxy at any time before the Annual Meeting. Please help us save administrative and postage costs by voting through the internet or by telephone. Each method is available 24 hours a day until 11:59 p.m., Eastern Daylight Time, on August 25, 2004 and will ensure that your vote is confirmed and counted immediately. To vote:

BY INTERNET

Go to the web site at **www.proxyvote.com**, 24 hours a day, seven days a week.

Enter the control number and Personal Identification Number (PIN) (if required) as shown on your proxy card or electronic notification.

Complete the electronic ballot and submit your voting instructions.

BY TELEPHONE

From a touch-tone telephone, call the toll-free number printed on your proxy card or electronic notification, 24 hours a day, seven days a week.

Enter the control number shown on your proxy card or electronic notification.

Follow the simple recorded instructions.

BY MAIL

Mark your selections on the proxy card.

Date and sign your name exactly as it appears on your proxy card.

Mail the proxy card in the enclosed postage-paid envelope.

YOUR VOTE IS IMPORTANT. THANK YOU FOR VOTING.

E-DELIVERY OF FUTURE ANNUAL MEETING MATERIALS

Medtronic offers shareholders the choice to receive future annual reports and proxy materials electronically over the internet instead of receiving paper copies through the mail. This will save Medtronic the cost of printing and mailing them. Whether you hold shares registered directly in your name (registered shareholders), through a Medtronic stock plan, or through a broker or bank (street name shareholders), you can enroll at the website **www.medtronic.com** by following these easy steps:

Click on **Investor Relations** under **About Medtronic**

Click on **Electronic Delivery of Proxy Materials** in the **Shareholder Services** Section

Follow the prompts to submit your electronic consent

Generally, brokers and banks offering this choice require that shareholders vote through the internet in order to enroll. Street name shareholders whose broker or bank is not included in this website are encouraged to contact their broker or bank and ask about the availability of electronic delivery. As with all internet usage, the user must pay all access fees and telephone charges. You may view this year's proxy materials at **www.medtronic.com/annualmeeting/**.

MEDTRONIC, INC.

**NOTICE OF ANNUAL MEETING
OF SHAREHOLDERS**

- TIME** 10:30 a.m. (Central Daylight Time) on Thursday, August 26, 2004.
- PLACE** Medtronic World Headquarters
710 Medtronic Parkway
Minneapolis (Fridley), Minnesota 55432
- ITEMS OF BUSINESS**
1. To elect three Class III directors for three-year terms.
 2. To ratify the appointment of PricewaterhouseCoopers LLP as Medtronic's independent registered public accounting firm.
 3. To consider and act upon a shareholder proposal regarding elimination of charitable contributions.
 4. To transact such other business as may properly come before the Annual Meeting and any adjournment thereof.
- RECORD DATE** You may vote at the Annual Meeting if you were a shareholder of record at the close of business on July 2, 2004.
- VOTING BY PROXY** If you cannot attend the Annual Meeting, you may vote your shares over the internet or by telephone, or by completing and promptly returning the enclosed proxy card in the envelope provided. Internet and telephone voting procedures are described in the Questions and Answers section on page 1 and on the proxy card provided to you.
- ANNUAL REPORT** Medtronic's 2004 Annual Report, which is not part of the proxy soliciting material, is enclosed.

By Order of the Board of Directors,

Ronald E. Lund
Secretary

*This Notice of Annual Meeting, Proxy Statement and accompanying proxy card
are being distributed on or about July 23, 2004.*

TABLE OF CONTENTS

	<u>Page</u>
<u>Notice of Annual Meeting of Shareholders</u>	i
<u>General Information About the Meeting and Voting</u>	1
<u>Proposal 1 Election of Directors</u>	
<u>Directors and Nominees</u>	3
<u>Governance of Medtronic</u>	
<u>Our Corporate Governance Principles</u>	7
<u>Committees of the Board and Meetings</u>	7
<u>Director Compensation</u>	10
<u>Certain Relationships and Related Transactions</u>	11
<u>Our Codes of Conduct</u>	11
<u>Lead Director; Executive Sessions</u>	12
<u>Complaint Procedure; Communication with Directors</u>	12
<u>Audit Committee Financial Expert</u>	12
<u>Audit Committee Pre-Approval Policies</u>	12
<u>Director Independence</u>	13
<u>Annual Meeting of Shareholders</u>	13
<u>Share Ownership Information</u>	
<u>5% Owners</u>	14
<u>Management Shareholdings</u>	14
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	14
<u>Report of the Compensation Committee on Fiscal 2004 Executive Compensation</u>	15
<u>Shareholder Return Performance Graph</u>	18
<u>Executive Compensation</u>	
<u>Summary Compensation Table</u>	19
<u>Option/ SAR Grants in Last Fiscal Year</u>	20
<u>Aggregated Option/ SAR Exercises in Last Fiscal Year and Fiscal</u>	
<u>Year-End Option/ SAR Values</u>	21
<u>Other Long-Term Incentive Awards</u>	21
<u>Equity Compensation Plan Information</u>	22
<u>Pension Plan</u>	23
<u>Employment and Change in Control Arrangements</u>	23
<u>Report of the Audit Committee</u>	24
<u>Proposal 2 Ratification of Selection of Independent Registered Public Accounting Firm</u>	
<u>Audit and Non-Audit Fees</u>	25
<u>Proposal 3 Shareholder Proposal Regarding Elimination of Charitable Contributions</u>	26
<u>Board of Directors Statement in Opposition to Shareholder Proposal</u>	27
<u>Other Information</u>	27
<u>Medtronic Board of Directors Audit Committee Charter</u>	A-1

YOUR VOTE IS IMPORTANT

If you are a shareholder of record, hold shares through a Medtronic stock benefit plan or through a broker or bank, you can vote your shares via the internet or by telephone by following the instructions on your proxy card or electronic notification. If voting by mail, please complete, date and sign your proxy card and return it as soon as possible in the enclosed envelope.

710 Medtronic Parkway
Minneapolis, Minnesota 55432
Telephone: 763-514-4000

PROXY STATEMENT
Annual Meeting of Shareholders
August 26, 2004

We are providing these proxy materials in connection with the solicitation by the Board of Directors of Medtronic, Inc. (Medtronic) of proxies to be voted at Medtronic's Annual Meeting of Shareholders to be held on August 26, 2004, and at any adjournment of the meeting.

GENERAL INFORMATION ABOUT THE MEETING AND VOTING

What am I voting on?

There are three proposals scheduled to be voted on at the meeting:

Elect three directors.

Ratify the appointment of PricewaterhouseCoopers LLP as Medtronic's independent registered public accounting firm.

Shareholder proposal regarding elimination of charitable contributions, if properly presented at the meeting.

Who is entitled to vote?

Shareholders as of the close of business on July 2, 2004 (the Record Date) may vote at the Annual Meeting. You have one vote for each share of common stock you held on the Record Date, including shares:

Held directly in your name as shareholder of record (also referred to as registered shareholder).

Held for you in an account with a broker, bank or other nominee (shares held in street name). Street name holders generally cannot vote their shares directly and must instead instruct the brokerage firm, bank or nominee how to vote their shares.

Credited to your account in Medtronic's Employee Stock Ownership and Supplemental Retirement Plan.

What constitutes a quorum?

A majority of the outstanding shares, present or represented by proxy, constitutes a quorum for the Annual Meeting. Abstentions are counted as present and entitled to vote for purposes of determining a quorum. On the Record Date, 1,209,331,777 shares of Medtronic common stock were outstanding.

How many votes are required to approve each proposal?

The three candidates for election as directors who receive the highest number of affirmative votes will be elected. Each of the other proposals requires the affirmative vote of a majority of the shares present at the meeting and entitled to vote, provided that such majority is greater than 25% of our outstanding shares.

How are votes counted?

You may either vote **FOR** or **WITHHOLD** authority to vote for each nominee for the Board of Directors. You may vote **FOR**, **AGAINST** or **ABSTAIN** on the other proposals. If you withhold authority to vote for the election of one of the directors, it has the same effect as a vote against that director. If you abstain from voting on any of the other proposals, it has the same effect as a vote against the proposal. If you just sign and submit your proxy card without voting instructions, your shares will be voted **FOR** each director nominee and **FOR** or **AGAINST** the other proposals as recommended by the Board.

What is a broker non-vote?

If you hold your shares in street name and do not provide voting instructions to your broker, your shares will not be voted on any proposal on which your broker does not have discretionary authority to vote (a broker non-vote). Shares held by brokers who do not have discretionary authority to vote on a particular matter and who have not received voting instructions from their customers are not counted or deemed to be present or represented for the purpose of determining whether shareholders have approved that matter, but they are counted as present for the purpose of determining a quorum at the Annual Meeting.

How does the Board recommend that I vote?

Medtronic's Board recommends that you vote your shares:

FOR each of the director nominees and ratification of PricewaterhouseCoopers LLP.

AGAINST the shareholder proposal.

How do I vote my shares without attending the meeting?

If you are a shareholder of record or hold shares through a Medtronic stock plan, you may vote by granting a proxy. For shares held in street name, you may vote by submitting voting instructions to your broker or nominee. In any circumstance, you may vote:

By Internet or Telephone If you have internet or telephone access, you may submit your proxy by following the voting instructions on the proxy card. If you vote by internet or telephone, you do not need to return your proxy card.

By Mail You may vote by mail by signing and dating your proxy card and mailing it in the envelope provided. You should sign your name exactly as it appears on the proxy card. If you are signing in a representative capacity (for example, as guardian, executor, trustee, custodian, attorney or officer of a corporation), you should indicate your name and title or capacity.

Internet and telephone voting facilities will close at 11:59 p.m., Eastern Daylight Time, on August 25, 2004.

How do I vote my shares in person at the meeting?

If you are a shareholder of record and prefer to vote your shares at the meeting, you should bring the enclosed proxy card or proof of identification. You may vote shares held in street name at the meeting only if you obtain a signed proxy from the record holder (broker or other nominee) giving you the right to vote the shares.

Even if you plan to attend the meeting, we encourage you to vote in advance by internet, telephone or proxy card so your vote will be counted even if you later decide not to attend the meeting.

What does it mean if I receive more than one proxy card?

It generally means you hold shares registered in more than one account. To ensure that all your shares are voted, sign and return each proxy card or, if you vote by internet or telephone, vote once for each proxy card you receive.

May I change my vote?

Yes. Whether you have voted by mail, internet or telephone, you may change your vote and revoke your proxy at any time by:

Sending a written statement to that effect to the Corporate Secretary of Medtronic.

Voting by internet or telephone at a later time.

Submitting a properly signed proxy card with a later date.

Voting in person at the Annual Meeting.

Can I receive future proxy materials electronically?

Yes. If you are a shareholder of record or hold shares through a Medtronic stock plan, you may receive future proxy statements and annual reports online. If you elect this feature, you will receive an email message notifying you when the materials are available, along with a web address for viewing the materials. If you hold shares in a brokerage account, you may also have the opportunity to receive proxy materials electronically. See the inside front cover of this proxy statement for easy instructions on how to sign up for electronic delivery.

If you received these materials electronically, you do not need to do anything to continue receiving materials electronically in the future.

What are the costs and benefits of electronic delivery of Annual Meeting materials?

There is no cost to you for electronic delivery. You may incur the usual expenses associated with internet access, such as telephone charges or charges from your internet service provider. Electronic delivery ensures quicker delivery, allows you to print the materials at your computer and makes it convenient to vote your shares online. Electronic delivery also saves Medtronic significant postage and processing costs.

PROPOSAL 1 ELECTION OF DIRECTORS

Directors and Nominees

The Board of Directors is divided into three classes of approximately equal size. The members of each class are elected to serve a three-year term with the term of office for each class ending in consecutive years. William R. Brody, M.D., Ph.D., Arthur D. Collins, Jr. and Antonio M. Gotto, Jr., M.D., D. Phil. are the Class III directors whose terms expire at this Annual Meeting and who have been nominated for re-election to the Board to serve until the 2007 Annual Meeting or until their successors are elected and qualified. All of the nominees are currently directors and were elected to the Board of Directors by the shareholders.

All of the nominees have consented to being named as a nominee in this Proxy Statement and have indicated a willingness to serve if elected. However, if any nominee becomes unable to serve before the election, the shares represented by proxies may be voted for a substitute designated by the Board, unless a contrary instruction is indicated on the proxy.

NOMINEES FOR DIRECTOR FOR THREE-YEAR TERMS ENDING IN 2007 (CLASS III):

THE BOARD RECOMMENDS A VOTE *FOR* THESE NOMINEES.

WILLIAM R. BRODY, M.D., Ph.D. Director since 1998
President of The Johns Hopkins University age 60

Dr. Brody has been President of The Johns Hopkins University since September 1996; Provost of the University of Minnesota Academic Health Center from September 1994 to May 1996; Martin Donner Professor and Director of the Department of Radiology at The Johns Hopkins University School of Medicine from 1987 to 1994. He is also a director of AEGON, USA (insurance and investment products), a division of AEGON, N.V. and Mercantile Bankshares Corporation (bank holding company).

ARTHUR D. COLLINS, JR. Director since 1994
Chairman of the Board and Chief Executive Officer, age 56
Medtronic, Inc.

Mr. Collins has been Chairman of the Board and Chief Executive Officer of Medtronic since April 2002; President and Chief Executive Officer from May 2001 to April 2002; President and Chief Operating Officer from August 1996 to April 2001; Chief Operating Officer from January 1994 to August 1996; and Executive Vice President of Medtronic and President of Medtronic International from June 1992 to January 1994. He was Corporate Vice President of Abbott Laboratories (health care products) from October 1989 to May 1992 and Divisional Vice President of that company from May 1984 to October 1989. He is also a director of U.S. Bancorp and Cargill, Inc., a member of the Board of Overseers of The Wharton School at the University of Pennsylvania and Chairman of AdvaMed (Advanced Medical Technology Industry Association).

ANTONIO M. GOTTO, JR., M.D., D. Phil. Director since 1992
Dean of Weill Medical College and Provost for age 68
Medical Affairs, Cornell University

Dr. Gotto has been Dean of the Weill Medical College of Cornell University and Provost for Medical Affairs, Cornell University, since January 1997. He was Chairman and Professor of the Department of Medicine at Baylor College of Medicine and Methodist Hospital from 1977 through 1996 and former J. S. Abercrombie Chair, Atherosclerosis and Lipoprotein Research from 1976 to 1996. He is Past President, International Atherosclerosis Society, Past President, American Heart Association, a member of the Institute of Medicine of the National Academy of Sciences and a Fellow of the American Academy of Arts and Sciences.

DIRECTORS CONTINUING IN OFFICE UNTIL 2006 (CLASS II):

RICHARD H. ANDERSON Director since 2002

Chief Executive Officer, Northwest Airlines Corporation age 49

Mr. Anderson was named Chief Executive Officer of Northwest Airlines Corporation and its principal subsidiary, Northwest Airlines, in February 2001. Prior to this appointment, he was Executive Vice President and Chief Operating Officer for Northwest, a position he held since December 1998. Mr. Anderson joined Northwest in November 1990 as Vice President and Deputy General Counsel and later served as Executive Vice President Technical Operations, Flight Operations and Airport Affairs. Prior to joining Northwest, Mr. Anderson was staff vice president and deputy general counsel for Continental Airlines. He began with Continental in 1987. Mr. Anderson serves on the Boards of Directors of Northwest Airlines Corporation, Xcel Energy, Inc., Mesaba Holdings, Inc., the Minneapolis Institute of Arts, the Henry Ford Museum and Greenfield Village.

MICHAEL R. BONSIGNORE Director since 1999

Retired Chairman and Chief Executive Officer, age 63

Honeywell International, Inc.

Mr. Bonsignore has been the Retired Chairman and Chief Executive Officer of Honeywell International, Inc. (diversified technology and manufacturing company) since July 2001, and previously was the Chairman of the Board of Honeywell International, Inc. from April 2000 to July 2001; Chief Executive Officer of Honeywell International from December 1999 to July 2001; Chairman of the Board and Chief Executive Officer of Honeywell, Inc. from April 1993 to December 1999; Executive Vice President and Chief Operating Officer of the International and Home & Building Control Business of Honeywell, Inc. from 1990 to 1993; President of Honeywell's International business from 1987 to 1990; and President of Honeywell Europe from 1983 to 1987. Mr. Bonsignore is a member of the National Geographic Society Board of Trustees.

GORDON M. SPRENGER Director since 1991

Retired President and Chief Executive Officer, age 67

Allina Health System

Mr. Sprenger has been the Retired President and Chief Executive officer of Allina Health System (health care delivery) since October 2001, and previously was President and Chief Executive Officer of Allina Health System from June 1999 to October 2001; Chief Executive Officer of Allina Health System from April 1999 to June 1999; Executive Officer of Allina Health System from July 1994 to April 1999; Chief Executive Officer and director of HealthSpan Health Systems Corporation (a health care delivery company that merged with Medica Health Plan in 1994 to form Allina Health System) from 1992 to 1994; President and Chief Executive Officer of LifeSpan, Inc. (health care delivery) from 1982 to 1992; and Chief Executive Officer of Abbott-Northwestern Hospital from 1982 to 1992. He is also a director of The St. Paul Companies, Inc. (insurance) and Past Chair of the Board of the American Hospital Association.

DIRECTORS CONTINUING IN OFFICE UNTIL 2005 (CLASS I):

SHIRLEY ANN JACKSON, Ph.D. Director since 2002

President of Rensselaer Polytechnic Institute age 57

Dr. Jackson has been President of Rensselaer Polytechnic Institute since July 1999. She was Chair of the U.S. Nuclear Regulatory Commission from July 1995 to July 1999; Professor of Physics at Rutgers University from 1991 to 1995; Research Physicist for AT&T Bell Laboratories from 1976 to 1991. She is a member of the National Academy of Engineering and is a Fellow of the American Academy of Arts and Sciences and of the American Physical Society. She is a trustee of the Brookings Institution, a Life Trustee of M.I.T. and a member of the Counsel on Foreign Relations. Dr. Jackson is also a director of the New York Stock Exchange, Federal Express Corporation, AT&T Corporation, Marathon Oil Corporation, U.S. Steel Corporation, and Public Service Enterprise Group.

DENISE M. O'LEARY Director since 2000

Private Venture Capital Investor age 47

Ms. O'Leary has been a private venture capital investor in a variety of early stage companies since 1996. She was with Menlo Ventures, a venture capital investment company, from 1983 to 1996 and served as a General Partner from 1987 to 1996. Ms. O'Leary is also a director of America West Holdings Corporation (the parent of America West Airlines) and Chiron Corporation (biotechnology), and a member of the Stanford University Board of Trustees, Chair of the Stanford Board Committee for the Stanford Medical Center and Chair of the Board of Directors of Stanford Hospitals and Clinics.

JEAN-PIERRE ROSSO Director since 1998

Retired Chairman of CNH Global N.V. age 64

Mr. Rosso served as Chairman of CNH Global N.V. (agricultural and construction equipment) from November 1999 until his retirement in May 2004; was Chief Executive Officer of CNH Global N.V. from November 1999 to November 2000; Chairman and Chief Executive Officer of Case Corporation (agricultural and construction Equipment) from March 1996 to November 1999; President and Chief Executive Officer of Case Corporation from April 1994 to March 1996. He was President of the Home & Building Control Business of Honeywell, Inc. from 1992 to 1994; President of European operations of Honeywell, Inc. from 1987 through 1991. He is also a director of ADC Telecommunications, Inc. and Eurazeo.

JACK W. SCHULER Director since 1990

Chairman of the Board of Stericycle, Inc. age 63
and Ventana Medical Systems, Inc.

Mr. Schuler has been Chairman of the Board of Stericycle, Inc. (medical waste treatment and recycling) since March 1990 and Chairman of the Board of Ventana Medical Systems, Inc. (immunohistochemistry diagnostic systems) since November 1995; was President and Chief Operating Officer of Abbott Laboratories (health care products) from January 1987 to August 1989; a director of that company from April 1985 to August, 1989 and Executive Vice President from 1985 to 1987.

GOVERNANCE OF MEDTRONIC

Our Corporate Governance Principles

In fiscal 1996, the Board of Directors adopted Principles of Corporate Governance (the *Governance Principles*). In 2004, following Securities and Exchange Commission (SEC) approval of final New York Stock Exchange (NYSE) corporate governance listing standards, the Board updated the Governance Principles, approved new charters for the Audit, Compensation and Corporate Governance Committees, approved a revised Code of Conduct applicable to Medtronic's officers and employees and adopted a Code of Business Conduct and Ethics for members of the Board. The Governance Principles describe Medtronic's corporate governance practices and policies, and provide a framework for the governance of Medtronic. Among other things, the Governance Principles provide that:

A majority of the members of the Board must be independent directors, and no more than three directors may be Medtronic employees. Currently only one director, Medtronic's Chairman and CEO, is not independent.

The Audit, Compensation, Corporate Governance and Technology and Quality Committees consist entirely of independent directors. In accordance with SEC and NYSE requirements, all members of the Audit Committee meet additional independence standards applicable to audit committee members.

The Corporate Governance Committee, which consists of all the independent directors on the Board, annually evaluates the performance of the CEO and oversees an annual evaluation of the Board and its committees. The Nominating Subcommittee of the Corporate Governance Committee evaluates the performance of each director whose term is expiring based on criteria set forth in the Governance Principles.

Our Governance Principles, the charters of our Audit, Compensation, Corporate Governance and Technology and Quality Committees and our codes of conduct are published on our website at www.medtronic.com under the Corporate Governance caption. Our Audit Committee charter is also attached as Appendix A to this Proxy Statement. From time to time the Board reviews and updates these documents as it deems necessary and appropriate.

Committees of the Board and Meetings

The Board has four standing committees with the principal functions described below.

Audit Committee

Oversees the integrity of Medtronic's financial reporting

Oversees Medtronic's legal compliance function

Reviews annual and quarterly financial statements and discusses policy with respect to earnings releases

Reviews major changes to Medtronic's accounting and auditing principles and practices

Reviews and makes recommendations regarding performance objectives developed by management, including review of Medtronic's annual and long-range operating plans

Hires the firm to be appointed as Medtronic's independent auditors and oversees relationship with independent auditors

Pre-approves all audit and permitted non-audit services to be provided by the independent auditors

Reviews scope of the annual audit and internal audit programs

Reviews the adequacy and effectiveness of Medtronic's internal control over financial reporting and disclosure controls and procedures

Meets periodically with management to review Medtronic's major financial and business risk exposures and steps taken to monitor and control these exposures

Establishes procedures concerning the submission, receipt, retention and treatment of complaints and concerns regarding internal accounting controls, accounting and auditing matters

Meets privately in separate executive sessions periodically with management, internal audit and independent auditors.

Compensation Committee

Establishes executive compensation policies and guiding principles

Annually reviews and approves corporate goals and objectives relevant to compensation of the CEO, establishes compensation of the CEO, based on evaluations conducted by Corporate Governance Committee, and other top four proxy executives

Makes recommendations to the Board with respect to incentive-compensation plans and equity-based compensation plans

Evaluates the design of compensation and qualified benefit programs

Establishes compensation for non-management directors and recommends changes to the full Board.

Corporate Governance Committee

Addresses matters of corporate governance and reviews and recommends to the Board changes to the Governance Principles

Evaluates qualifications and candidates for positions on the Board

Annually evaluates the CEO's performance in light of goals and objectives set by the Compensation Committee and communicates results of evaluation to that Committee

Annually reviews performance of senior management

Oversees an annual evaluation of the Board and its committees

Reviews succession plans and makes recommendations to the Board

Maintains a Nominating Subcommittee which recommends to the full Committee criteria for selecting new directors, nominees for Board membership and the positions of Chairman, Chief Executive Officer and Chair of the Corporate Governance Committee (lead director) and whether a director should be invited to stand for re-election. The Subcommittee is comprised of the Chair of the Corporate Governance Committee plus, generally, one director selected from each class of directors.

The Corporate Governance Committee considers candidates for Board membership, including those suggested by shareholders, applying the same criteria to all candidates. Any shareholder who wishes to recommend a prospective nominee for the Board for consideration by the Corporate Governance Committee must notify the Corporate Secretary in writing at Medtronic's offices at 710 Medtronic Parkway, Minneapolis, MN 55432 no later than March 25, 2005. Any such recommendations should provide whatever supporting material the shareholder considers appropriate, but should at a minimum include such background and biographical material as will enable the Committee to make an initial determination as to whether the nominee satisfies the criteria for directors set out in the Governance Principles.

If the Corporate Governance Committee identifies a need to replace a current member of the Board, to fill a vacancy in the Board, or to expand the size of the Board, the Committee considers candidates from a variety of sources. The process followed by the Committee to identify and evaluate candidates includes (a) meetings to evaluate biographical information and background material relating to candidates, and (b) interviews of selected candidates by members of the Committee. Recommendations by the Committee of candidates for inclusion in the Board slate of director nominees are based upon the criteria set forth in the Governance Principles. These criteria include business experience and skills, independence, distinction in their activities, judgment, integrity, the ability to commit sufficient time and attention to Board activities and the absence of potential conflicts with Medtronic's interests. The Committee also considers any other relevant factors that it may from time to time deem appropriate, including the current composition of the Board, the balance of management and independent directors, the need for Audit Committee expertise and the evaluation of all prospective nominees.

After completing interviews and the evaluation process, the Committee makes a recommendation to the full Board as to persons who should be nominated by the Board. The Board determines the nominees after considering the recommendations and report of the Committee and making such other evaluation as it deems appropriate.

Alternatively, shareholders intending to appear at the annual meeting of shareholders to nominate a candidate for election by the shareholders at the meeting (in cases where the Board does not intend to nominate the candidate or where the Committee was not requested to consider his or her candidacy) must comply with the procedures in Medtronic's articles of incorporation, which are described under "Other Information" Shareholder Proposals and Director Nominations" below.

Technology and Quality Committee

Reviews policies, practices, processes and quality programs concerning technological and product research

Reviews quality process matters with Medtronic's chief quality officer

Reviews efforts and investments in developing new products and businesses

Evaluates Medtronic's technological education and recognition programs.

Beginning in 2004, the Board convened a Special Committee, comprised of Richard H. Anderson, Jean-Pierre Rosso and Jack W. Schuler, to conduct an independent evaluation of certain allegations made in a civil qui tam complaint under the federal False Claims Act against a subsidiary of the Company. For more information about the complaint, please see the "Legal Proceedings" section in Part I of the Company's Annual Report on Form 10-K for the fiscal year ended April 30, 2004.

Edgar Filing: MEDTRONIC INC - Form DEF 14A

The following table summarizes the current membership of the Board and each of its committees, as well as the number of times each committee met during the fiscal year ended April 30, 2004 (fiscal 2004).

	Board	Audit	Compensation	Corporate Governance	Technology and Quality
Mr. Anderson	X		X	X	X
Mr. Bonsignore	X	X	Chair	X	
Dr. Brody	X			X*	Chair
Mr. Collins	Chair				
Dr. Gotto	X			X	X
Dr. Jackson	X			X*	X
Ms. O Leary	X	X		X*	
Mr. Rosso	X	Chair	X	X	
Mr. Schuler	X	X	X	Chair*	
Mr. Sprenger	X		X	X	
Number of fiscal 2004 meetings	6	8	3	4	3

* Denotes member of Nominating Subcommittee, which met three times in fiscal 2004.

Each director attended 75% or more of the total meetings of the Board and Board committees on which the director served.

Director Compensation

Under the Medtronic, Inc. Outside Director Stock Compensation Plan (the Director Plan), non-employee director compensation has four components: an annual retainer, an annual cash stipend (committee chairs only), an annual stock option grant and an annual grant of deferred stock units. In addition, all new non-employee directors receive an initial stock option grant.

The annual retainer for all non-employee directors for the 2004-2005 plan year (September 1, 2004 through August 31, 2005) is \$60,000. The Chair of the Corporate Governance Committee receives an additional cash stipend of \$10,000. The Chairs of the Audit, Compensation and Technology and Quality Committees receive an additional cash stipend of \$6,500. Members of the Special Committee receive an additional annual fee of \$10,000, paid quarterly (\$2,500 per quarter), so long as the committee is convened. Each director has the choice of taking 100% of the annual retainer and annual cash stipend in cash or in a stock option. If an option is chosen, the number of shares subject to the option will equal four times the amount of the annual retainer and annual cash stipend foregone, divided by the fair market value of a share of Medtronic common stock on the last day of the plan year (which will also be the exercise price of the option). These options expire on the tenth anniversary of the date of grant. The annual retainer and annual cash stipend are reduced by 25% if a non-employee director does not attend at least 75% of the total meetings of the Board and Board committees on which such director served during the relevant plan year.

Each non-employee director also receives on the first day of each plan year an annual stock option grant for a number of shares of Medtronic common stock equal to the amount of the annual retainer divided by the fair market value of a share of Medtronic common stock on

Edgar Filing: MEDTRONIC INC - Form DEF 14A

the date of grant (which will also be the exercise price of the option). These options expire at the earlier of the tenth anniversary of the date of grant or five years after the holder ceases to be a Medtronic director.

On the last day of each plan year, each non-employee director is granted a number of deferred stock units (each representing the right to receive one share of Medtronic common stock) equal to the amount of the annual retainer earned divided by the average of the fair market value of

a share of Medtronic common stock for the last 20 trading days during the plan year. Dividends paid on Medtronic common stock are credited to a director's stock unit account in the form of additional stock units. The balance in a director's stock unit account will be distributed to the director in the form of shares of Medtronic common stock upon resignation or retirement from the Board in a single distribution or, at the director's option, in five equal annual distributions.

On the date he or she first becomes a director, each new non-employee director also receives a one-time initial stock option grant for a number of shares of Medtronic common stock equal to two times the amount of the annual retainer divided by the fair market value of a share of Medtronic common stock on the date of grant (which will also be the exercise price of such option). These options expire at the earlier of the tenth anniversary of the date of grant or five years after the holder ceases to be a Medtronic director.

All of the non-employee director stock options described above vest and are exercisable in full on the date of grant, except that a director initially appointed by the Board will generally not be entitled to exercise any stock option until the director has been elected to the Board by Medtronic's shareholders. To more closely align their interests with those of shareholders generally, directors are encouraged to own stock of the Company in an amount equal to five times the annual Board retainer fees. Such holdings should be considered long-term investments and be achieved within five years of joining the Board. Each director must retain, for a period of three years, 75% of the net after-tax profit shares realized from option exercises or share issuances resulting from grants made on or after April 26, 2003. For stock options, net after-tax profit shares are those shares remaining after payment of the option's exercise price and income taxes. For share issuances, net gain shares are those remaining after payment of income taxes. Shares retained may be sold after three years. In the case of retirement or termination, the shares may be sold after the shorter of the remaining retention period or one year following retirement/termination.

As part of its overall program to promote charitable giving, the Medtronic Foundation matches gifts by Medtronic employees and directors to qualified educational institutions up to \$7,000 per fiscal year. In addition, for any individual who became a director prior to July 1, 1998 and has served five or more years, the director may recommend charitable institutions to which Medtronic will make a total contribution of \$1 million at the time of the director's death.

Certain Relationships and Related Transactions

During fiscal 2004, Tino Schuler, a son of director Jack W. Schuler, was employed by Medtronic as a director of marketing. Mr. Tino Schuler has worked for Xomed since August 1993. Xomed was acquired by Medtronic in 1999. Mr. Tino Schuler was paid an aggregate salary and bonus of \$139,469 for his services during fiscal 2004. Director Gordon M. Sprenger's son, Michael G. Sprenger, also worked as a director of marketing for Medtronic during fiscal 2004, receiving an aggregate salary and bonus of \$157,189. Mr. Michael Sprenger has been a Medtronic employee since May 1989, prior to his father's election to Medtronic's Board in September 1991. Both Mr. Tino Schuler and Mr. Michael Sprenger received in fiscal 2004, in addition to their salaries and bonuses, the standard benefits provided to other Company employees.

Our Codes of Conduct

All of our employees, including our Chief Executive Officer and other senior executives, are required to comply with our long-standing Code of Conduct to help ensure that our business is conducted in accordance with the highest standards of moral and ethical behavior. Our Code of Conduct covers all areas of professional conduct, including customer relationships, conflicts of interest, insider trading, intellectual property and confidential information, as well as requiring strict adherence to all laws and regulations applicable to our business. Employees are required to bring any violations and suspected violations of the Code to the attention of Medtronic, through management or Company legal counsel or by using Medtronic's confidential compliance line. Our

Code of Conduct was recently amended to include certain specific policies (collectively, the Code of Ethics for Senior Financial Officers) applicable to our Chief Executive Officer, Chief Financial Officer, Treasurer and Controller and to other senior financial officers designated from time to time by our Chief Executive Officer, in respect of internal controls, the public disclosures of Medtronic, violations of the securities or other laws, rules or regulations and conflicts of interest. In 2004, the Board of Directors adopted a Code of Business Conduct and Ethics for members of the Board in respect of director responsibilities, conflicts of interest, strict adherence to applicable laws and regulations, and promotion of ethical behavior.

Our codes of conduct are published on our website, at www.medtronic.com, under the Corporate Governance caption. We intend to disclose future amendments to, or waivers for directors and executive officers of, our codes of conduct on our website promptly following the date of such amendment or waiver.

Lead Director; Executive Sessions

The Chair of our Corporate Governance Committee, Mr. Schuler, is our designated Lead Director and presides as the chair at meetings or executive sessions of the independent directors. At this time, six regular meetings of our Board are held each year and at each Board meeting our independent directors meet in executive session with no Company management present. The membership of each of our four standing Board committees Audit Committee, Compensation Committee, Corporate Governance Committee and Technology and Quality Committee consists solely of independent directors, and at each meeting of a Board committee the members meet in executive session with no Company management present.

Complaint Procedure; Communications with Directors

The Sarbanes-Oxley Act of 2002 requires companies to maintain procedures to receive, retain and treat complaints received regarding accounting, internal accounting controls or auditing matters and to allow for the confidential and anonymous submission by employees of concerns regarding questionable accounting or auditing matters. We currently have such procedures in place. Our 24-hour, toll-free confidential compliance line is available for the submission of concerns regarding accounting, internal controls or auditing matters. Our Board of Directors may also be contacted via e-mail at independentdirectors@medtronic.com. Our independent lead director, Mr. Schuler, may be contacted via e-mail at leaddirector@medtronic.com. Communications received from shareholders are forwarded directly to Board members as part of the materials sent before the next regularly scheduled Board meeting, although the Board has authorized management, in its discretion, to forward communications on a more expedited basis if circumstances warrant or to exclude a communication if it is illegal, unduly hostile or threatening or similarly inappropriate. Advertisements, solicitations for periodical or other subscriptions and other similar communications generally will not be forwarded to the directors.

Audit Committee Financial Experts

All of our current Audit Committee members Messrs. Rosso (Chair), Bonsignore and Schuler and Ms. O Leary are audit committee financial experts, as that term is defined in SEC rules implementing requirements of the Sarbanes-Oxley Act of 2002.

Audit Committee Pre-Approval Policies

Rules adopted by the SEC in order to implement requirements of the Sarbanes-Oxley Act of 2002 require public company audit committees to pre-approve audit and non-audit services provided by a company's independent auditor. Our Audit Committee has adopted detailed pre-approval policies and procedures pursuant to which audit, and audit-related, tax, and other permissible non-audit services, are pre-approved by category of service. The fees are budgeted,

and actual fees versus the budget are monitored throughout the year. During the year, circumstances may arise when it may become necessary to engage the independent auditor for additional services not contemplated in the original pre-approval. In those instances, we will obtain the pre-approval of the Audit Committee before engaging the independent auditor. The policies require the Audit Committee to be informed of each service, and the policies do not include any delegation of the Audit Committee's responsibilities to management. The Audit Committee may delegate pre-approval authority to one or more of its members. The member to whom such authority is delegated will report any pre-approval decisions to the Audit Committee at its next scheduled meeting.

Director Independence

Under the NYSE listing standards, to be considered independent, a director must be determined to have no material relationship with Medtronic other than as a director. The listing standards include criteria for assessing the independence of directors, including guidelines relating to directors (and their immediate family members') employment or affiliation with Medtronic or its independent auditor. The listing standards also prohibit Audit Committee members from any direct or indirect financial relationships with Medtronic above certain thresholds, and restrict commercial relationships of all directors with Medtronic. The Audit Committee also satisfies the independence standards of SEC Rule 10A-3.

The Board of Directors has determined that each of our non-management directors is independent under the NYSE listing standards. In making its independence determinations, the Board noted that each of Mr. Schuler and Mr. Sprenger has a son who is employed by Medtronic, and that each such employee received more than \$100,000 in compensation in fiscal year 2004. Mr. Schuler's son was employed by a company acquired by Medtronic, and continued his employment with Medtronic following the acquisition. Mr. Sprenger's son was a Medtronic employee prior to Mr. Sprenger's election to the Board. The Board determined that these relationships are not material to the directors. Each of such employment relationships is maintained on an arm's length basis; neither family member is an executive officer of Medtronic or a member of the household of the related director; and neither director has any material interest in the employment relationship.

The Board also considered Mr. Anderson's position as Chief Executive Officer of Northwest Airlines, which, with the Minneapolis-St. Paul Airport as one of Northwest Airlines' major hubs, is the airline we use for a significant portion of our employees' business travel to and from our World Headquarters. The Board determined that this relationship does not impair Mr. Anderson's independence as a director, since our business relationship with Northwest Airlines pre-dates Mr. Anderson's election to our Board and is maintained on an arm's length basis, and the air travel is provided to Medtronic at market rates. Additionally, in making its independence determinations, the Board also noted Ms. O'Leary's association with the Stanford Medical Center and Stanford Hospitals and Clinics, Dr. Brody's association with The Johns Hopkins University and Dr. Gotto's association with the Weill Medical College of Cornell University. We have research and/or business relationships with each of these institutions. The Board determined that such relationships do not impair the independence of Ms. O'Leary and Dr. Brody and Dr. Gotto, since in each case the relationships are maintained on an arm's length basis and neither the directors nor the institutions with which they are affiliated are given special treatment in these relationships.

Annual Meeting of the Shareholders

It has been the longstanding practice of the Company for all directors to attend the Annual Meeting of Shareholders. All directors attended the last Annual Meeting.

SHARE OWNERSHIP INFORMATION

5% Owners. As reported in filings with the Securities and Exchange Commission, no shareholder beneficially owned more than 5% of Medtronic's common stock as of July 2, 2004.

Management Shareholdings. The following table shows the number of shares of Medtronic common stock beneficially owned as of July 2, 2004 by Medtronic's directors, executive officers identified in the Summary Compensation Table below, and all directors and executive officers as a group.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership ⁽³⁾⁽⁴⁾	Of Shares Beneficially Owned, Amount that May Be Acquired Within 60 Days
Richard H. Anderson ⁽¹⁾	10,900	7,517
Michael R. Bonsignore	46,461	32,166
William R. Brody, M.D., Ph.D.	57,836	42,335
Arth		