REPLIDYNE INC
Form 424B3
January 27, 2009

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We are furnishing this proxy statement/prospectus to the holders of Replidyne, Inc. s common stock and to holders of Cardiovascular Systems, Inc. s common stock, Series A convertible preferred stock, Series A-1 convertible preferred stock and Series B convertible preferred stock.

Replidyne, Inc., or Replidyne, and Cardiovascular Systems, Inc., or CSI, have entered into a merger agreement pursuant to which a wholly owned subsidiary of Replidyne will merge with and into CSI, with CSI continuing as a wholly owned subsidiary of Replidyne. Immediately prior to the effective time of the merger, each share of CSI preferred stock will be converted into shares of CSI common stock at a ratio determined in accordance with the CSI articles of incorporation. At the effective time of the merger, each share of CSI common stock will convert into the right to receive that number of shares of Replidyne common stock as determined pursuant to the conversion factor described in the merger agreement. Replidyne will assume outstanding and unexercised options and warrants to purchase CSI common stock, and they will be converted into warrants and options, as applicable, to purchase Replidyne common stock in accordance with the same conversion factor. Replidyne stockholders, optionholders and warrantholders will continue to own and hold, respectively, their existing shares of and options and warrants for Replidyne common stock. Immediately after the merger, current stockholders of Replidyne, together with holders of Replidyne options and warrants, are expected to own or have the right to acquire between 16.3% and 17.0% of the combined company, and current CSI stockholders, together with holders of CSI options and warrants, are expected to own or have the right to acquire between 83.0% and 83.7% of the combined company, in each case assuming that Replidyne s net assets at closing are between $35.0 and $37.0 million as calculated in accordance with the terms of the merger agreement, on a fully diluted basis using the treasury stock method of accounting for options and warrants.

Shares of Replidyne common stock are currently listed on the Nasdaq Global Market under the symbol RDYN. After completion of the merger, Replidyne will be renamed Cardiovascular Systems, Inc. and expects to trade on the Nasdaq Global Market under the symbol CSII. On January 26, 2009, the last trading day before the date of this proxy statement/prospectus, the closing sale price of Replidyne common stock was $0.77 per share.

Replidyne is holding a special meeting of stockholders in order to obtain the stockholder approvals necessary to complete the merger and related matters. At the Replidyne special meeting, which will be held at 9:00 a.m., local time, on February 24, 2009 at Cooley Godward Kronish LLP, 380 Interlocken Crescent, Suite 900, Broomfield, Colorado, unless postponed or adjourned to a later date, Replidyne will ask its stockholders to, among other things, approve the issuance of Replidyne common stock pursuant to the merger and approve amendments to the Replidyne certificate of incorporation effecting a reverse stock split of Replidyne common stock, which is referred to as the reverse stock split, and changing the Replidyne corporate name to Cardiovascular Systems, Inc., each as described in the accompanying proxy statement/prospectus.

CSI is holding a special meeting of stockholders in order to obtain the stockholder approvals necessary to complete the merger and related matters. At the CSI special meeting, which will be held at 9:00 a.m., local time, on February 24, 2009 at Cardiovascular Systems, Inc., 651 Campus Drive, St. Paul, Minnesota, unless postponed or adjourned to a later date, CSI will ask its stockholders to, among other things, approve and adopt the merger agreement and the merger contemplated therein.

After careful consideration, the Replidyne and CSI boards of directors have approved the merger agreement and the respective proposals referred to above, and each of the Replidyne and CSI boards of directors has determined that it is

advisable to enter into the merger. The board of directors of Replidyne and CSI each recommends that its stockholders vote FOR the proposals described in the accompanying proxy statement. Several CSI stockholders have agreed with Replidyne to vote shares representing approximately 20% of the outstanding capital stock of CSI in favor of the merger and the other actions contemplated by the merger agreement. In addition, several Replidyne stockholders have agreed with CSI to vote shares representing approximately 32% of the outstanding common stock of Replidyne in favor of the issuance of the shares of Replidyne common stock pursuant to the merger and the other actions contemplated by the merger agreement.

More information about Replidyne, CSI and the proposed transaction is contained in this proxy statement/prospectus. Replidyne and CSI urge you to read the accompanying proxy statement/prospectus carefully and in its entirety. **In particular, you should carefully consider the matters discussed under *Risk Factors* beginning on page 18.**

This proxy statement/prospectus refers to important business and financial information about Replidyne and CSI that is not included in or delivered with this proxy statement/prospectus. Such information is available without charge to stockholders of Replidyne and CSI upon written or oral request at the following addresses: For information concerning Replidyne, Replidyne, Inc., Attn: Investor Relations, 1450 Infinite Drive, Louisville, Colorado 80027, or by telephone at (303) 996-5500; and for information concerning CSI, Cardiovascular Systems, Inc., Attn: Investor Relations, 651 Campus Drive, St. Paul, Minnesota 55112, or by telephone at (651) 259-2800. **To obtain timely delivery, Replidyne stockholders must request the information no later than five business days before the date of the special meeting of Replidyne stockholders, or no later than February 17, 2009, and CSI stockholders must request the information no later than five business days before the date of the special meeting of CSI stockholders, or no later than February 17, 2009.**

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this proxy statement/prospectus. Any representation to the contrary is a criminal offense.

The accompanying proxy statement/prospectus is dated January 27, 2009, and is first being mailed to Replidyne stockholders on or about January 30, 2009 and to CSI stockholders on or about January 29, 2009.

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Replidyne, Inc.
1450 Infinite Dr.
Louisville, CO 80027
(303) 996-5500

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
To Be Held On February 24, 2009

To the Stockholders of Replidyne, Inc.:

On behalf of the board of directors of Replidyne, Inc., a Delaware corporation, we are pleased to deliver this proxy statement/prospectus for the proposed merger combining Replidyne, Inc., or Replidyne, and Cardiovascular Systems, Inc., or CSI, a Minnesota corporation. The special meeting of stockholders of Replidyne will be held on February 24, 2009 at 9:00 a.m. MST, at Cooley Godward Kronish LLP, 380 Interlocken Crescent, Suite 900, Broomfield, Colorado, for the following purposes:

1. To consider and vote upon a proposal to approve the issuance of Replidyne common stock pursuant to the Agreement and Plan of Merger and Reorganization, dated November 3, 2008, by and among Replidyne, Responder Merger Sub, Inc., and CSI as described in the attached proxy statement/prospectus.

2. To authorize Replidyne s board of directors to amend Replidyne s restated certificate of incorporation in order to effect a reverse stock split of the issued and outstanding shares of Replidyne common stock in a ratio of up to one for 50, if and as determined by Replidyne s board of directors.

3. To approve an amendment to Replidyne s restated certificate of incorporation to change the name Replidyne, Inc. to Cardiovascular Systems, Inc.

4. To approve Replidyne s assumption of the Cardiovascular Systems, Inc. 2007 Equity Incentive Plan to be used by Replidyne following the consummation of the merger, together with an increase in the number of shares of CSI common stock reserved for issuance under the plan from 3,379,397 to 3,879,397, which following the merger will be converted into shares of Replidyne common stock, subject to further adjustment for the reverse stock split anticipated before closing of the merger.

5. To approve an amendment to the Replidyne, Inc. 2006 Employee Stock Purchase Plan to (i) increase the number of shares of Replidyne common stock reserved under the plan from 305,872 to 1,920,872, subject to further adjustment for the reverse stock split anticipated before the closing of the merger and (ii) amend the evergreen provisions of the plan to provide that on July 1st of each year, beginning with July 1, 2009, the share reserve under the plan automatically will be increased by a number of shares equal to the lesser of (A) one percent (1.0%) of the total number of shares of Replidyne common stock outstanding on such date, or (B) 1,800,000 shares (subject to adjustment for the reverse stock split anticipated before the closing of the merger), unless Replidyne s board of directors designates a smaller number of shares.

6. To consider and vote upon an adjournment of the special meeting, if necessary, if a quorum is present, to solicit additional proxies if there are not sufficient votes in favor of Replidyne Proposal No. 1, 2, 3, 4 or 5.

7. To transact such other business as may properly come before the special meeting or any adjournment or postponement thereof.

The board of directors of Replidyne has fixed January 21, 2009 as the record date for the determination of stockholders entitled to notice of, and to vote at, the special meeting and any adjournment or postponement thereof. Only holders of record of shares of Replidyne common stock at the close of business on the record date are entitled to notice of, and to vote at, the special meeting. At the close of business on the record date, Replidyne had 27,114,677 shares of common stock outstanding and entitled to vote.

Your vote is important. The affirmative vote of the holders of a majority of the shares of Replidyne common stock casting votes in person or by proxy at the Replidyne special meeting is required for approval of Replidyne Proposal Nos. 1, 4, 5 and 6 and the affirmative vote of the holders of a majority of the shares of Replidyne common stock having voting power outstanding on the record date for the Replidyne special meeting is required for approval of Replidyne Proposal Nos. 2 and 3. Even if you plan to attend the special

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meeting in person, we request that you sign and return the enclosed proxy and thus ensure that your shares will be represented at the special meeting if you are unable to attend. If you sign, date and mail your proxy card without indicating how you wish to vote, your proxy will be counted as a vote in favor of Replidyne Proposal Nos. 1, 2, 3, 4, 5 and 6. If you fail to return your proxy card, the effect will be that your shares will not be counted for purposes of determining whether a quorum is present at the special meeting. You may revoke your proxy in the manner described in the proxy statement/prospectus before it has been voted at the special meeting. If you decide to attend the Replidyne special meeting, you may withdraw your proxy and vote in person.

By Order of the Board of Directors,

By: /s/ Mark L. Smith

Secretary

Louisville, Colorado
January 27, 2009

THE REPLIDYNE BOARD OF DIRECTORS HAS DETERMINED AND BELIEVES THAT EACH OF THE REPLIDYNE PROPOSALS OUTLINED ABOVE IS ADVISABLE, AND IN THE BEST INTERESTS OF, REPLIDYNE AND ITS STOCKHOLDERS AND HAS APPROVED EACH SUCH PROPOSAL. THE REPLIDYNE BOARD OF DIRECTORS RECOMMENDS THAT REPLIDYNE STOCKHOLDERS VOTE FOR EACH SUCH PROPOSAL.

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Cardiovascular Systems, Inc.
651 Campus Dr.
St. Paul, MN 55112
(651) 259-2800

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
To Be Held On February 24, 2009

To the Stockholders of Cardiovascular Systems, Inc.:

On behalf of the board of directors of Cardiovascular Systems, Inc., a Minnesota corporation, we are pleased to deliver this proxy statement/prospectus for the proposed merger combining Replidyne, Inc., or Replidyne, a Delaware corporation, and Cardiovascular Systems, Inc., or CSI. The special meeting of stockholders of CSI will be held on February 24, 2009 at 9:00 a.m. CST, at Cardiovascular Systems Inc., 651 Campus Drive, St. Paul, Minnesota, for the following purposes:

1. To consider and vote upon a proposal to approve and adopt the Agreement and Plan of Merger and Reorganization, dated November 3, 2008, by and among Replidyne, Responder Merger Sub, Inc., and CSI and the merger contemplated therein, as described in the attached proxy statement/prospectus.

2. To authorize an increase in the number of shares of CSI common stock reserved under CSI s 2007 Equity Incentive Plan from 3,379,397 to 3,879,397.

3. To consider and vote upon an adjournment of the special meeting, if necessary, if a quorum is present, to solicit additional proxies if there are not sufficient votes in favor of CSI Proposal No. 1 or 2.

4. To transact such other business as may properly come before the special meeting or any adjournment or postponement thereof.

The board of directors of CSI has fixed January 26, 2009 as the record date for the determination of stockholders entitled to notice of, and to vote at, the special meeting and any adjournment or postponement thereof. Only holders of record of shares of CSI common stock or preferred stock at the close of business on the record date are entitled to notice of, and to vote at, the special meeting. At the close of business on the record date, CSI had 7,792,905 shares of common stock, 4,737,561 shares of Series A convertible preferred stock, 2,188,425 shares of Series A-1 convertible preferred stock and 2,162,150 shares of Series B convertible preferred stock outstanding and entitled to vote. Each holder of CSI preferred stock is entitled to such number of votes per share on each proposal to be voted upon as shall equal the number of shares of common stock into which each share of the preferred stock is then convertible, and in the event each share of the preferred stock is convertible into a number of shares of common stock including a fraction, each holder shall be entitled to vote the sum of fractions of a share to which the holder is entitled, rounded down to the nearest whole number. As of the record date, each share of Series A convertible preferred stock was convertible into 1.01 shares of common stock, each share of Series A-1 convertible preferred stock was convertible into 1.03 shares of common stock, and each share of Series B convertible preferred stock was convertible into 1.01 shares of common stock.

Your vote is important. The affirmative vote of (i) the holders of a majority of the voting power of CSI common stock and preferred stock outstanding on the record date, voting as a single class on an as-converted to common stock basis, and (ii) a majority of the shares of CSI preferred stock outstanding on the record date, voting as a single class on an as-converted to common stock basis and including the shares of CSI preferred stock held by affiliates of Easton Capital Investment Group and Maverick Capital, Ltd., is required for

approval of CSI Proposal No. 1. The affirmative vote of the holders of a majority of the voting power of CSI common stock and preferred stock, voting as a single class on an as-converted to common stock basis, casting votes in person or by proxy at the CSI special meeting is required for approval of CSI Proposal Nos. 2 and 3. Even if you plan to attend the special meeting in person, we request that you sign and return the enclosed proxy and thus ensure that your shares will be represented at the special meeting if you are unable to attend. If you sign, date and mail your proxy card without indicating how you wish to vote, your proxy will be counted as a vote in favor of CSI Proposal Nos. 1, 2 and 3. If you fail to return your proxy card, the effect will be that your shares will not be counted for purposes of determining whether a quorum is present at the special meeting. You may revoke your proxy in the manner described in the proxy statement/prospectus

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before it has been voted at the special meeting. If you decide to attend the CSI special meeting, you may withdraw your proxy and vote in person.

By Order of the Board of Directors,

By: /s/ James E. Flaherty

James E. Flaherty
Secretary

St. Paul, Minnesota
January 27, 2009

THE CSI BOARD OF DIRECTORS HAS DETERMINED AND BELIEVES THAT EACH OF THE CSI PROPOSALS OUTLINED ABOVE IS ADVISABLE, AND IN THE BEST INTERESTS OF, CSI AND ITS STOCKHOLDERS AND HAS APPROVED EACH SUCH PROPOSAL. THE CSI BOARD OF DIRECTORS RECOMMENDS THAT CSI STOCKHOLDERS VOTE FOR EACH SUCH PROPOSAL.

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QUESTIONS AND ANSWERS ABOUT THE MERGER, THE REPLIDYNE SPECIAL MEETING AND THE CSI SPECIAL MEETING

The following section provides answers to frequently asked questions about the merger and the effect of the merger on holders of Replidyne common stock and CSI common stock and preferred stock, the Replidyne special meeting and the CSI special meeting. This section, however, only provides summary information. Replidyne and CSI urge you to read carefully the remainder of this proxy statement/prospectus, including the annexes to this proxy statement/prospectus, because the information in this section does not provide all the information that might be important to you regarding the merger and the other matters being considered at the Replidyne special meeting and the CSI special meeting.

As used in this proxy statement/prospectus, references to Replidyne refer collectively to Replidyne, Inc. and all of its subsidiaries unless the context requires otherwise, references to CSI refer to Cardiovascular Systems, Inc. and all of its subsidiaries unless the context requires otherwise, and references to the combined company refer to Replidyne following the proposed transaction described in this proxy statement/prospectus.

Q: What is the merger?

A: Replidyne, CSI, and Responder Merger Sub, Inc., a Minnesota corporation and wholly owned subsidiary of Replidyne, have entered into an Agreement and Plan of Merger dated as of November 3, 2008, which is referred to in this proxy statement/prospectus as the merger agreement, that contains the terms and conditions of the proposed business combination of Replidyne and CSI. Pursuant to the merger agreement, on the terms and conditions set forth therein, Responder Merger Sub, Inc. will be merged with and into CSI, with CSI surviving the merger as a wholly owned subsidiary of Replidyne.

Immediately prior to the effective time of the merger, each share of CSI preferred stock outstanding at such time will be converted into shares of CSI common stock at the conversion ratio determined pursuant to CSI s articles of incorporation. At the effective time of the merger, each share of CSI common stock outstanding immediately prior to the effective time of the merger (excluding certain shares to be canceled pursuant to the merger agreement, and shares held by stockholders who have exercised and perfected dissenters rights) will be converted into the right to receive between 6.460 and 6.797 shares of Replidyne common stock, assuming that the net assets of Replidyne are between $35.0 million and $37.0 million as calculated in accordance with the terms of the merger agreement and that the number of shares of Replidyne and CSI common stock outstanding on a fully diluted basis using the treasury stock method of accounting for options and warrants immediately prior to the effective time of the merger has not changed from the number of such shares as of October 31, 2008, subject to adjustment to account for the effect of a reverse stock split of Replidyne common stock to be implemented prior to the consummation of the merger, which is referred to as the reverse stock split. As a result of the merger, holders of CSI stock, options and warrants are expected to own or have the right to acquire in the aggregate between 83.0% and 83.7% of the combined company and the holders of Replidyne stock, options and warrants are expected to own or have the right to acquire in the aggregate between 16.3% and 17.0% of the combined company. At the effective time of the merger, Replidyne will change its corporate name to Cardiovascular Systems, Inc. as required by the merger agreement.

Q: Why are the two companies proposing to merge?

A: The combined company that results from the merger will be a medical device company focused on developing and commercializing interventional treatment systems for vascular disease. The combined company will have several potential advantages, including a highly differentiated product, the Diamondback 360° Orbital

Atherectomy System, sufficient capital to fund its projected operating requirements for the foreseeable future, a product that targets a large, underserved market opportunity, and a proven and experienced management team.

Q: Why am I receiving this proxy statement/prospectus?

A: You are receiving this proxy statement/prospectus because you have been identified as a stockholder of Replidyne or CSI. If you are a stockholder of Replidyne, you are entitled to vote at Replidyne s special meeting. If you are a stockholder of CSI, you are entitled to vote at CSI s special meeting. This document serves as a proxy statement of Replidyne and CSI, used to solicit proxies for the special meetings of Replidyne and CSI,

and as a prospectus of Replidyne, used to offer shares of Replidyne common stock to CSI stockholders in exchange for shares of CSI capital stock pursuant to the terms of the merger agreement. This document contains important information about the merger, the shares of Replidyne common stock to be issued in the merger and the special meetings of Replidyne and CSI stockholders, and you should read it carefully.

Q: What is required to consummate the merger?

A: To consummate the merger, Replidyne stockholders must approve the issuance of shares of Replidyne common stock in the merger and the certificate of amendment to the restated certificate of incorporation of Replidyne and CSI stockholders must approve and adopt the merger agreement and the merger contemplated therein.

The approval by the stockholders of Replidyne requires the affirmative vote of the holders of a majority of the shares of Replidyne common stock casting votes in person or by proxy at the Replidyne special meeting for the issuance of shares of Replidyne common stock in the merger, and the affirmative vote of the holders of a majority of shares of Replidyne common stock having voting power outstanding on the record date for the Replidyne special meeting for the amendment to Replidyne s restated certificate of incorporation.

The approval by the stockholders of CSI requires the affirmative votes of (i) the holders of a majority of the outstanding shares of CSI common stock and preferred stock, voting as a single class on an as-converted to common stock basis, and (ii) the holders of a majority of the outstanding shares of CSI preferred stock, voting as a single class on an as-converted to common stock basis and including the shares of CSI preferred stock held by affiliates of Easton Capital Investment Group and Maverick Capital, Ltd.

Several CSI stockholders have agreed with Replidyne to vote shares representing approximately 20% of the outstanding capital stock of CSI in favor of the merger and the other actions contemplated by the merger agreement. These stockholders represented the maximum number of the outstanding shares of CSI capital stock that could be made subject to these voting agreements under Minnesota corporate law. In addition, several Replidyne stockholders, who beneficially own approximately 48% of the outstanding common stock of Replidyne, have agreed with CSI to vote shares representing approximately 32% of the outstanding common stock of Replidyne in favor of the issuance of the shares of Replidyne common stock pursuant to the merger and the other actions contemplated by the merger agreement.

The stockholders of Replidyne and CSI are also being asked to approve certain other matters in connection with the consummation of the merger that are described more fully in this proxy statement/prospectus. While approval of these proposals is not required to consummate the merger, the board of directors of Replidyne or CSI, as the case may be, recommends that you vote for these proposals.

In addition to the requirement of obtaining such stockholder approvals and appropriate regulatory approvals, each of the other closing conditions set forth in the merger agreement must be satisfied or waived. For a more complete description of the closing conditions under the merger agreement, we urge you to read the section entitled The Merger Agreement Conditions to the Completion of the Merger on page 82 of this proxy statement/prospectus.

Q: What is the reverse stock split and why is it necessary?

A: Immediately prior to the effective time of the merger, the outstanding shares of Replidyne common stock will be reclassified and combined into a lesser number of shares to be determined by Replidyne and CSI prior to the effective time of the merger and publicly announced by Replidyne. The merger constitutes a reverse merger under applicable marketplace rules established by Nasdaq, which requires the combined company to comply with

the initial listing standards of the applicable Nasdaq market to continue to be listed on such market following the merger. The Nasdaq Global Market s initial listing standards require a company to have, among other things, a $4.00 per share minimum bid price. Because Replidyne common stock is required to be listed on the Nasdaq Global Market as a condition to closing the merger and the current price of Replidyne common stock is less than the minimum bid prices required by the Nasdaq Global Market, the reverse stock split is necessary to consummate the merger.

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Q: What will CSI stockholders receive in the merger?

A: Replidyne has agreed to issue, and holders of CSI capital stock will receive, shares of Replidyne common stock such that following the consummation of the transactions contemplated by the merger agreement, current stockholders of Replidyne, together with holders of Replidyne options and warrants, are expected to own or have the right to acquire between 16.3% and 17.0% of the common stock of the combined company, and current CSI stockholders, together with holders of CSI options and warrants, are expected to own or have the right to acquire between 83.0% and 83.7% of the combined company, in each case assuming that Replidyne s net assets are between $35.0 million and $37.0 million as calculated in accordance with the terms of the merger agreement, on a fully diluted basis using the treasury stock method of accounting for options and warrants. Immediately prior to the effective time of the merger, all outstanding shares of CSI preferred stock will convert automatically into shares of CSI common stock pursuant to the terms of CSI s articles of incorporation and a preferred stockholder conversion agreement. The number of shares of Replidyne common stock each CSI stockholder will receive will be determined using a conversion factor based on the number of outstanding shares of capital stock of Replidyne and CSI, any outstanding options and warrants to purchase shares of capital stock of Replidyne and CSI, and Replidyne s net assets, in each case calculated in accordance with the terms of the merger agreement as of immediately prior to the effective time of the merger.

Q: How will the merger affect stock options and warrants for CSI common stock?

A: Replidyne will assume options and warrants to purchase shares of CSI common stock which will become exercisable for shares of Replidyne common stock with the same terms, exercisability, vesting schedule and other provisions, but with the number of shares and exercise price being appropriately adjusted to reflect the conversion factor between Replidyne common stock and CSI common stock determined in accordance with the merger agreement and described above.

Q: What are the material U.S. federal income tax consequences of the merger to me?

A: The merger has been structured to qualify as a tax-free reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended. As a result of the merger s qualification as a reorganization, it is anticipated that CSI stockholders will not recognize gain or loss for U.S. federal income tax purposes upon the exchange of shares of CSI common stock for shares of Replidyne common stock, except with respect to cash received in lieu of fractional shares of Replidyne common stock.

Q: Who will be the directors of the combined company following the merger?

A: Following the merger, the board of directors of the combined company will be comprised of nine directors, seven of whom are currently directors of CSI and two of whom are currently directors of Replidyne. The current directors of CSI that are expected to become directors of the combined company are Brent G. Blackey, John H. Friedman, Geoffrey O. Hartzler, Roger J. Howe, David L. Martin, Glen D. Nelson and Gary M. Petrucci. The current directors of Replidyne that are expected to become directors of the combined company are Edward Brown and Augustine Lawlor.

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Q: Who will be the executive officers of the combined company following the merger?

A: Following the merger, the executive management team of the combined company is expected to be composed of CSI s executive management team prior to the merger and is contemplated to include each of the following individuals serving in the position set forth opposite his name. Each of the following individuals currently serves in the same position with CSI:

Name	Position in the Combined Company
David L. Martin	President and Chief Executive Officer
Laurence L. Betterley	Chief Financial Officer
James E. Flaherty	Chief Administrative Officer and Secretary
John Borrell	Vice President of Sales
Brian Doughty	Vice President of Marketing
Robert J. Thatcher	Executive Vice President
Paul Tyska	Vice President of Business Development
Paul Koehn	Vice President of Manufacturing

Q: What risks should I consider in deciding whether to vote in favor of the proposals?

A: You should carefully review the section of this proxy statement/prospectus entitled Risk Factors beginning on page 18, which sets forth certain risks and uncertainties related to the merger, risks and uncertainties to which the combined company s business will be subject, and risks and uncertainties to which each of Replidyne and CSI, as an independent company, is subject.

Q: When do you expect the merger to be consummated?

A: We anticipate that the merger will occur in the first calendar quarter of 2009 and on or around February 25, 2009, shortly after the completion of both the Replidyne special meeting and the CSI special meeting, but we cannot predict the exact timing.

Q: What do I need to do now?

A: We urge you to read this proxy statement/prospectus carefully, including its annexes, and to consider how the merger affects you.

If you are a Replidyne stockholder, you may provide your proxy instructions in three different ways. First, you can mail your signed proxy card in the enclosed return envelope. Alternatively, you can provide your proxy instructions via the toll-free call center set up for this purpose at 1-800-Proxies (1-800-776-9437) in the United States or 1-718-921-8500 from foreign countries and follow the instructions. Please have your proxy card available when you call. Finally, you can provide your proxy instructions via the Internet at http://www.voteproxy.com and follow the on-screen instructions. Please have your proxy card available when you access the web page. Please provide your proxy instructions only once and as soon as possible so that your shares can be voted at the special meeting of Replidyne stockholders.

If you are a CSI stockholder, you may provide your proxy instructions in two different ways. First, you can mail your signed proxy card in the enclosed return envelope. Alternatively, you can provide your proxy instructions

via facsimile to 1-612-492-7077 to the attention of Bonnie Eichers of Fredrikson & Byron, P.A. Please provide your proxy instructions only once and as soon as possible so that your shares can be voted at the special meeting of CSI stockholders.

Q: As a Replidyne stockholder, how does Replidyne s board of directors recommend that I vote?

A: After careful consideration, Replidyne s board of directors has approved the merger agreement and each of the proposals described in this proxy statement/prospectus that the stockholders of Replidyne are being asked to consider, and has determined that they are advisable, fair to and in the best interests of Replidyne stockholders. Accordingly, Replidyne s board of directors recommends that Replidyne stockholders vote FOR each such proposal.

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Q: As a CSI stockholder, how does CSI s board of directors recommend that I vote?

A: After careful consideration, CSI s board of directors has approved the merger agreement and each of the proposals described in this proxy statement/prospectus that the stockholders of CSI are being asked to consider, and has determined that they are advisable, fair to and in the best interests of CSI stockholders. Accordingly, CSI s board of directors recommends that CSI stockholders vote FOR each such proposal.

Q: What happens if I do not return a proxy card or otherwise provide proxy instructions?

A: If you are a Replidyne stockholder and you do not submit a proxy card or vote at the Replidyne special meeting, your shares will not be counted as present for the purpose of determining the presence of a quorum and will have no effect on the approval of Replidyne Proposal Nos. 1, 4, 5 and 6, but would have the same effect as voting against Replidyne Proposal Nos. 2 and 3. Broker non-votes will similarly have no effect on the approval of Replidyne Proposal Nos. 1, 4, 5 and 6, but would have the same effect as voting against Replidyne Proposal Nos. 2 and 3. If you submit a proxy card and affirmatively elect to abstain from voting, your proxy will be counted as present for the purpose of determining the presence of a quorum but will not be voted at the meeting. As a result, your abstention will have no effect on the approval of Replidyne Proposal Nos. 1, 4, 5 and 6, but would have the same effect as voting against Replidyne Proposal Nos. 2 and 3.

If you are a CSI stockholder and you do not submit a proxy card or vote at the CSI special meeting, your shares will not be counted as present for the purpose of determining the presence of a quorum and would have the same effect as voting against CSI Proposal No. 1, but will have no effect on the approval of CSI Proposal Nos. 2 and 3. If you submit a proxy card and affirmatively elect to abstain from voting, your proxy will be counted as present for the purpose of determining the presence of a quorum but will not be voted at the meeting. As a result, your abstention would have the same effect as voting against CSI Proposal No. 1, but will have no effect on the approval of CSI Proposal Nos. 2 and 3.

Q: May I vote in person?

A: If your shares of Replidyne common stock are registered directly in your name with Replidyne s transfer agent you are considered, with respect to those shares, the stockholder of record, and the proxy materials and proxy card are being sent directly to you. If you are a Replidyne stockholder of record as of January 21, 2009, you may attend the special meeting of Replidyne stockholders to be held on February 24, 2009 and vote your shares in person, rather than signing and returning your proxy card or otherwise providing proxy instructions. However, we urge you to return your proxy card with your voting instructions in any event, just in case your plans should change.

If your shares of Replidyne common stock are held in a brokerage account or by another nominee, you are considered the beneficial owner of shares held in street name, and the proxy materials are being forwarded to you together with a voting instruction card. As the beneficial owner, you are also invited to attend the special meeting of Replidyne stockholders. Since a beneficial owner is not the stockholder of record, you may not vote these shares in person at the special meeting unless you obtain a legal proxy from the broker, trustee or nominee that holds your shares, giving you the right to vote the shares at the meeting.

If your shares of CSI common stock or preferred stock are registered directly in your name on the books of CSI you are considered, with respect to those shares, the stockholder of record, and the proxy materials and proxy card are being sent directly to you. If you are a CSI stockholder of record as of January 26, 2009, you may attend the special meeting of CSI stockholders to be held on February 24, 2009 and vote your shares in person, rather

than signing and returning your proxy card or otherwise providing proxy instructions. However, we urge you to return your proxy card with your voting instructions in any event, just in case your plans should change.

Q: If my Replidyne shares are held in street name by my broker, will my broker vote my shares for me?

A: Your broker will not be able to vote your shares of Replidyne common stock without instructions from you. You should instruct your broker to vote your shares, following the procedure provided by your broker.

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Q: May I change my vote after I have provided proxy instructions?

A: Replidyne stockholders of record, other than those Replidyne stockholders who have executed voting agreements, may change their vote at any time before their proxy is voted at the Replidyne special meeting in one of three ways. First, you can send a written notice stating that you would like to revoke your proxy. Second, you can submit new proxy instructions either on a new proxy card, by telephone or via the Internet. Third, you can attend the meeting and vote in person. Your attendance alone will not revoke your proxy. If you have instructed a broker to vote your shares, you must follow directions received from your broker to change those instructions.

CSI stockholders of record, other than those CSI stockholders who have executed voting agreements, may change their vote at any time before their proxy is voted at the CSI special meeting in one of three ways. First, you can send a written notice stating that you would like to revoke your proxy. Second, you can submit new proxy instructions either on a new proxy card, by mail or facsimile. Third, you can attend the CSI special meeting and vote in person. Your attendance alone will not revoke your proxy.

Q: Am I entitled to appraisal or dissenters rights?

A: Under Delaware law, holders of Replidyne common stock are not entitled to appraisal rights in connection with the merger.

Under Minnesota law, holders of CSI common stock and preferred stock are entitled to dissenters rights in connection with the merger. If you do not wish to accept shares of Replidyne common stock in the merger and you do not vote in favor of CSI Proposal No. 1, you have the right under Minnesota law to seek from CSI the fair value of your shares in lieu of the Replidyne common stock you would receive if the merger is completed. We refer you to the information under the heading Appraisal and Dissenters Rights on page 73 of this proxy statement/prospectus and to the applicable Minnesota statute attached as *Annex F* to this proxy statement/prospectus for information on how to exercise your dissenters rights. Failure to follow all of the steps required under Minnesota law will result in the loss of your dissenters rights.

Q: Who is paying for this proxy solicitation?

A: Replidyne and CSI are conducting this proxy solicitation and will each bear one-half the cost of the proxy solicitation, including the preparation, assembly, printing and mailing of this proxy statement/prospectus, the proxy card and any additional information furnished to stockholders. Replidyne and CSI will each bear its own legal expenses. Replidyne has engaged and will pay D. F. King & Co, Inc., a proxy solicitation firm, to solicit proxies from Replidyne stockholders. Replidyne may also reimburse brokerage houses and other custodians, nominees and fiduciaries for their costs of forwarding proxy and solicitation materials to beneficial owners.

Q: Who can help answer my questions?

A: If you are a Replidyne stockholder and would like additional copies, without charge, of this proxy statement/prospectus or if you have questions about the merger, including the procedures for voting your shares, you should contact:

Replidyne, Inc.
Attn: Investor Relations
1450 Infinite Drive
Louisville, CO 80027

(303) 996-5500

If you are a CSI stockholder and would like additional copies, without charge, of this proxy statement/prospectus or if you have questions about the merger, including the procedures for voting your shares, you should contact:

Cardiovascular Systems, Inc.
Attn: Investor Relations
651 Campus Drive
St. Paul, MN 55112
(651) 259-2800

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SUMMARY

This summary highlights selected information from this proxy statement/prospectus. To understand the merger fully, you should read carefully this entire document and the documents to which we refer, including the annexes attached hereto. See Where You Can Find More Information on page 248. The merger agreement is attached as Annex A to this proxy statement/prospectus. We encourage you to read the merger agreement as it is the legal document that governs the merger. We have included page references in parentheses to direct you to a more detailed description of the topics presented in this summary.

The Companies

Replidyne, Inc.
1450 Infinite Drive
Louisville, CO 80027
(303) 996-5500

Replidyne was incorporated in Delaware in December 2000 and began as a biopharmaceutical company focused on discovering, developing, in-licensing and commercializing innovative anti-infective products. In April 2008, Replidyne suspended enrollment in the last of its clinical trials on its lead product candidate, faropenem medoxomil, in order to conserve its cash assets and further support initiatives related to the pursuit of strategic transactions. As a result of its inability to secure a partner for the faropenem medoxomil program, Replidyne announced in June 2008 that it would return the license for faropenem medoxomil to its licensor, Asubio Pharma Co., Ltd. In August 2008, Replidyne suspended the development of REP3123, an investigational narrow-spectrum antibacterial agent for the treatment of *clostridium difficile* (*C. difficile*) bacteria and *C. difficile* infection, and its other anti-infective programs based on its bacterial DNA replication inhibition technology. These and subsequent related actions have reduced the Replidyne workforce to a level of three employees as of December 31, 2008. Replidyne is pursuing the sale of REP3123 and its related technology and the sale of the anti-infective programs based on its bacterial DNA replication inhibition technology in a transaction or transactions separate from the merger. Replidyne no longer has employees engaged in development and commercialization activities.

Responder Merger Sub, Inc.
1450 Infinite Drive
Louisville, CO 80027
(303) 996-5500

Responder Merger Sub, Inc. is a wholly owned subsidiary of Replidyne that was incorporated in Minnesota in October 2008. Responder Merger Sub, Inc. does not engage in any operations and exists solely to facilitate the merger.

Cardiovascular Systems, Inc.
651 Campus Drive,
St. Paul, MN 55112
(651) 259-2800

CSI is a medical device company focused on developing and commercializing interventional treatment systems for vascular disease. CSI s initial product, the Diamondback 360° Orbital Atherectomy System, is a minimally invasive catheter system for the treatment of peripheral arterial disease, or PAD. In August 2007, the U.S. Food and Drug Administration, or FDA, granted CSI 510(k) clearance for use of the Diamondback 360° as a therapy in patients with

PAD. CSI was formed in 1989 as Shturman Cardiology Systems, Inc. and is incorporated in Minnesota.

The Merger (see page 49)

If the merger is consummated, CSI and Responder Merger Sub, Inc. will merge, with CSI surviving as a wholly owned subsidiary of Replidyne. It is anticipated that shortly after the merger Replidyne will change its name to

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Cardiovascular Systems, Inc. A copy of the merger agreement is attached as *Annex A* to this proxy statement/prospectus. You are encouraged to read the merger agreement in its entirety because it is the legal document that governs the merger.

Immediately after the merger, subject to adjustments to reflect certain events that could occur prior to closing of the merger, CSI stockholders, optionholders and warrantholders will own or have the right to acquire between 83.0% and 83.7% of the combined company and Replidyne stockholders, optionholders and warrantholders will own or have the right to acquire between 16.3% and 17.0% of the combined company, in each case calculated on a fully diluted basis using the treasury stock method of accounting for options and warrants. Replidyne will assume outstanding and unexercised options and warrants to purchase CSI common stock, and they will be converted into options and warrants, as applicable, to purchase Replidyne common stock. The foregoing percentages assume that Replidyne s net assets at closing are between $35.0 and $37.0 million as calculated in accordance with the terms of the merger agreement.

For a more complete description of the merger conversion factor, see the section entitled The Merger Agreement in this proxy statement/prospectus.

The closing of the merger will occur no later than the fifth business day after the last of the conditions to the merger has been satisfied or waived, or at another time as Replidyne and CSI agree. Replidyne and CSI anticipate that the consummation of the merger will occur shortly after the Replidyne and CSI special meetings. However, because the merger is subject to a number of conditions, neither Replidyne nor CSI can predict exactly when the closing will occur or if it will occur at all. After completion of the merger, assuming that Replidyne receives the required stockholder approval of Replidyne Proposal No. 3, Replidyne will be renamed Cardiovascular Systems, Inc.

Reasons for the Merger (see page 55)

The combined company that results from the merger will be a medical device company focused on developing and commercializing interventional treatment systems for vascular disease. CSI s initial product, the Diamondback 360° Orbital Atherectomy System, is a minimally invasive catheter system for the treatment of peripheral arterial disease, or PAD. Replidyne and CSI believe that the combined company will have the following potential advantages:

Highly differentiated product. The Diamondback 360° Orbital Atherectomy System has received FDA clearance. Replidyne and CSI also believe that the Diamondback 360° has features that differentiate it from other FDA approved or cleared minimally invasive atherectomy devices. CSI s revenues in the four fiscal quarters since the launch of the product and the high reorder rate among its initial customers demonstrate CSI s ability to retain its customer base.

Financial resources of the combined company. CSI believes that Replidyne s projected available cash at closing, together with CSI s other cash resources, will be sufficient to fund CSI s currently projected operating requirements for the foreseeable future.

Large underserved PAD market opportunity. PAD is a circulatory problem in which plaque deposits build up on the walls of arteries, reducing blood flow to the limbs. As cited by the authors of the PARTNERS study published in the Journal of the American Medical Association in 2001, PAD affects approximately eight to 12 million people in the United States. Despite the severity of PAD, it remains relatively under diagnosed. Recent emphasis on PAD education from medical associations, insurance companies and other groups, coupled with publications in medical journals, is increasing physician and patient awareness of PAD risk factors, symptoms and treatment options.

Proven management team with deep PAD experience. CSI s management team has a background in developing and marketing PAD devices and has demonstrated the ability to successfully execute CSI s growth strategy.

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Each of the board of directors of Replidyne and CSI also considered other reasons for the merger, as described herein. The board of directors of Replidyne considered, among other things:

- the strategic alternatives available to Replidyne, including a transaction with another potential partner, liquidation of the company and the continued development of its former product candidates;
- the failure of Replidyne s lead product candidate, faropenem medoxomil, to receive approval from the FDA for its new drug application;
- the early stage of development of Replidyne s research pipeline programs and the capital that would be required to achieve regulatory approval to complete the development of those programs; and
- the recent volatility in the public markets that, when combined with Replidyne s net cash position and its public listing, could allow Replidyne to obtain favorable terms in a reverse merger transaction.

In addition, the board of directors of CSI approved the merger based on a number of factors, including the following:

- the expectation that the merger would be a more time- and cost-effective means to access capital than other options considered, including an initial public offering or an additional round of private equity financing;
- the judgment of CSI s board of directors that the merger is the best alternative available to CSI and its stockholders; and
- the likelihood that the merger will be consummated on a timely basis.

Opinion of Replidyne s Financial Advisor (see page 60)

Morgan Stanley & Co. Incorporated, or Morgan Stanley, the financial advisor of Replidyne, delivered to the board of directors of Replidyne a written opinion, dated November 3, 2008, addressed to the board of directors of Replidyne, to the effect that, as of the date of the opinion and based on and subject to the various assumptions, qualifications and limitations set forth in the opinion, the conversion factor pursuant to the merger agreement was fair from a financial point of view to Replidyne. The full text of Morgan Stanley s opinion, which sets forth, among other things, the assumptions made, procedures followed, matters considered and limitations on the scope of the review undertaken by Morgan Stanley in rendering its opinion, is attached as *Annex D* to this proxy statement/prospectus and is incorporated by reference in its entirety into this proxy statement/prospectus. Holders of Replidyne common stock are encouraged to read the opinion carefully and in its entirety. **Morgan Stanley s opinion was directed to the board of directors of Replidyne and only addresses the fairness from a financial point of view of the conversion factor pursuant to the merger agreement to Replidyne as of the date of the opinion. Morgan Stanley s opinion does not address any other aspect of the proposed merger or any alternative to the proposed merger. Morgan Stanley expressed no opinion or recommendation as to how the stockholders of Replidyne or CSI should vote at the stockholders meetings to be held in connection with the proposed merger.**

Overview of the Merger Agreement

Merger Consideration (see page 78)

At the effective time of the merger, each share of CSI capital stock not held as treasury stock or owned by CSI shall be converted into a right to receive a number of shares of Replidyne common stock equal to the conversion factor. The

conversion factor shall equal: (i) (A) the number of surviving Replidyne securities divided by the Replidyne post-closing stockholder ownership percentage minus (B) the number of surviving Replidyne securities, divided by (ii) the number of converting CSI securities, each as defined in the merger agreement and explained in this proxy statement/prospectus.

Pursuant to the terms of the merger agreement, CSI and Replidyne have agreed upon a methodology to determine the conversion factor as defined above. The conversion factor shall be determined as of immediately prior to the effective time of the merger and is subject to change based upon Replidyne s net assets as of such time, and the number of shares of CSI and Replidyne capital stock outstanding and issuable upon exercise of outstanding options

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and warrants, each as calculated in accordance with the terms of the merger agreement. For illustrative purposes only, below is a table that sets forth several levels of net assets for Replidyne as of the closing of the merger, and the conversion factor and aggregate post-closing ownership percentage in the combined company for the stockholders, optionholders and warrantholders of each of Replidyne and CSI that would result based on each such level of net assets, in each case calculated in accordance with the terms of the merger agreement and assuming that the capitalization of both Replidyne and CSI is as of October 31, 2008, except that the acceleration of vesting of certain outstanding options to purchase Replidyne common stock that is expected to occur upon the consummation of the merger is assumed to have occurred for purposes of this calculation.

Net Assets	Conversion Factor	Replidyne Securityholder Ownership Percentage in the Combined Company	CSI Securityholder Ownership Percentage in the Combined Company
$ 41,000,000	6.304	17.4%	82.6%
40,000,000	6.460	17.0%	83.0%
37,000,000	6.460	17.0%	83.0%
36,000,000	6.624	16.7%	83.3%
35,000,000	6.797	16.3%	83.7%
34,000,000	6.979	15.9%	84.1%
33,000,000	7.172	15.6%	84.4%

The foregoing table is presented for illustrative purposes only. The conversion factor is subject to the variables described above and will not be calculated until immediately prior to the effective time of the merger. Replidyne cannot assure you that its level of net assets as of the effective time of the merger will fall within the range set forth in this table. The conversion factor is subject to proportionate adjustment to account for the effect of the reverse stock split of Replidyne s issued and outstanding common stock.

Conditions to the Completion of the Merger (see page 82)

Each party s obligation to complete the merger is subject to a number of conditions, which may be waived by the applicable party, and that include, among others, and subject to specified exceptions, the following:

stockholders of CSI must have approved and adopted the merger agreement and the merger contemplated therein, and stockholders of Replidyne must have approved the issuance of Replidyne common stock in the merger and the amendment to the restated certificate of incorporation of Replidyne;

no temporary restraining order, preliminary or permanent injunction or other order preventing the consummation of the merger shall have been issued by any court of competent jurisdiction or other governmental body and remain in effect, and there shall not be any legal requirement enacted or deemed applicable to the merger that makes consummation of the merger illegal;

the initial listing application on the Nasdaq Global Market shall have been conditionally approved, and the shares of Replidyne common stock to be issued in the merger shall be conditionally approved for listing on the Nasdaq Global Market, both subject only to the completion of the closing and completion by Replidyne of any

reverse stock split required by Nasdaq; and

since the signing of the merger agreement, there shall not have occurred and be continuing any material adverse effect for either party.

Limitation on Soliciting, Discussing or Negotiating Other Acquisition Proposals (see page 85)

Pursuant to the merger agreement, each of Replidyne and CSI agreed that, except as described below, they will not, during the pre-closing period, directly or indirectly:

solicit, initiate, knowingly encourage, induce or facilitate the making, submission or announcement of any acquisition proposal or acquisition inquiry, each as defined in the merger agreement and explained in this proxy statement/prospectus, or take any action that would reasonably be expected to lead to an acquisition proposal or acquisition inquiry;

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furnish any nonpublic information regarding CSI or Replidyne, as the case may be, to any person in connection with or in response to an acquisition proposal or acquisition inquiry;

engage in discussions or negotiations with any person with respect to any acquisition proposal or acquisition inquiry;

approve, endorse or recommend any acquisition proposal; or

execute or enter into any letter of intent or similar document or any contract contemplating or otherwise relating to any acquisition transaction.

Notwithstanding the foregoing, prior to obtaining the consent of its stockholders, either party may furnish information regarding such party to, and may enter into discussions or negotiations with, any third party in response to a superior offer (as defined in the merger agreement and explained in this proxy statement/prospectus) or an unsolicited bona fide written acquisition proposal made or received after the date of the merger agreement that is reasonably likely to result in a superior offer, if:

neither such party nor any representative of such party has breached the no solicitation provisions of the merger agreement described above with respect to that particular superior offer or acquisition proposal;

the board of directors of such party concludes in good faith, based on the advice of outside legal counsel, that such action is required in order for such party s board of directors to comply with its fiduciary obligations to such party s stockholders under applicable legal requirements;

at least three business days prior to furnishing any such information to, or entering into discussions with, such person, such party gives the other party written notice of the identity of such person and of such party s intention to furnish information to, or enter into discussions with, such person;

such party receives from such person an executed confidentiality agreement containing provisions (including nondisclosure provisions, use restrictions, non-solicitation provisions, no hire provisions and standstill provisions) at least as favorable to such party as those contained in the confidentiality agreement previously entered into between Replidyne and CSI; and

at least three business days prior to furnishing any such nonpublic information to such person, such party furnishes such information to the other party (to the extent such nonpublic information has not been previously furnished by such party to the other party).

Termination of the Merger Agreement (see page 91)

The merger agreement may be terminated prior to the effective time of the merger (whether before or after approval and adoption of the merger agreement by CSI stockholders and whether before or after approval of the amendment to Replidyne s restated certificate of incorporation and the issuance of Replidyne common stock in the merger by Replidyne stockholders):

by mutual written consent of Replidyne and CSI, duly authorized by their respective boards of directors;

subject to certain limitations, by either Replidyne or CSI if the merger shall not have been consummated by April 30, 2009;

by either Replidyne or CSI if a court of competent jurisdiction or other governmental body shall have issued a final and nonappealable order, or shall have taken any other final and nonappealable action, having the effect of permanently restraining, enjoining or otherwise prohibiting the consummation of the merger;

by either Replidyne or CSI if Replidyne stockholders fail to approve either the amendment to Replidyne s restated certificate of incorporation or the issuance of the Replidyne common stock pursuant to the merger agreement at the special meeting;

by either Replidyne or CSI if CSI stockholders fail to approve the adoption of the merger agreement at the special meeting;

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by either Replidyne or CSI if (i) the Replidyne board of directors has withheld, withdrawn, amended or modified its recommendation because it has determined in good faith, based on the advice of its outside legal counsel, that such action is required in order for the Replidyne board of directors to comply with its fiduciary obligations to Replidyne stockholders under applicable legal requirements, or (ii) Replidyne enters into a letter of intent, memorandum of understanding or definitive agreement with respect to a superior offer;

by either Replidyne or CSI if (i) the CSI board of directors has withheld, withdrawn, amended or modified its recommendation because it has determined in good faith, based on the advice of its outside legal counsel, that such action is required in order for the CSI board of directors to comply with its fiduciary obligations to CSI stockholders under applicable legal requirements, or (ii) CSI enters into a letter of intent, memorandum of understanding or definitive agreement with respect to a superior offer; or

subject to certain limitations, by either party in the event of any inaccuracy of representations and warranties of the other party having a material adverse effect or a material breach by the other party of its obligations or covenants under the merger agreement.

Termination Fees (see page 92)

Replidyne must pay CSI a nonrefundable fee of $1.5 million and reimburse CSI for all actual out of pocket legal, accounting and investment advisory fees paid or payable in connection with the merger agreement and transactions contemplated by the merger agreement if:

the merger agreement is terminated by Replidyne or CSI if (i) the Replidyne board of directors has withheld, withdrawn, amended or modified its recommendation because it has determined in good faith, based on the advice of its outside legal counsel, that such action is required in order for the Replidyne board of directors to comply with its fiduciary obligations to Replidyne stockholders under applicable legal requirements, or (ii) Replidyne enters into a letter of intent, memorandum of understanding or definitive agreement with respect to a superior offer; or

the merger agreement is terminated by Replidyne or CSI if the stockholders of Replidyne do not approve either the amendment to Replidyne s restated certificate of incorporation or the issuance of Replidyne common stock at the Replidyne special meeting of stockholders, and both of the following conditions are met:

prior to the Replidyne special meeting of stockholders, an acquisition proposal with respect to Replidyne has been publicly made and not withdrawn; and

within twelve months of the termination of the merger agreement, Replidyne enters into any agreement for an acquisition transaction contemplated by such acquisition proposal or consummates an acquisition transaction contemplated by such acquisition proposal.

CSI must pay Replidyne a nonrefundable fee of $1.5 million and reimburse Replidyne for all actual out of pocket legal, accounting and investment advisory fees paid or payable in connection with the merger agreement and transactions contemplated by the merger agreement if:

the merger agreement is terminated by Replidyne or CSI if (i) the CSI board of directors has withheld, withdrawn, amended or modified its recommendation because it has determined in good faith, based on the advice of its outside legal counsel, that such action is required in order for the CSI board of directors to comply with its fiduciary obligations to CSI stockholders under applicable legal requirements, or (ii) CSI enters into a

letter of intent, memorandum of understanding or definitive agreement with respect to a superior offer; or

the merger agreement is terminated by Replidyne or CSI if the stockholders of CSI do not approve the adoption of the merger agreement (including the consummation of the merger) at the CSI special meeting of stockholders, and all of the following conditions are met:

prior to the CSI special meeting of stockholders, an acquisition proposal with respect to CSI has been publicly made and not withdrawn; and

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within twelve months of the termination of the merger agreement, CSI enters into any agreement for an acquisition transaction contemplated by such acquisition proposal or consummates an acquisition transaction contemplated by such acquisition proposal.

Voting Agreements (see page 94)

In order to induce Replidyne to enter into the merger agreement, several CSI stockholders entered into voting agreements with and granted irrevocable proxies in favor of Replidyne pursuant to which, among other things, each of these stockholders agreed, solely in its capacity as a stockholder, to vote shares representing approximately 20% of the outstanding capital stock of CSI in favor of the merger, the other actions contemplated by the merger agreement and any action in furtherance of any of the foregoing, and against, among other things, any proposal made in opposition to, or in competition with, the merger. These stockholders represented the maximum number of the outstanding shares of CSI capital stock that could be made subject to these voting agreements under Minnesota corporate law. All of these stockholders are executive officers, directors, or entities controlled by such persons, or 5% stockholders, of CSI.

In addition, in order to induce CSI to enter into the merger agreement, several Replidyne stockholders, who together with their respective affiliates, beneficially own approximately 48% of the outstanding common stock of Replidyne, entered into voting agreements and irrevocable proxies in favor of CSI pursuant to which, among other things, each of these stockholders agreed, solely in his capacity as a stockholder, to vote shares representing approximately 32% of the outstanding common stock of Replidyne in favor of the merger, the other actions contemplated by the merger agreement and any action in furtherance of any of the foregoing, and against, among other things, any proposal made in opposition to, or in competition with, the merger.

Replidyne and CSI stockholders that executed these voting agreements have agreed not to engage in certain actions that would solicit, encourage or support acquisition transactions other than the merger.

Lock-up Agreements (see page 95)

The directors and certain stockholders of both Replidyne and CSI entered into lock-up agreements in favor of Replidyne and CSI pursuant to which they have agreed, subject to limited exceptions, not to sell or otherwise dispose of any shares of CSI common stock or Replidyne common stock or any securities convertible into or exercisable or exchangeable for shares of CSI common stock or Replidyne common stock or engage in certain transactions with respect thereto during the period beginning on the date of the merger agreement and ending 90 days after the closing of the merger. The lock-up restrictions will not apply to certain transfers not involving a disposition for value, provided that the recipient agrees to be bound by these lock-up restrictions and provided that such transfers are not required to be reported, and are not voluntarily reported, in any public report or filing with the SEC during the lock-up period. As of December 31, 2008, the parties to the lock-up agreements owned approximately 37% of Replidyne s outstanding common stock and 28% of CSI s outstanding capital stock, calculated on an as-converted to common stock basis.

Pursuant to the merger agreement, Replidyne and CSI have each agreed to use commercially reasonable efforts to cause its respective officers to enter into lock-up agreements in favor of Replidyne and CSI on substantially the same terms as described above.

CSI Stock Options and Warrants (see page 72)

Upon the consummation of the merger, Replidyne will assume all options and warrants to purchase shares of CSI common stock. Each CSI option and warrant will become exercisable for shares of Replidyne common stock, and the

share quantity and exercise price of each instrument will be adjusted according to the conversion factor between Replidyne common stock and CSI common stock determined in accordance with the merger agreement.

Conversion of CSI Preferred Stock (see page 95)

Concurrently with the execution of the merger agreement, the holders of approximately 68% of CSI s outstanding preferred stock, calculated on an as-converted to common stock basis, entered into an agreement with

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CSI pursuant to which all outstanding shares of CSI preferred stock will be automatically converted into shares of CSI common stock, effective as of immediately prior to the effective time of the merger.

Management Following the Merger (see page 66)

Immediately following the merger, the executive management team of the combined company is expected to be composed of CSI s executive management team prior to the merger and is contemplated to include the following individuals serving in the position set forth opposite his name. Each of the following individuals currently serves in the same position with CSI:

Name	Position in the Combined Company
David L. Martin	President and Chief Executive Officer
Laurence L. Betterley	Chief Financial Officer
James E. Flaherty	Chief Administrative Officer and Secretary
John Borrell	Vice President of Sales
Brian Doughty	Vice President of Marketing
Robert J. Thatcher	Executive Vice President
Paul Tyska	Vice President of Business Development
Paul Koehn	Vice President of Manufacturing

Interests of Certain Directors, Officers and Affiliates of Replidyne and CSI (see page 66)

Interests of Replidyne s Executive Officers and Directors in the Merger

When considering the recommendation by the Replidyne board of directors, you should be aware that a number of Replidyne s executive officers and directors have interests in the merger that are different from those of other Replidyne stockholders. As of December 31, 2008, all directors and executive officers of Replidyne, together with their affiliates, beneficially owned approximately 35% of the shares of Replidyne common stock. For a more complete description of the interests of current and former officers and directors of Replidyne, see the section entitled Interests of Replidyne s Executive Officers and Directors in the Merger on page 66 of this proxy statement/prospectus.

Interests of CSI s Executive Officers and Directors in the Merger

You also should be aware that a number of CSI s executive officers and directors have interests in the merger that are different from those of other CSI stockholders. As of December 31, 2008, all directors and executive officers of CSI, together with their affiliates, beneficially owned approximately 28% of the shares of CSI capital stock. For a more complete description of the interests of current and former officers and directors of CSI, see the section entitled Interests of CSI s Executive Officers and Directors in the Merger on page 70 of this proxy statement/prospectus.

Risk Factors (see page 18)

The merger (including the possibility that the merger may not be completed) poses a number of risks to each company and its respective stockholders. In addition, both Replidyne and CSI are subject to various risks associated with their businesses and their industries, and the combined company is subject to additional risks. The risks are discussed in greater detail under the caption Risk Factors beginning on page 18 of this proxy statement/prospectus. Replidyne and CSI both encourage you to read and consider all of these risks carefully.

Material U.S. Federal Income Tax Consequences of the Merger (see page 74)

As provided in the merger agreement, Cooley Godward Kronish LLP and Fredrikson & Byron, P.A. will each issue a tax opinion to the effect that the merger will constitute a reorganization under Section 368 of Internal Revenue Code of 1986, as amended. In such a reorganization, a CSI stockholder generally will not recognize any gain or loss for U.S. federal income tax purposes upon the exchange of its shares of CSI capital stock for shares of

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Replidyne common stock. However, any cash received for any fractional share will result in the recognition of gain or loss as if such stockholder sold its fractional share.

Tax matters can be complicated, and the tax consequences of the merger to you will depend on the facts of your own situation. You should consult your own tax advisors to fully understand the tax consequences of the merger to you, including the applicability and effect of federal, state, local and foreign income and other tax laws.

Regulatory Approvals and Nasdaq Stock Market Listing (see page 73)

As of the date of this proxy statement/prospectus, neither Replidyne nor CSI is required to make filings or to obtain approvals or clearances from any antitrust regulatory authorities in the United States or other countries to consummate the merger. In the United States, Replidyne must comply with applicable federal and state securities laws and the rules and regulations of any stock exchange to which it becomes subject, in connection with the issuance of shares of Replidyne common stock in the merger and the filing of this proxy statement/prospectus with the Securities and Exchange Commission.

Replidyne and CSI have filed an initial listing application with the Nasdaq Global Market pursuant to Nasdaq Stock Market LLC reverse merger rules. If such application is accepted, Replidyne and CSI anticipate that the combined company s stock will be listed on the Nasdaq Global Market following the closing of the merger under the trading symbol CSII.

Anticipated Accounting Treatment (see page 76)

The merger will be treated as a purchase of the net assets of Replidyne by CSI in accordance with accounting principles generally accepted in the United States.

Appraisal and Dissenters Rights (see page 73)

Under Delaware law, holders of Replidyne common stock are not entitled to appraisal rights in connection with the merger.

Under Minnesota law, holders of CSI common stock and preferred stock are entitled to dissenters rights in connection with the merger. A CSI stockholder that does not wish to accept shares of Replidyne common stock in the merger and does not vote in favor of the merger has the right under Minnesota law to seek from CSI the fair value of the holder s CSI shares in lieu of the Replidyne common stock the CSI stockholder would receive if the merger is completed. A CSI stockholder s failure to follow all of the steps required under Minnesota law will result in the loss of dissenters rights.

Comparison of Stockholder Rights (see page 224)

Replidyne is incorporated under the laws of the State of Delaware, and the rights of Replidyne stockholders are accordingly governed by the Delaware General Corporation Law, or DGCL. CSI is incorporated under the laws of the State of Minnesota, and the rights of CSI stockholders are accordingly governed by the Minnesota Business Corporation Act, or MBCA. If the merger is completed, CSI stockholders will become stockholders of Replidyne, and their rights will be governed by the DGCL and the restated certificate of incorporation and the bylaws of Replidyne, as they may be amended. The rights of Replidyne stockholders under the DGCL and the restated certificate of incorporation and bylaws of Replidyne differ from the rights of CSI stockholders under the MBCA and the articles of incorporation and bylaws of CSI.

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SELECTED HISTORICAL AND UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL DATA

The following tables present summary historical financial data for Replidyne and CSI, summary unaudited pro forma condensed combined financial data for Replidyne and CSI, and comparative historical and unaudited pro forma per share data for Replidyne and CSI.

Selected Historical Financial Data of Replidyne

The following selected financial data should be read together with Replidyne s financial statements and accompanying notes and Management s Discussion and Analysis of Financial Condition and Results of Operations for Replidyne included elsewhere in this proxy statement/prospectus. The selected financial data in this section is not intended to replace Replidyne s financial statements and the accompanying notes. Historical results are not necessarily indicative of operating results to be expected in the future.

The selected financial data presented below for each year in the five years ended December 31, 2007 are derived from Replidyne s audited financial statements, and are qualified by reference to such financial statements and notes thereto. The statements of operations data for the years ended December 31, 2005, 2006 and 2007 and the balance sheet data as of December 31, 2006 and 2007 are derived from Replidyne s audited financial statements included elsewhere in this proxy statement/prospectus. The statements of operations data for the years ended December 31, 2003 and 2004 and the balance sheet data as of December 31, 2003, 2004 and 2005 are derived from Replidyne s audited financial statements not included in this proxy statement/prospectus. The statements of operations data for the nine months ended September 30, 2007 and 2008 and the balance sheet data as of September 30, 2008 are derived from Replidyne s unaudited financial statements that are included elsewhere in this proxy statement/prospectus. The unaudited financial data as of September 30, 2008 and for the nine months ended September 30, 2007 and 2008 include all adjustments (consisting only of normal recurring adjustments) that Replidyne considers necessary for a fair presentation of the financial position and operating results for the periods presented.

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	Years Ended December 31,					Nine Months Ended September 30,	
	2003	2004	2005	2006(1)	2007(1)	2007(1)	2008(1)
	(In thousands, except per share amounts)						
						(unaudited)	(unaudited)
Statement of Operations Data:							
Revenue	$ 726	$ 834	$ 441	$ 15,988	$ 58,571	$ 58,571	$
Costs and expenses							
Research and development	12,331	16,282	29,180	38,295	43,313	28,462	26,842
Sales, general and administrative	2,155	2,994	5,329	12,187	13,020	9,803	12,290
Total costs and expenses	14,486	19,276	34,509	50,482	56,333	38,265	39,132
Income (loss) from operations	(13,760)	(18,442)	(34,068)	(34,494)	2,238	20,306	(39,132)
Other income (expense), net	(190)	(797)	399	5,245	5,454	4,329	1,529
Net income (loss)	(13,950)	(19,239)	(33,669)	(29,249)	7,692	24,635	(37,603)
Preferred stock dividends and accretion	(1,294)	(3,560)	(7,191)	(5,391)			
Net income (loss) attributable to common stockholders	$ (15,244)	$ (22,799)	$ (40,860)	$ (34,640)	$ 7,692	$ 24,635	$ (37,603)
Basic net income (loss) attributable to common stockholders per share	$ (20.82)	$ (30.55)	$ (39.20)	$ (2.49)	$ 0.29	$ 0.92	$ (1.39)
Diluted net income (loss) attributable to common stockholders per share	$ (20.82)	$ (30.55)	$ (39.20)	$ (2.49)	$ 0.28	$ 0.89	$ (1.39)
Weighted average shares used in computing net (income) loss per share:							
Basic	732	746	1,042	13,908	26,730	26,696	27,049

Diluted	732	746	1,042	13,908	27,666	27,666	27,049

(1) Costs and expenses for periods subsequent to December 31, 2005 include stock-based compensation expense in accordance with SFAS No. 123(R), *Share-Based Payment*, which was adopted by Replidyne on January 1, 2006.

	As of December 31,					As of September 30,
	2003	**2004**	**2005**	**2006**	**2007**	**2008**
			(In thousands)			**(unaudited)**
Consolidated Balance Sheet Data:						
Cash, cash equivalents and short-term investments	$ 692	$ 27,018	$ 59,420	$ 125,567	$ 90,266	$ 50,591
Working capital	(1,657)	24,409	50,755	68,147	80,440	45,034
Total assets	4,169	30,067	63,579	135,561	94,690	52,112
Long-term debt, net of current portion and discount	1,208	84				
Accumulated deficit	(20,105)	(42,235)	(83,107)	(116,980)	(109,288)	(146,891)
Preferred stock	20,058	69,447	136,815			
Total shareholders equity (deficit)	(20,115)	(42,202)	(82,632)	71,372	82,404	45,237

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Selected Historical Financial Data of CSI

The following table presents CSI s selected historical consolidated financial data. CSI derived the selected statements of operations data for the years ended June 30, 2006, 2007 and 2008 and balance sheet data as of June 30, 2007 and 2008 from CSI s audited consolidated financial statements and related notes that are included elsewhere in this proxy statement/prospectus. CSI derived the selected consolidated statements of operations data for the years ended June 30, 2004 and 2005 and the balance sheet data as of June 30, 2004, 2005 and 2006 from CSI s audited consolidated financial statements that do not appear in this proxy statement/prospectus. CSI derived the consolidated statements of operations data for the three months ended September 30, 2007 and 2008 and the balance sheet data as of September 30, 2008 from CSI s unaudited consolidated financial statements and related notes that are included elsewhere in this proxy statement/prospectus. CSI has prepared this unaudited information on the same basis as the audited consolidated financial statements and has included all adjustments, consisting only of normal recurring adjustments, that CSI considers necessary for a fair presentation of CSI s financial position and operating results for such period. CSI has prepared the unaudited interim consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, or GAAP, and the rules and regulations of the SEC for interim financial statements. CSI s historical results are not necessarily indicative of the results that may be expected in the future and the results for the three months ended September 30, 2008 are not necessarily indicative of the results for the full year. You should read this data together with CSI s consolidated financial statements and related notes included elsewhere in this proxy statement/prospectus and the information under Management s Discussion and Analysis of Financial Condition and Results of Operations for CSI.

	Years Ended June 30,					Three Months Ended September 30,	
	2004	2005	2006	2007(1)	2008(1)	2007(1)	2008(1)
	(In thousands, except share and per share amounts)						
Consolidated Statements of Operations Data:							
Revenues	$	$	$	$	$ 22,177	$	$ 11,646
Cost of goods sold					8,927	(539)	3,881
Gross profit					13,250	(539)	7,765
Expenses(1):							
Selling, general and administrative	984	1,177	1,735	6,691	35,326	3,552	16,424
Research and development	3,246	2,371	3,168	8,446	16,068	3,328	4,955
Total expenses	4,230	3,548	4,903	15,137	51,394	6,880	21,379
	(4,230)	(3,548)	(4,903)	(15,137)	(38,144)	(7,419)	(13,614)

Loss from operations							
Other income (expense):							
Interest expense			(48)	(1,340)	(923)	(300)	(227)
Interest income	18	37	56	881	1,167	278	142
Impairment on investments					(1,267)		
Total other income (expense)	18	37	8	(459)	(1,023)	(22)	(85)
Net loss	(4,212)	(3,511)	(4,895)	(15,596)	(39,167)	(7,441)	(13,699)
Accretion of redeemable convertible preferred stock(2)				(16,835)	(19,422)	(4,853)	
Net loss available to common shareholders	$ (4,212)	$ (3,511)	$ (4,895)	$ (32,431)	$ (58,589)	$ (12,294)	$ (13,699)
Loss per common share:							
Basic and diluted(3)	$ (0.78)	$ (0.61)	$ (0.79)	$ (5.22)	$ (8.57)	$ (1.95)	$ (1.78)
Weighted average common shares used in computation:							
Basic and diluted(3)	5,375,795	5,779,942	6,183,715	6,214,820	6,835,126	6,291,512	7,692,248

(1) Operating expenses in the years ended June 30, 2007 and 2008 and three months ended September 30, 2007 and 2008 include stock-based compensation expense as a result of the adoption of SFAS No. 123(R), *Share-Based Payment* on July 1, 2006, as follows (in thousands):

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	Years Ended June 30,		Three Months Ended September 30,	
	2007	2008	2007	2008
Cost of goods sold	$	$ 232	$	$ 176
Selling, general and administrative	327	6,852	277	1,384
Research and development	63	297	73	112

(2) See Notes 1 and 10 of the notes to CSI s consolidated financial statements included elsewhere in this proxy statement/prospectus for a discussion of the accretion of redeemable convertible preferred stock.

(3) See Note 12 of the notes to CSI s consolidated financial statements included elsewhere in this proxy statement/prospectus for a description of the method used to compute basic and diluted net loss per common share and basic and diluted weighted-average number of shares used in per common share calculations.

	As of June 30,					As of September 30,
	2004	2005	2006	2007	2008	2008
			(In thousands)			
Consolidated Balance Sheet Data:						
Cash and cash equivalents	$ 3,144	$ 1,780	$ 1,554	$ 7,908	$ 7,595	$ 14,727
Short-term investments				11,615		
Working capital(1)	2,868	1,349	(1,240)	18,171	(3,118)	(11,144)
Total current assets	3,166	2,116	2,424	20,828	18,204	24,914
Total assets	4,031	2,874	3,296	22,025	41,958	48,612
Redeemable convertible preferred stock warrants				3,094	3,986	4,047
Total liabilities	298	767	3,723	5,830	25,408	42,605
Redeemable convertible preferred stock				48,498	98,242	98,242
Total shareholders (deficiency) equity	3,733	2,107	(427)	(32,303)	(81,692)	(92,235)

(1) Working capital is calculated as total current assets less total current liabilities as of the balance sheet date indicated.

Quarterly Results of Operations

The following table presents CSI s unaudited quarterly results of operations for each of CSI s last nine quarters ended September 30, 2008. You should read the following table in conjunction with CSI s consolidated financial statements and related notes included elsewhere in this proxy statement/prospectus. CSI has prepared the unaudited information on the same basis as CSI s audited consolidated financial statements. These interim financial statements reflect all adjustments consisting of normal recurring accruals, which, in the opinion of CSI s management, are necessary to present fairly the results of CSI s operations for the interim periods. Results of operations for any quarter are not

necessarily indicative of results for any future quarters or for a full year.

	September 30, 2006	December 31, 2006	March 31, 2007	June 30, 2007	September 30, 2007	December 31, 2007	March 31, 2008	June 30, 2008	September 30, 2008
					(In thousands)				
Consolidated Statements of Operations Data:									
Revenues	$	$	$	$	$	$ 4,631	$ 7,654	$ 9,892	$ 11,646
Gross profit (loss)					(539)	2,438	5,142	6,209	7,765
Loss from operations	(1,571)	(2,964)	(3,984)	(6,618)	(7,419)	(10,187)	(9,291)	(11,247)	(13,614)
Net loss	(1,328)	(3,139)	(4,187)	(6,942)	(7,441)	(9,768)	(10,611)	(11,347)	(13,699)
Net loss available to common shareholders(1)	(5,207)	(7,266)	(8,584)	(11,374)	(12,294)	(10,121)	(24,827)	(11,347)	(13,699)

(1) Net loss available to common shareholders includes accretion of redeemable convertible preferred stock.

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Selected Unaudited Pro Forma Condensed Combined Financial Data of Replidyne and CSI

The following unaudited pro forma financial data should be read in conjunction with the historical financial statements and the accompanying notes of Replidyne and CSI, and Management s Discussion and Analysis of Financial Condition and Results of Operations for Replidyne and Management s Discussion and Analysis of Financial Condition and Results of Operations for CSI, which are included elsewhere in this proxy statement/prospectus, and the other information contained in this proxy statement/prospectus. See Where You Can Find More Information beginning on page 248 and the financial statements of Replidyne and CSI beginning on pages F-1 and F-43, respectively.

The following selected unaudited pro forma condensed combined financial information presents the effect of the merger of Replidyne and CSI pursuant to the merger agreement. For accounting purposes, CSI is considered to be acquiring the net assets of Replidyne in the merger. The following unaudited pro forma condensed combined balance sheet data assume that the merger took place on September 30, 2008 and combines the CSI historical consolidated balance sheet at September 30, 2008 with the Replidyne historical balance sheet at September 30, 2008 and includes the effect of the issuance of warrants to purchase 3.5 million shares of CSI common stock to current CSI preferred stockholders in connection with the conversion of preferred stock into common stock immediately prior to the effective time of the proposed merger. Because as of December 31, 2008 Replidyne had reduced its employee headcount to three employees that are not engaged in development or commercialization efforts and will not transition to CSI, had returned its license to develop faropenem medoxomil to Asubio Pharma Co., Ltd. and had suspended development of REP3123 and its other anti-infective programs based on its bacterial DNA replication inhibition technology, and is engaged in a process to sell or otherwise dispose of its remaining research and development programs, including REP3123 and its bacterial DNA replication inhibition technology, Replidyne is not considered to be a business for accounting purposes. The unaudited pro forma condensed combined statements of operations data assume that the merger took place as of July 1, 2007, and combines the historical results of Replidyne and CSI for the three months ended September 30, 2008 and the year ended June 30, 2008. The historical results of CSI were derived from its unaudited consolidated statement of operations for the three months ended September 30, 2008 and its audited consolidated statement of operations for the year ended June 30, 2008 included herein. The historical results of Replidyne were derived from its unaudited statement of operations for the three months ended September 30, 2008 included herein, and a combination of its audited statement of operations for the year ended December 31, 2007 included herein, and its unaudited statement of operations for the six months ended June 30, 2007 and 2008 included in its Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2008. The unaudited pro forma condensed combined financial statements do not account for the effect of a reverse stock split of Replidyne common stock to be implemented immediately prior to the effective time of the merger.

The selected unaudited pro forma condensed combined financial data are presented for illustrative purposes only and are not necessarily indicative of the combined financial position or results of operations of future periods or the results that actually would have been realized had the entities been a single entity during these periods. Replidyne and CSI expect the fair value of the net assets of Replidyne to approximate the fair value of Replidyne common stock at the date of the merger. The unaudited pro forma condensed combined financial statements have been prepared using CSI s June 30 year end, as the combined company anticipates having a June 30 year end upon closing of the merger. The financial statements of the combined entity after the merger will reflect the historical results of CSI before the merger and will not include the historical financial results of Replidyne before the completion of the merger. The selected unaudited pro forma condensed combined financial data as of and for the three months ended September 30, 2008 and for the year ended June 30, 2008 are derived from the unaudited pro forma condensed combined financial information appearing elsewhere in this proxy statement/prospectus, and should be read in conjunction with that information. For purposes of the unaudited pro forma condensed combined financial statements, presented elsewhere herein, Replidyne

and CSI have made allocations of the estimated purchase price to the assets to be acquired and liabilities to be assumed based on preliminary estimates of their fair value. A final determination of these estimated fair values, which cannot be made prior to the completion of the merger, will be based on the actual net assets of Replidyne that exist as of the date of consummation of the merger. The actual amounts recorded as of the consummation of the merger may differ

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materially from the information presented in these unaudited pro forma condensed combined financial statements as a result of:

- net cash used in Replidyne s operations between the pro forma balance sheet date of September 30, 2008 and the closing of the merger;
- the timing of completion of the merger;
- Replidyne s net assets as calculated pursuant to the merger agreement, which will partially determine the actual number of shares of Replidyne s common stock to be issued pursuant to the merger; and
- other changes in Replidyne s net assets that may occur prior to completion of the merger, which could cause material differences in the information presented below.

The estimated total purchase price of Replidyne in these unaudited pro forma condensed combined financial statements was based on the net assets as of September 30, 2008, the date on which the proposed merger is deemed to have occurred for purposes of these pro forma financial statements. The Replidyne net assets as of September 30, 2008 have been adjusted to include estimates for costs to be incurred as a result of ceasing its operations.

The final asset allocation may change significantly from preliminary estimates. The actual asset allocation upon consummation of the merger will be based on the fair value of the consideration paid and fair values of Replidyne s assets and liabilities as determined at the time of consummation. Replidyne continues to use its cash and other liquid assets to finance the closing of its operations. Replidyne and CSI will re-evaluate the determination of the purchase price at the time of consummation of the merger. Please see Note 2 to the unaudited pro forma combined condensed financial statements included elsewhere in this proxy statement/prospectus for further discussion.

	Year Ended June 30, 2008	Three Months Ended September 30, 2008
	(In thousands, except per share amounts)	
Unaudited Pro Forma Condensed Combined Statement of Operations Data		
Total Revenue	$ 22,177	$ 11,646
Selling, general and administrative expenses	47,810	21,317
Research and development expenses	62,610	9,675
Loss from operations	(97,170)	(23,227)
Net loss	(93,824)	(22,775)
Basic and diluted net loss per share	(0.70)	(0.16)

	September 30, 2008 (In thousands)

Unaudited Pro Forma Condensed Combined Balance Sheet Data	
Cash and cash equivalents	$ 46,786
Working capital	26,090
Total assets	100,521
Total liabilities	53,233
Total stockholders equity	47,288

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Comparative Historical and Unaudited Pro Forma Per Share Data

The following information reflects the historical net loss and book value per share of CSI common stock and the historical net loss and book value per share of Replidyne common stock in comparison with the unaudited pro forma net loss and book value per share after giving effect to the proposed merger of CSI with Replidyne. The combined company pro forma per common share data are provided for informational purposes only and are not necessarily indications of the results that would have been achieved had the transaction been completed as of the dates indicated or that may be achieved in the future. CSI and Replidyne have derived the combined company pro forma per common share data from the unaudited pro forma condensed combined financial statements presented elsewhere in this proxy statement/prospectus.

You should read the tables below in conjunction with the audited and unaudited financial statements of CSI and the notes related thereto, the audited and unaudited financial statements of Replidyne and the notes related thereto and the unaudited pro forma condensed combined financial information and notes related thereto, each included elsewhere in this proxy statement/prospectus.

	Year Ended June 30, 2008	Three Months Ended September 30, 2008
CSI Historical Common Share Data:		
Basic and diluted net loss per share	$ (8.57)	$ (1.78)
Book value per share as of the period end	(10.78)	(11.93)
Replidyne Historical Common Share Data:		
Basic and diluted net loss per share	$ (2.10)	$ (0.37)
Book value per share as of the period end	2.02	1.67
Combined Company Pro Forma Per Common Share Data:		
Basic and diluted net loss per share	$ (0.70)	$ (0.16)
Book value per share as of the period end	N/A	0.22

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MARKET PRICE AND DIVIDEND INFORMATION

Replidyne

Replidyne common stock is listed on the Nasdaq Global Market under the symbol RDYN. The following table sets forth, for the periods indicated, the high and low per share sales prices for Replidyne common stock as reported on the Nasdaq Global Market:

	Common Stock	
	High	Low
Fiscal Year Ended December 31, 2008		
First quarter	$ 3.10	$ 1.29
Second quarter	1.90	1.25
Third quarter	1.43	1.16
Fourth quarter	1.27	0.28
Fiscal Year Ended December 31, 2007		
First quarter	$ 6.28	$ 4.28
Second quarter	6.07	5.10
Third quarter	7.50	5.23
Fourth quarter	6.66	3.05

On November 3, 2008, the last day prior to the public announcement of the merger, the closing price per share of Replidyne common stock as reported on the Nasdaq Global Market was $1.12, for an aggregate market value of Replidyne of approximately $30.4 million.

On January 26, 2009, the last practicable date before the printing of this proxy statement/prospectus, the closing price per share of Replidyne common stock as reported on the Nasdaq Global Market was $0.77, for an aggregate market value of Replidyne of approximately $20.9 million.

The number of record holders of Replidyne common stock on January 21, 2009 was approximately 77.

Following the merger, the combined company is expected to be renamed Cardiovascular Systems, Inc. and to change its symbol for trading on the Nasdaq Global Market. CSI has reserved the symbol CSII for this purpose.

CSI

CSI is a privately-held company and its shares are not publicly traded. The number of record holders of CSI common stock on January 26, 2009 was approximately 640, and the number of record holders of CSI preferred stock on January 26, 2009 was approximately 270.

Dividend Policy

Neither Replidyne nor CSI has ever declared or paid any cash dividends on its capital stock nor does either intend to do so in the foreseeable future.

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RISK FACTORS

The combined company will be faced with a market environment that cannot be predicted and that involves significant risks, many of which will be beyond its control. In addition to the other information contained in this proxy statement/prospectus, you should carefully consider the material risks described below before deciding how to vote your shares of Replidyne common stock or CSI capital stock.

Risks Relating to the Proposed Merger

If any of the events described in Risks Relating to CSI and the Combined Company occur, those events could cause the potential benefits of the merger not to be realized.

Following the effective time of the merger, current CSI officers and directors will direct the business and operations of the combined company. Additionally, CSI s business is expected to constitute all of the business of the combined company following the merger. As a result, the risks described below in the section entitled Risks Relating to CSI and the Combined Company beginning on page 24 are among the most significant risks to the combined company if the merger is completed. To the extent any of the events in the risks described below in the section entitled Risks Relating to CSI and the Combined Company occur, those events could cause the market price of the combined company s common stock to decline.

In the event that Replidyne s level of net assets at the effective time of the merger, as calculated pursuant to the merger agreement, is lower than $35.0 million, Replidyne stockholders will hold a smaller percentage ownership of Replidyne following the consummation of the merger than is currently anticipated and the combined company will have less working capital for future operations.

Subject to the terms of the merger agreement with CSI, at the effective time of the merger, each share of CSI common stock issued and outstanding immediately prior to the merger will be canceled, extinguished and automatically converted into the right to receive that number of shares of Replidyne common stock as determined pursuant to the conversion factor described in the merger agreement. The conversion factor depends on Replidyne s level of net assets as of the effective time of the merger. Under the merger agreement, Replidyne s net assets is defined as Replidyne s total current assets minus all of its liabilities and other outstanding and future obligations as of the effective time of the merger, subject to certain adjustments. Replidyne currently anticipates that its level of net assets as of the effective time of the merger will be between $35.0 and $37.0 million, which would result in Replidyne s current stockholders, together with holders of its options and warrants, owning or having the right to acquire between 16.3% and 17.0% of the common stock of the combined company on a fully diluted basis as calculated in accordance with the merger agreement. However, if one or more of the following circumstances arise, Replidyne s level of net assets may be lower than Replidyne expects and Replidyne stockholders would hold a smaller percentage ownership of the combined company following the consummation of the merger than is currently anticipated, thus making the merger less attractive to Replidyne stockholders:

- Replidyne is unable to generate any proceeds from the sale of its REP3123 and DNA replication inhibition programs;

- Replidyne is unable to terminate, sublease or otherwise assign to a third party its remaining obligations under the lease for its headquarters in Louisville, Colorado;

Replidyne does not receive reimbursement from Forest Laboratories for certain decontamination costs incurred by Replidyne under its former supply agreement with MEDA Manufacturing GmbH;

the costs associated with the winding up of Replidyne s business are greater than anticipated; or

Replidyne expends more resources than is currently anticipated as a result of a delay in the closing of the merger or otherwise.

In addition, if Replidyne s net assets are lower than expected, the combined company will have less working capital for future operations, which could adversely affect the ability of the combined company to achieve its business plan.

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The costs associated with the merger are difficult to estimate, may be higher than expected and may harm the financial results of the combined company.

Replidyne and CSI estimate that they will incur aggregate direct transaction costs of approximately $6.2 million associated with the merger, and additional costs associated with the commencement of CSI s operation as a public company, which cannot be estimated accurately at this time. The costs associated with the merger may increase if any CSI stockholders elect to dissent from the merger and seek payment of the fair value of their shares as permitted by Minnesota law. If the total costs of the merger exceed Replidyne s and CSI s estimates, the combined company will have less working capital for future operations, which will adversely affect the ability of the combined company to achieve its business plan.

Nasdaq considers the anticipated merger a reverse merger and therefore requires CSI and Replidyne to submit a new listing application with respect to the combined company, which will require certain actions by CSI and Replidyne and may not be successful, which would result in you having difficulty selling your shares.

Nasdaq considers the merger proposed in this proxy statement/prospectus as a reverse merger and requires CSI and Replidyne to submit a new listing application with respect to the combined company. Nasdaq may not approve this new listing application. If this occurs and the merger is still consummated, you may have difficulty selling your shares.

Additionally, as part of the new listing application, CSI and Replidyne will be required to submit, among other things, a plan for the combined company to conduct a reverse stock split. A reverse stock split would increase the per share trading price by a yet undetermined multiple. The change in share price may affect the volatility and liquidity of the combined company s stock, as well as the marketplace s perception of the stock. As a result, the relative price of the combined company s stock may decline and/or fluctuate more than in the past, and you may have trouble converting your investments in the combined company into cash effectively.

The market price of Replidyne common stock has fallen significantly since the public announcement of the proposed merger. If the merger is completed, the market price of the combined company s common stock may decline further.

On November 3, 2008, the last day prior to the public announcement of the proposed merger, the closing price per share of Replidyne common stock as reported on The Nasdaq Global Market was $1.12. On January 26, 2009, the last practicable date before the printing of this proxy statement/prospectus, the closing price per share of Replidyne common stock as reported on The Nasdaq Global Market was $0.77, which represents a 31.3% decrease from the closing price on November 3, 2008. This decrease may increase the risk that Replidyne would become subject to securities class action litigation, which could result in substantial costs and a delay in the completion of the merger. If the merger is completed, the market price of the combined company s common stock may decline further for a number of reasons, including if:

- the effect of the merger on the combined company s business and prospects is not consistent with the expectations of financial or industry analysts; or
- investors react negatively to the effect on the combined company s business and prospects from the merger.

Because the lack of a public market for CSI s outstanding shares makes it difficult to evaluate the fairness of the merger, CSI stockholders may receive consideration in the merger that is greater than or less than the fair market value of the CSI shares.

The outstanding capital stock of CSI is privately held and is not traded in any public market. The lack of a public market makes it extremely difficult to determine the fair market value of CSI. Since the percentage of Replidyne s equity to be issued to CSI stockholders was determined based on negotiations between the parties, it is possible that the value of the Replidyne common stock to be issued in connection with the merger will be greater than the fair market value of CSI. Alternatively, it is possible that the value of the shares of Replidyne common stock to be issued in connection with the merger will be less than the fair market value of CSI.

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Replidyne and CSI executive officers and directors may have interests in the merger that are different from, or in addition to, those of Replidyne and CSI stockholders generally.

The executive officers and directors of Replidyne and CSI may have interests in the merger that are different from, or are in addition to, those of Replidyne and CSI stockholders generally. The directors of the combined company will consist of two directors from Replidyne s board and eight directors from CSI s board. Further, certain Replidyne executive officers will receive change in control payments in connection with the merger. See the sections entitled Interests of Replidyne s Executive Officers and Directors in the Merger starting on page 66 and Interests of CSI s Executive Officers and Directors in the Merger starting on page 70.

Replidyne and CSI may not be able to complete the merger or may elect to pursue a different strategic transaction, which may not occur on commercially reasonably terms or at all.

Neither Replidyne nor CSI can assure you that they will close the pending merger in a timely manner or at all. The merger agreement is subject to many closing conditions and termination rights, as set forth in more detail in The Merger Agreement Conditions to the Completion of the Merger and The Merger Agreement Termination of the Merger Agreement below. If Replidyne and CSI do not complete the pending merger, Replidyne s and CSI s board of directors may elect to attempt to complete a different strategic transaction. Attempting to complete a different strategic transaction would prove to be costly and time consuming, and neither Replidyne nor CSI can make any assurances that a future strategic transaction will occur on commercially reasonable terms or at all.

Failure to complete the merger could adversely affect Replidyne s stock price and Replidyne s and CSI s future business and operations.

The merger is subject to the satisfaction of closing conditions, including approval by Replidyne and CSI stockholders, and neither Replidyne nor CSI can assure you that the merger will be completed. In the event that the merger is not completed, Replidyne and CSI may be subject to many significant costs, including legal, accounting and advisory fees related to the merger, which must be paid even if the merger is not completed, and the payment of a termination fee and certain expenses under certain circumstances. If the merger is not completed, the market price of Replidyne common stock could decline as a result. If the merger is not completed, CSI will need additional debt or equity financing to carry out its business plan and there is no assurance that such debt or equity financing will be available on acceptable terms or at all.

During the pendency of the merger, Replidyne and CSI may not be able to enter into a business combination with another party because of restrictions in the merger agreement.

The merger agreement restricts the ability of Replidyne and CSI to make acquisitions or complete other transactions. While the merger agreement is in effect, subject to limited exceptions, each party is prohibited from soliciting, initiating, encouraging or taking actions designed to facilitate any inquiries or the making of any proposal or offer that could lead to such party entering into certain extraordinary transactions with any third party, such as a sale of assets, an acquisition of common stock, a tender offer for capital stock or a merger or other business combination outside the ordinary course of business. Any such transactions could be favorable to Replidyne or CSI stockholders.

The merger may be completed even though material adverse changes may result from the announcement of the merger, industry-wide changes and other causes.

In general, either party can refuse to complete the merger if there is a material adverse change affecting the other party between November 3, 2008, the date of the merger agreement, and the closing of the merger. However, some types of changes do not permit either party to refuse to complete the merger, even if such changes would have a material

adverse effect on Replidyne or CSI. If adverse changes occur but Replidyne and CSI must still complete the merger, the combined company s stock price may suffer.

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Risks Relating to Replidyne

If the proposed merger with CSI is not consummated, Replidyne s prospects will be materially and adversely affected and its stock price could decline.

Replidyne and CSI are targeting a closing of the merger in the first calendar quarter of 2009. If the merger agreement is terminated and Replidyne seeks another business combination, Replidyne may not be able to find a third party willing to provide equivalent or more attractive consideration than the consideration to be provided in the proposed merger with CSI. In such circumstances, Replidyne s board of directors may elect to, among other things, take the steps necessary to liquidate Replidyne s business and assets. In the case of a liquidation, the consideration that Replidyne might receive may be less attractive than the consideration to be received by it pursuant to the merger with CSI.

Replidyne no longer has any internal capabilities to develop its product candidates. Replidyne s ability to increase stockholder value is dependent on Replidyne s ability to successfully complete a strategic transaction or transactions for the sale of the company and the sale of Replidyne s product development programs, which Replidyne may be unable to complete.

In August 2008, Replidyne commenced restructuring its operations to reduce its employee headcount to six employees by the end of October 2008. Replidyne suspended further development activities of REP3123, Replidyne s investigational agent for the treatment of *Clostridium difficile*, or *C. difficile,* bacteria and *C. difficile* Infection, or CDI, and novel anti-infective compounds based on Replidyne s DNA replication inhibition technology. Previously, Replidyne had restructured its operations in a number of actions announced in December 2007, April 2008 and June 2008 that included Replidyne s decision to terminate its license with Asubio Pharma, Co., Ltd, or Asubio Pharma, for faropenem medoxomil and related contract manufacturing agreements for faropenem medoxomil, discontinue enrollment in Replidyne s Phase III clinical trial of faropenem medoxomil for the treatment of acute exacerbations of chronic bronchitis and reduce employee headcount. Replidyne had previously devoted substantially all of its clinical development and research and development efforts and a material portion of its financial resources toward the development of faropenem medoxomil, REP3123, its DNA replication inhibition technologies and its other product candidates. Replidyne currently has no product candidates in clinical or pre-clinical development and has further reduced its employee headcount to three employees, all of whom are involved primarily in financial and administrative roles. Replidyne has entered into an agreement with Morgan Stanley to provide financial advisory services for Replidyne s strategic alternatives process. Replidyne s management has also devoted a substantial amount of time and effort to the strategic alternatives process. As a result of this process, Replidyne has entered into the merger agreement with CSI and continues to pursue the sale of its suspended REP3123 program and DNA replication inhibition technologies.

Consummation of the merger with CSI is subject to numerous conditions to closing, including approval from Replidyne stockholders and the stockholders of CSI, which approval cannot be assured. Further, Replidyne cannot predict whether its REP3123 program and/or DNA replication inhibition technologies can be sold on favorable terms or at all. Completing the merger with CSI and pursuing the sale of its REP3123 program and DNA replication inhibition technologies may require Replidyne to incur substantial additional costs. If Replidyne is unable to complete the merger, its business may be liquidated.

Replidyne may not be able to generate adequate proceeds or any proceeds from the sale of its REP3123 program and DNA replication inhibition technology.

Replidyne is pursuing the sale of its REP3123 program and DNA replication inhibition technology. Replidyne has solicited bids through provision of bid instruction letters to numerous parties. Replidyne s Chief Scientific Officer is acting as the representative for a company in formation that has indicated an interest in acquiring and pursuing these programs. If Replidyne does not receive an acceptable bid for its REP3123 program or DNA replication inhibition technology, Replidyne may not be able to generate adequate proceeds or any proceeds from the sale of these programs. The failure to generate these proceeds would negatively impact the percentage of the combined company that Replidyne stockholders will hold following the merger with CSI. In particular, if Replidyne s level of net assets at the effective time of the merger is lower than $35.0 million, Replidyne s current

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stockholders, together with holders of its options and warrants, will own or have the right to acquire less than 16.3% of the common stock of the combined company.

Replidyne has received a warning letter from the FDA for Replidyne s NDA filed in December 2005 for faropenem medoxomil, Replidyne s former product candidate. Failure to resolve the matters addressed in the warning letter could negatively impact Replidyne s or a successor company s ability to undertake clinical trials in the future or timely complete future IND and NDA submissions.

On January 22, 2008, Replidyne received a warning letter from the Division of Scientific Investigation of the FDA, or DSI, informing Replidyne of objectionable conditions found during the DSI s investigation of Replidyne s role as applicant for Replidyne s new drug application, or NDA, for faropenem medoxomil. The FDA s observations were based on its establishment inspection reports following on site inspections in conjunction with the FDA s review of Replidyne s NDA. Specifically, DSI cited that Replidyne failed to make available the underlying raw data from the investigation for the FDA s audit and failed to provide the FDA adequate descriptions and analyses of any other data or information relevant to the evaluation of the safety and effectiveness of faropenem medoxomil obtained or otherwise received by Replidyne from any source derived from clinical investigations. The clinical trials that supported Replidyne s NDA were conducted by Bayer as a previous licensee of faropenem medoxomil. In June 2008, DSI made further inquires of Replidyne related to Replidyne s previous responses to their observations in the warning letter. In July 2008, Replidyne communicated to the FDA Replidyne s decision to terminate Replidyne s license for faropenem medoxomil with Asubio Pharma and withdrew the NDA from consideration by the FDA. Replidyne also informed DSI of these actions. In a communication dated July 22, 2008 the FDA advised Replidyne that since Replidyne has active Investigational New Drug applications, or INDs, and ongoing clinical trials, the issues raised in the warning letter remained open. Following receipt of this communication, Replidyne withdrew all of its open INDs that related to faropenem medoxomil and REP8839. If Replidyne is unable to sufficiently establish to the FDA that future clinical trials conducted by Replidyne, or potentially a successor company, would be in accordance with FDA regulations, Replidyne may be subject to enforcement action by the FDA including being subject to the FDA s Application Integrity Policy. This policy would require third-party validation of the integrity of the raw data underlying any of Replidyne s future filings to the FDA before those filings would be accepted for consideration. Such a requirement would be onerous and require significant additional time and expense for the clinical development and potential approval of any product candidates that Replidyne may wish to develop in the future. These requirements would make it difficult for Replidyne to attempt to restart the development of any of its former product candidates or commence the development of any new product candidates in the event that the merger with CSI is not completed. Further, Replidyne could be subject to additional actions from the FDA that may negatively impact Replidyne s ability or the ability of a successor company to enter into clinical trials or submit an IND or NDA in the future.

Replidyne has incurred significant operating losses since inception and anticipates that it will incur continued losses for the foreseeable future.

Replidyne has experienced significant operating losses since its inception in December 2000. At September 30, 2008, Replidyne had an accumulated deficit of approximately $146.9 million. Replidyne has generated no revenue from product sales to date. Replidyne has funded its operations to date principally from the sale of its securities and payments by Forest Laboratories under Replidyne s former collaboration agreement. As a result of the suspension of Replidyne s clinical development of each of faropenem medoxomil, REP3123, its anti-bacterial agent addressing *C. difficile* bacteria and *C. difficile*-associated disease, and its DNA replication inhibition technology, Replidyne has no current prospect for near term revenues. Replidyne expects to continue to incur substantial additional operating losses during the period in which it seeks to consummate the proposed merger and pursue the sale of certain company assets including REP3123 and its DNA replication inhibition technology. Because of the numerous risks and uncertainties associated with closing the proposed merger with CSI and transactions related to the sale of Replidyne s drug programs, Replidyne is unable to predict the extent of any future losses or the timeline for completing potential

transactions.

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Replidyne may be unable to retain the senior management required to complete the merger or pursue alternative transactions.

Replidyne s success in selling its remaining pipeline programs and completing the merger depends in part on its continued ability to retain and motivate qualified management and scientific personnel and on its ability to develop and analyze strategic alternatives. Replidyne is highly dependent upon its senior management, particularly Kenneth Collins, its President and Chief Executive Officer, Mark Smith, its Chief Financial Officer, and Donald Morrissey, its Senior Vice President of Corporate Development. The loss of services of any of Mr. Collins, Mr. Smith or Mr. Morrissey could delay or prevent the successful completion of the merger or its ability to complete an alternative transaction or the sale of REP3123 or its DNA replication inhibition technologies.

The market price of Replidyne common stock is highly volatile.

Replidyne cannot assure you that an active trading market for its common stock will exist at any time. You may not be able to sell your shares quickly or at the market price if trading in Replidyne common stock is not active. The trading price of Replidyne common stock has been highly volatile and could be subject to wide fluctuations in price in response to various factors, many of which are beyond Replidyne s control, including:

- market reaction and other developments related to the proposed merger with CSI;
- any developments related to the business of CSI, including during the pendency of the merger;
- the announcement of or other developments related to a sale of part or all of the development stage assets of Replidyne;
- failure to achieve stockholder approval of the merger with CSI;
- a decision to liquidate the assets of Replidyne;
- termination of significant agreements;
- changes in laws or regulations applicable to Replidyne s assets;
- actual or anticipated variations in Replidyne s results of operations;
- actual or anticipated changes in earnings estimates or recommendations by securities analysts;
- actions taken by regulatory agencies with respect to Replidyne;
- conditions or trends in the biotechnology and biopharmaceutical industries;
- announcements by Replidyne or its competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments;
- general economic and market conditions and other factors that may be unrelated to Replidyne s operating performance or to the operating performance of its competitors;
- changes in the market valuations of similar companies;

sales of common stock or other securities by Replidyne or its stockholders in the future;

additions or departures of key scientific or management personnel;

the outcome of litigation or arbitration claims;

developments relating to proprietary rights held by Replidyne or its competitors;

disputes or other developments relating to proprietary rights, including patents, litigation matters and Replidyne s ability to obtain patent protection for its technologies;

trading volume of Replidyne common stock;

sales of Replidyne common stock by Replidyne or its stockholders; and

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any proceedings instituted by Nasdaq related to the delisting of Replidyne common stock from the Nasdaq Global Market.

In addition, the stock market in general and the market for biotechnology and biopharmaceutical companies in particular have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. These broad market and industry factors may seriously harm the market price of Replidyne common stock, regardless of its operating performance. In the past, following periods of volatility in the market, securities class-action litigation has often been instituted against companies. Such litigation, if instituted against Replidyne, could result in substantial costs and diversion of management s attention and resources, which could materially adversely affect Replidyne s prospects and financial condition.

Replidyne s principal stockholders and management own a significant percentage of Replidyne s stock and are able to exercise significant influence over matters subject to stockholder approval.

Replidyne s executive officers, directors and principal stockholders, together with their respective affiliates, currently own a significant percentage of Replidyne s voting stock, including shares subject to outstanding options and warrants, and Replidyne expects this group will continue to hold a significant percentage of its outstanding voting stock until consummation of the merger, when their ownership interests will be decreased due to the issuance of Replidyne common stock to CSI stockholders. Accordingly, these stockholders will likely be able to have a significant impact on the composition of Replidyne s board of directors and continue to have significant influence over Replidyne s operations and decisions until consummation of the merger. Replidyne stockholders with approximately 48% of Replidyne s outstanding common stock have entered into voting agreements and irrevocable proxies in favor of CSI for approximately 32% of Replidyne s outstanding common stock, pursuant to which, among other things, each of these stockholders agreed, solely in his capacity as a stockholder, to vote these shares in favor of the issuance of the shares of Replidyne common stock in the merger and the other actions contemplated by the merger agreement. This concentration of ownership and the voting agreements could have the effect of delaying or preventing a change in control, other than the merger with CSI, or otherwise discouraging a potential acquirer from attempting to obtain control of Replidyne, which in turn could have a material and adverse effect on the market value of Replidyne common stock.

Risks Relating to CSI and the Combined Company

In determining whether you should approve the issuance of shares of Replidyne common stock pursuant to the merger, you should carefully read the following risk factors. Replidyne and CSI anticipate that, immediately following the merger, the business of the combined company will be the business conducted by CSI immediately prior to the merger. As a result, the risk factors section of this proxy statement/prospectus entitled Risk Factors Relating to the Proposed Merger together with the following risk factors, are the most significant you will face if the merger is completed.

Risks Relating to CSI s Business and Operations

Negative conditions in the global credit markets have impaired the liquidity of CSI s auction rate securities, and these securities have experienced an other-than-temporary decline in value, which has adversely affected CSI s income. These circumstances, along with CSI s history of incurring substantial operating losses and negative cash flows from operations, raise substantial doubt about CSI s ability to continue as a going concern.

As of September 30, 2008, CSI s investments included $23.0 million of AAA rated auction rate securities issued primarily by state agencies and backed by student loans substantially guaranteed by the Federal Family Education

Loan Program. These auction rate securities are debt instruments with a long-term maturity and with an interest rate that is reset in short intervals, primarily every 28 days, through auctions. The recent conditions in the global credit markets have prevented CSI from liquidating its holdings of auction rate securities because the amount of securities submitted for sale has exceeded the amount of purchase orders for such securities. In February 2008, CSI was informed that there was insufficient demand for auction rate securities, resulting in failed auctions for $23.0 million in auction rate securities held at June 30, 2008 and September 30, 2008. Currently, these affected

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securities are not liquid and will not become liquid until a future auction for these investments is successful or they are redeemed by the issuer or they mature. In the event that CSI needs to access the funds of its auction rate securities that have experienced insufficient demand at auctions, CSI will not be able to do so without the possible loss of principal, until a future auction for these investments is successful or they are redeemed by the issuer or they mature. If CSI is unable to sell these securities in the market or they are not redeemed, then CSI may be required to hold them to maturity and CSI may have insufficient funds to operate its business. For the year ended June 30, 2008, CSI recorded an other-than-temporary impairment loss of $1.3 million relating to these securities in its statement of operations, and for the three months ended September 30, 2008, CSI recorded an unrealized loss of $0.3 million relating to these securities in other comprehensive income (loss). CSI will continue to monitor and evaluate the value of its investments each reporting period for further possible impairment or unrealized loss. Although CSI currently does not intend to do so, CSI may consider selling its auction rate securities in the secondary markets in the future, which may require a sale at a substantial discount to the stated principal value of these securities.

In addition, because CSI has incurred substantial operating losses and negative cash flows from operations, all of which will require it to obtain additional funding to continue its operations, management has concluded that there is substantial doubt about CSI s ability to continue as a going concern. Based on the factors described above, CSI s independent registered public accountants have included an explanatory paragraph in their report for CSI s fiscal year ended June 30, 2008 with respect to CSI s ability to continue as a going concern. On March 28, 2008, CSI obtained a margin loan from UBS Financial Services, Inc., the entity through which CSI originally purchased its auction rate securities, for up to $12.0 million, which was secured by the $23.0 million par value of CSI s auction rate securities. On August 21, 2008, CSI replaced this loan with a margin loan from UBS Bank USA, which increased maximum borrowings available to $23.0 million, and on September 12, 2008, CSI obtained additional debt financing from Silicon Valley Bank with maximum available borrowings of $13.5 million. Based on anticipated operating requirements, combined with limited capital resources, financing CSI s operations will require that CSI raise additional equity or debt capital prior to or during the quarter ending September 30, 2009. CSI has entered into the merger agreement to obtain the working capital necessary to execute its business plan. If the merger is not completed or CSI fails to raise sufficient equity or debt capital through other means, management would implement cost reduction measures, including workforce reductions, as well as reductions in overhead costs and capital expenditures. There can be no assurance that these sources will provide sufficient cash flows to enable CSI to continue as a going concern. CSI currently has no commitments for additional debt or equity financing and may experience difficulty in obtaining additional financing on favorable terms, if at all, if the merger is not consummated.

The existence of the explanatory paragraph may adversely affect CSI s relationships with current and prospective customers, suppliers and investors, and therefore could have a material adverse effect on CSI s business, financial condition, results of operations and cash flows.

CSI has a history of net losses and anticipates that it will continue to incur losses.

CSI is not profitable and has incurred net losses in each fiscal year since its formation in 1989. In particular, CSI had net losses of $3.5 million in fiscal 2005, $4.9 million in fiscal 2006, $15.6 million in fiscal 2007, $39.2 million in fiscal 2008, and $13.7 million for the three months ended September 30, 2008. As of September 30, 2008, CSI had an accumulated deficit of approximately $132.0 million. CSI commenced commercial sales of the Diamondback 360° Orbital Atherectomy System in September 2007, and CSI s short commercialization experience makes it difficult for it to predict future performance. CSI also expects to incur significant additional expenses for sales and marketing and manufacturing as CSI continues to commercialize the Diamondback 360° and additional expenses as CSI seeks to develop and commercialize future versions of the Diamondback 360° and other products. Additionally, CSI expects that its general and administrative expenses will increase as its business grows and CSI incurs the legal and regulatory costs associated with being a public company. As a result, CSI expects to continue to incur significant operating losses.

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CSI has a very limited history selling the Diamondback 360°, which is currently CSI s only product, and CSI s inability to market this product successfully would have a material adverse effect on CSI s business and financial condition.

The Diamondback 360° is CSI s only product and CSI is wholly dependent on it. The Diamondback 360° received 510(k) clearance from the FDA in the United States for use as a therapy in patients with PAD in August 2007. CSI initiated a limited commercial introduction of the Diamondback 360° in the United States in September 2007 and CSI therefore has very limited experience in the commercial manufacture and marketing of this product. CSI s ability to generate revenue will depend upon its ability to successfully commercialize the Diamondback 360° and to develop, manufacture and receive required regulatory clearances and approvals and patient reimbursement for treatment with future versions of the Diamondback 360°. As CSI seeks to commercialize the Diamondback 360°, CSI will need to expand its sales force significantly to reach its target market. Developing a sales force is expensive and time consuming and could delay or limit the success of any product launch. Thus, CSI may not be able to expand its sales and marketing capabilities on a timely basis or at all. If CSI is unable to adequately increase these capabilities, CSI will need to contract with third parties to market and sell the Diamondback 360° and any other products that CSI may develop. To the extent that CSI enters into arrangements with third parties to perform sales, marketing and distribution services on CSI s behalf, CSI s product revenues could be lower than if CSI marketed and sold its products on a direct basis. Furthermore, any revenues resulting from co-promotion or other marketing and sales arrangements with other companies will depend on the skills and efforts of others, and CSI does not know whether these efforts will be successful. Some of these companies may have current products or products under development that compete with CSI s, and they may have an incentive not to devote sufficient efforts to marketing CSI s products. If CSI fails to successfully develop, commercialize and market the Diamondback 360° or any future versions of this product that CSI develops, its business will be materially adversely affected.

The Diamondback 360° and future products may never achieve market acceptance.

The Diamondback 360° and future products CSI may develop may never gain market acceptance among physicians, patients and the medical community. The degree of market acceptance of any of CSI s products will depend on a number of factors, including:

- the actual and perceived effectiveness and reliability of CSI s products;
- the prevalence and severity of any adverse patient events involving CSI s products, including infection, perforation or dissection of the artery wall, internal bleeding, limb loss and death;
- the results of any long-term clinical trials relating to use of CSI s products;
- the availability, relative cost and perceived advantages and disadvantages of alternative technologies or treatment methods for conditions treated by CSI s systems;
- the degree to which treatments using CSI s products are approved for reimbursement by public and private insurers;
- the strength of CSI s marketing and distribution infrastructure; and
- the level of education and awareness among physicians and hospitals concerning CSI s products.

Failure of the Diamondback 360° to significantly penetrate current or new markets would negatively impact CSI s business, financial condition and results of operations.

If longer-term or more extensive clinical trials performed by CSI or others indicate that procedures using the Diamondback 360° or any future products are not safe, effective and long lasting, physicians may choose not to use CSI s products. Furthermore, unsatisfactory patient outcomes or injuries could cause negative publicity for CSI s products. Physicians may be slow to adopt CSI s products if they perceive liability risks arising from the use of these products. It is also possible that as CSI s products become more widely used, latent defects could be identified, creating negative publicity and liability problems for CSI, thereby adversely affecting demand for its products. If the Diamondback 360° and CSI s future products do not achieve an adequate level of acceptance by physicians, patients and the medical community, CSI s overall business and profitability would be harmed.

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CSI s future growth depends on physician adoption of the Diamondback 360°, which requires physicians to change their screening and referral practices.

CSI believes that it must educate physicians to change their screening and referral practices. For example, although there is a significant correlation between PAD and coronary artery disease, many physicians do not routinely screen for PAD while screening for coronary artery disease. CSI targets its sales efforts to interventional cardiologists, vascular surgeons and interventional radiologists because they are often the primary care physicians diagnosing and treating both coronary artery disease and PAD. However, the initial point of contact for many patients may be general practitioners, podiatrists, nephrologists and endocrinologists, each of whom commonly treats patients experiencing complications resulting from PAD. If CSI does not educate referring physicians about PAD in general and the existence of the Diamondback 360° in particular, they may not refer patients to interventional cardiologists, vascular surgeons or interventional radiologists for the procedure using the Diamondback 360°, and those patients may instead be surgically treated or treated with an alternative interventional procedure. If CSI is not successful in educating physicians about screening for PAD or referral opportunities, CSI s ability to increase its revenue may be impaired.

CSI s customers may not be able to achieve adequate reimbursement for using the Diamondback 360°, which could affect the acceptance of CSI s product and cause its business to suffer.

The availability of insurance coverage and reimbursement for newly approved medical devices and procedures is uncertain. The commercial success of CSI s products is substantially dependent on whether third-party insurance coverage and reimbursement for the use of such products and related services are available. CSI expects the Diamondback 360° to generally be purchased by hospitals and other providers who will then seek reimbursement from various public and private third-party payors, such as Medicare, Medicaid and private insurers, for the services provided to patients. CSI can give no assurance that these third-party payors will provide adequate reimbursement for use of the Diamondback 360° to permit hospitals and doctors to consider the product cost-effective for patients requiring PAD treatment. In addition, the overall amount of reimbursement available for PAD treatment could decrease in the future. Failure by hospitals and other users of CSI s product to obtain sufficient reimbursement could cause CSI s business to suffer.

Medicare, Medicaid, health maintenance organizations and other third-party payors are increasingly attempting to contain healthcare costs by limiting both coverage and the level of reimbursement, and, as a result, they may not cover or provide adequate payment for use of the Diamondback 360°. In order to position the Diamondback 360° for acceptance by third-party payors, CSI may have to agree to lower prices than it might otherwise charge. The continuing efforts of governmental and commercial third-party payors to contain or reduce the costs of healthcare may limit CSI s revenue.

CSI expects that there will continue to be federal and state proposals for governmental controls over healthcare in the United States. Governmental and private sector payors have instituted initiatives to limit the growth of healthcare costs using, for example, price regulation or controls and competitive pricing programs. Some third-party payors also require demonstrated superiority, on the basis of randomized clinical trials, or pre-approval of coverage, for new or innovative devices or procedures before they will reimburse healthcare providers who use such devices or procedures. Also, the trend toward managed healthcare in the United States and proposed legislation intended to reduce the cost of government insurance programs could significantly influence the purchase of healthcare services and products and may result in necessary price reductions for CSI s products or the exclusion of its products from reimbursement programs. It is uncertain whether the Diamondback 360° or any future products CSI may develop will be viewed as sufficiently cost-effective to warrant adequate coverage and reimbursement levels.

If third-party coverage and reimbursement for the Diamondback 360° is limited or not available, the acceptance of the Diamondback 360° and, consequently, CSI s business will be substantially harmed.

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CSI has limited data and experience regarding the safety and efficacy of the Diamondback 360°. Any long-term data that is generated may not be positive or consistent with CSI s limited short-term data, which would affect market acceptance of this product.

CSI s success depends on the acceptance of the Diamondback 360° by the medical community as safe and effective. Because CSI s technology is relatively new in the treatment of PAD, CSI has performed clinical trials only with limited patient populations. The long-term effects of using the Diamondback 360° in a large number of patients are not known and the results of short-term clinical use of the Diamondback 360° do not necessarily predict long-term clinical benefit or reveal long-term adverse effects. For example, CSI does not have sufficient experience with the Diamondback 360° to evaluate its relative effectiveness in different plaque morphologies, including hard, calcified lesions and soft, non-calcified lesions. If the results obtained from any future clinical trials or clinical or commercial experience indicate that the Diamondback 360° is not as safe or effective as other treatment options or as current short-term data would suggest, adoption of this product may suffer and CSI s business would be harmed.

Even if CSI believes that the data collected from clinical trials or clinical experience indicate positive results, each physician s actual experience with CSI s device will vary. Clinical trials conducted with the Diamondback 360° have involved procedures performed by physicians who are very technically proficient. Consequently, both short and long-term results reported in these studies may be significantly more favorable than typical results achieved by physicians, which could negatively impact market acceptance of the Diamondback 360°.

CSI will face significant competition and may be unable to sell the Diamondback 360° at profitable levels.

CSI competes against very large and well-known stent and balloon angioplasty device manufacturers, including Abbott Laboratories, Boston Scientific, Cook, Johnson & Johnson and Medtronic. CSI may have difficulty competing effectively with these competitors because of their well-established positions in the marketplace, significant financial and human capital resources, established reputations and worldwide distribution channels. CSI also competes against manufacturers of atherectomy catheters including, among others, ev3, Spectranetics, Boston Scientific and Pathway Medical Technologies, as well as other manufacturers that may enter the market due to the increasing demand for treatment of vascular disease. Several other companies provide products used by surgeons in peripheral bypass procedures. Other competitors include pharmaceutical companies that manufacture drugs for the treatment of mild to moderate PAD and companies that provide products used by surgeons in peripheral bypass procedures.

CSI s competitors may:

- develop and patent processes or products earlier than CSI will;
- obtain regulatory clearances or approvals for competing medical device products more rapidly than CSI will;
- market their products more effectively than CSI will; or
- develop more effective or less expensive products or technologies that render CSI s technology or products obsolete or non-competitive.

CSI has encountered and expects to continue to encounter potential customers who, due to existing relationships with CSI s competitors, are committed to or prefer the products offered by these competitors. If CSI is unable to compete successfully, CSI s revenue will suffer. Increased competition might lead to price reductions and other concessions that might adversely affect CSI s operating results. Competitive pressures may decrease the demand for CSI s products and could adversely affect its financial results.

CSI s ability to compete depends on its ability to innovate successfully. If CSI s competitors demonstrate the increased safety or efficacy of their products as compared to CSI, its revenue may decline.

The market for medical devices is highly competitive, dynamic and marked by rapid and substantial technological development and product innovations. CSI s ability to compete depends on its ability to innovate successfully, and there are few barriers that would prevent new entrants or existing competitors from developing products that compete directly with CSI s products. Demand for the Diamondback 360° could be diminished by

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equivalent or superior products and technologies offered by competitors. CSI s competitors may produce more advanced products than CSI s or demonstrate superior safety and efficacy of their products. If CSI is unable to innovate successfully, the Diamondback 360° could become obsolete and CSI s revenue would decline as its customers purchase competitor products.

CSI has limited commercial manufacturing experience and could experience difficulty in producing the Diamondback 360° or will need to depend on third parties to manufacture the product.

CSI has limited experience in commercially manufacturing the Diamondback 360° and has no experience manufacturing this product in the volume that CSI anticipates will be required if it achieves planned levels of commercial sales. As a result, CSI may not be able to develop and implement efficient, low-cost manufacturing capabilities and processes that will enable it to manufacture the Diamondback 360° or future products in significant volumes, while meeting the legal, regulatory, quality, price, durability, engineering, design and production standards required to market CSI s products successfully. If CSI fails to develop and implement these manufacturing capabilities and processes, CSI may be unable to profitably commercialize the Diamondback 360° and any future products CSI may develop because the per unit cost of CSI s products is highly dependent upon production volumes and the level of automation in CSI s manufacturing processes. There are technical challenges to increasing manufacturing capacity, including equipment design and automation capabilities, material procurement, problems with production yields and quality control and assurance. Increasing CSI s manufacturing capacity will require it to invest substantial additional funds and to hire and retain additional management and technical personnel who have the necessary manufacturing experience. CSI may not successfully complete any required increase in manufacturing capacity in a timely manner or at all. If CSI is unable to manufacture a sufficient supply of its products, maintain control over expenses or otherwise adapt to anticipated growth, or if CSI underestimates growth, it may not have the capability to satisfy market demand and its business will suffer.

Since CSI has little actual commercial experience with the Diamondback 360°, the forecasts of demand CSI uses to determine order quantities and lead times for components purchased from outside suppliers may be incorrect. Lead times for components may vary significantly depending on the type of component, the size of the order, time required to fabricate and test the components, specific supplier requirements and current market demand for the components and subassemblies. Failure to obtain required components or subassemblies when needed and at a reasonable cost would adversely affect CSI s business.

In addition, CSI may in the future need to depend upon third parties to manufacture the Diamondback 360° and future products. CSI also cannot assure you that any third-party contract manufacturers will have the ability to produce the quantities of CSI s products needed for development or commercial sales or will be willing to do so at prices that allow the products to compete successfully in the market. In addition, CSI can give no assurance that even if it does contract with third-party manufacturers for production that these manufacturers will not experience manufacturing difficulties or experience quality or regulatory issues. Any difficulties in locating and hiring third-party manufacturers, or in the ability of third-party manufacturers to supply quantities of CSI s products at the times and in the quantities CSI needs, could have a material adverse effect on CSI s business.

CSI depends upon third-party suppliers, including single source suppliers to CSI and its customers, making it vulnerable to supply problems and price fluctuations.

CSI relies on third-party suppliers to provide it certain components of CSI s products and to provide key components or supplies to CSI s customers for use with CSI s products. CSI relies on single source suppliers for the following components of the Diamondback 360°: diamond grit coated crowns, ABS molded products, components within the brake assembly and the turbine assembly, and the air-and-saline cable assembly. CSI purchases components from these suppliers on a purchase order basis and carries only very limited levels of inventory for these components. If

CSI underestimates its requirements, it may not have an adequate supply, which could interrupt manufacturing of CSI s products and result in delays in shipments and loss of revenue. CSI s customers depend on a single source supplier for the catheter lubricant used with the Diamondback 360° system. If CSI s customers are unable to obtain adequate supplies of this lubricant, its customers may reduce or cease purchases of CSI s product. CSI depends on these suppliers to provide it and its customers with materials in a timely manner that meet CSI s and their quality, quantity and cost requirements. These suppliers may encounter problems during

manufacturing for a variety of reasons, including unanticipated demand from larger customers, failure to follow specific protocols and procedures, failure to comply with applicable regulations, equipment malfunction, quality or yield problems, and environmental factors, any of which could delay or impede their ability to meet CSI s demand and its customers demand. CSI s reliance on these outside suppliers also subjects CSI to other risks that could harm its business, including:

- interruption of supply resulting from modifications to, or discontinuation of, a supplier s operations;
- delays in product shipments resulting from defects, reliability issues or changes in components from suppliers;
- price fluctuations due to a lack of long-term supply arrangements for key components with CSI s suppliers;
- CSI s suppliers may make errors in manufacturing components, which could negatively affect the efficacy or safety of CSI s products or cause delays in shipment of its products;
- CSI s suppliers may discontinue production of components, which could significantly delay CSI s production and sales and impair operating margins;
- CSI and its customers may not be able to obtain adequate supplies in a timely manner or on commercially acceptable terms;
- CSI and its customers may have difficulty locating and qualifying alternative suppliers for CSI s and their sole-source supplies;
- switching components may require product redesign and new regulatory submissions, either of which could significantly delay production and sales;
- CSI may experience production delays related to the evaluation and testing of products from alternative suppliers and corresponding regulatory qualifications;
- CSI s suppliers manufacture products for a range of customers, and fluctuations in demand for the products these suppliers manufacture for others may affect their ability to deliver components to CSI or its customers in a timely manner; and
- CSI s suppliers may encounter financial hardships unrelated to CSI or its customers demand for components or other products, which could inhibit their ability to fulfill orders and meet requirements.

Other than existing, unfulfilled purchase orders, CSI s suppliers have no contractual obligations to supply CSI with, and CSI is not contractually obligated to purchase from them, any of its supplies. Any supply interruption from CSI s suppliers or failure to obtain additional suppliers for any of the components used in CSI s products would limit CSI s ability to manufacture its products and could have a material adverse effect on CSI s business, financial condition and results of operations. CSI has no reason to believe that any of its current suppliers could not be replaced if they were unable to deliver components to CSI in a timely manner or at an acceptable price and level of quality. However, if CSI lost one of these suppliers and were unable to obtain an alternate source on a timely basis or on terms acceptable to CSI, CSI s production schedules could be delayed, its margins could be negatively impacted, and it could fail to meet its customers demand. CSI s customers rely upon CSI s ability to meet committed delivery dates and any disruption in the supply of key components would adversely affect CSI s ability to meet these dates and could result in legal action by CSI s customers, cause it to lose customers or harm its ability to attract new customers, any of which could decrease CSI s revenue and negatively impact its growth. In addition, to the extent that CSI s suppliers use technology or

manufacturing processes that are proprietary, CSI may be unable to obtain comparable materials or components from alternative sources.

Manufacturing operations are often faced with a supplier s decision to discontinue manufacturing a component, which may force CSI or its customers to make last time purchases, qualify a substitute part, or make a design change which may divert engineering time away from the development of new products.

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CSI will need to increase the size of its organization and CSI may experience difficulties managing growth. If CSI is unable to manage the anticipated growth of its business, its future revenue and operating results may be adversely affected.

The growth CSI may experience in the future will provide challenges to CSI s organization, requiring it to rapidly expand its sales and marketing personnel and manufacturing operations. CSI s sales and marketing force has increased from six employees on January 1, 2007 to 129 employees on December 31, 2008, and CSI expects to continue to grow its sales and marketing force. CSI also expects to significantly expand its manufacturing operations to meet anticipated growth in demand for its products. Rapid expansion in personnel means that less experienced people may be producing and selling CSI s product, which could result in unanticipated costs and disruptions to CSI s operations. If CSI cannot scale and manage its business appropriately, its anticipated growth may be impaired and CSI s financial results will suffer.

CSI anticipates future losses and may require additional financing, and CSI s failure to obtain additional financing when needed could force CSI to delay, reduce or eliminate its product development programs or commercialization efforts.

CSI anticipates significant future losses and is therefore dependent on additional financing to execute its business plan. CSI expects that the merger will provide additional working capital for its business operations that, together with funds available under CSI s debt financing arrangements and from operations, will be sufficient to satisfy CSI s working capital needs for the foreseeable future. If, however, the merger is not completed or delays in CSI s business plan reduce the amount of cash available from operations, CSI will require additional financing in order to satisfy its capital requirements. In particular, CSI may require additional capital in order to continue to conduct the research and development and obtain regulatory clearances and approvals necessary to bring any future products to market and to establish effective marketing and sales capabilities for existing and future products. CSI s operating plan may change, and it may need additional funds sooner than anticipated to meet its operational needs and capital requirements for product development, clinical trials and commercialization. Additional funds may not be available when CSI needs them on terms that are acceptable to CSI, or at all. If adequate funds are not available on a timely basis, CSI may terminate or delay the development of one or more of its products, or delay establishment of sales and marketing capabilities or other activities necessary to commercialize its products.

CSI s future capital requirements will depend on many factors, including:

- whether the merger is completed and, if so, Replidyne s level of net assets at the effective time of the merger;
- the costs of expanding CSI s sales and marketing infrastructure and its manufacturing operations;
- the degree of success CSI experiences in commercializing the Diamondback 360°;
- the number and types of future products CSI develops and commercializes;
- the costs, timing and outcomes of regulatory reviews associated with CSI s future product candidates;
- the costs of preparing, filing and prosecuting patent applications and maintaining, enforcing and defending intellectual property-related claims; and
- the extent and scope of CSI s general and administrative expenses.

Raising additional capital through debt financing may restrict CSI s operations.

To the extent that CSI raises additional capital through debt financing, the terms may include provisions that adversely affect your rights as a stockholder. Debt financing, if available, may involve agreements that include covenants limiting or restricting CSI s ability to take specific actions such as incurring additional debt, making capital expenditures or declaring dividends. Any of these events could adversely affect CSI s ability to achieve its product development and commercialization goals and have a material adverse effect on CSI s business, financial condition and results of operations.

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CSI does not currently intend to market the Diamondback 360° internationally, which will limit CSI s potential revenue from this product.

As a part of CSI s product development and regulatory strategy, CSI does not currently intend to market the Diamondback 360° internationally in order to focus CSI s resources and efforts on the U.S. market, as international efforts would require substantial additional sales and marketing, regulatory and personnel expenses. CSI s decision to market this product only in the United States will limit its ability to reach all of its potential markets and will limit its potential sources of revenue. In addition, CSI s competitors will have an opportunity to further penetrate and achieve market share abroad until such time, if ever, that CSI markets the Diamondback 360° or other products internationally.

CSI is dependent on its senior management team and scientific personnel, and CSI s business could be harmed if CSI is unable to attract and retain personnel necessary for its success.

CSI is highly dependent on its senior management, especially David L. Martin, CSI s President and Chief Executive Officer. CSI s success will depend on its ability to retain senior management and to attract and retain qualified personnel in the future, including scientists, clinicians, engineers and other highly skilled personnel and to integrate current and additional personnel in all departments. Competition for senior management personnel, as well as scientists, clinical and regulatory specialists, engineers and sales personnel, is intense and CSI may not be able to retain its personnel. The loss of members of CSI s senior management, scientists, clinical and regulatory specialists, engineers and sales personnel could prevent it from achieving its objectives of continuing to grow the company. The loss of a member of CSI s senior management or professional staff would require the remaining senior executive officers to divert immediate and substantial attention to seeking a replacement. In particular, CSI expects to substantially increase the size of CSI s sales force, which will require management s attention. In that regard, ev3 Inc., ev3 Endovascular, Inc., and FoxHollow Technologies, Inc. have brought an action against CSI that, if successful, could limit CSI s ability to retain the services of certain sales personnel that were formerly employed by those companies and make it more difficult to recruit and hire such sales and other personnel in the future. CSI does not carry key person life insurance on any of its employees, other than Michael J. Kallok, CSI s Chief Scientific Officer and former Chief Executive Officer.

CSI has a new management team and may experience instability in the short term as a result.

Since July 2006, CSI has added six new executives to its management team, including its Chief Executive Officer, who joined in February 2007, and its Chief Financial Officer, who joined in April 2008. During the preparation for CSI s initial public offering, which was abandoned due to unfavorable market conditions in order to proceed with the merger, CSI s board of directors determined that it would be in CSI s best interests to replace James Flaherty in his role as Chief Financial Officer due to his consent to a court order enjoining him from any violation of certain provisions of federal securities law in connection with events that occurred while he was the Chief Financial Officer of Zomax Incorporated. The board of directors desired to retain Mr. Flaherty as a member of CSI s executive team, and, accordingly, Mr. Flaherty became CSI s Chief Administrative Officer, giving him responsibility over non-financial operations matters, and Mr. Martin became Interim Chief Financial Officer until the hiring of Laurence L. Betterley as CSI s Chief Financial Officer. CSI s new executives lack long-term experience with CSI. CSI may experience instability in the short term as its new executives become integrated into the company. Competition for qualified employees is intense and the loss of service of any of CSI s executive officers or certain key employees could delay or curtail CSI s research, development, commercialization and financial objectives.

CSI may incur significant costs due to the application of Section 409A of the Internal Revenue Code.

The estimated fair value of the common stock underlying CSI s stock options was originally estimated in good faith by CSI s board of directors based upon the best information available regarding CSI on the dates of grant, including

financing activity, development of CSI s business, the FDA process and launch of CSI s product, the initial public offering process and CSI s financial results. During the fiscal years ended June 30, 2007 and June 30,

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2008, CSI did not obtain valuations from an independent valuation firm contemporaneously with each option grant date. As further discussed under Management s Discussion and Analysis of Financial Condition and Results of Operations for CSI Critical Accounting Policies and Significant Judgments and Estimates, CSI hired an independent valuation firm to determine the estimated fair value of CSI common stock for financial reporting purposes as of various dates, including June 29, 2007, September 30, 2007, December 31, 2007, March 31, 2008 and June 30, 2008. CSI s board considered these estimates when estimating the fair market value of CSI common stock on each option grant date that followed the board s receipt of an estimate from the valuation firm, but certain grants were later deemed to have been made at less than fair market value when such valuation estimates were retrospectively applied. With respect to options granted from June 12, 2007 through February 14, 2008, the estimated fair value of the common stock determined by the independent valuation firm was higher than the exercise price of stock options CSI had previously granted at or near such dates by a weighted average per share amount of approximately $0.79.

If the Internal Revenue Service were to determine that the fair market value of CSI common stock was higher than the exercise price of any of CSI s stock options as of the grant date of such options, either in accordance with CSI s financial reporting valuations or under a different methodology, then CSI and CSI s optionholders may experience adverse tax consequences under Section 409A of the Internal Revenue Code and related provisions, including the imposition of future tax liabilities and penalties based on the spread between the fair market value and the exercise price at the time of option vesting and on future increases (if any) in the value of the stock of CSI or the combined company after the vesting date. These liabilities may be significant. The imposition of such liabilities may affect a significant portion of CSI s employees and could adversely affect employee morale and CSI s business operations.

CSI may be subject to damages or other remedies as a result of pending litigation.

On December 28, 2007, ev3 Inc., ev3 Endovascular, Inc. and FoxHollow Technologies, Inc. filed a complaint against CSI and certain of CSI s employees alleging, among other things, misappropriation and use of their confidential information by CSI and certain of its employees who were formerly employees of FoxHollow. The complaint also alleges that certain of its employees violated their employment agreements with FoxHollow requiring them to refrain from soliciting FoxHollow employees. This litigation is in an early stage and there can be no assurance as to its outcome. CSI is defending this litigation vigorously. If CSI is not successful in defending it, CSI could be required to pay substantial damages and be subject to equitable relief that could include a requirement that CSI terminate the employment of certain employees, including certain key sales personnel who were formerly employed by FoxHollow. In any event, the defense of this litigation, regardless of the outcome, could result in substantial legal costs and diversion of CSI s management s time and efforts from the operation of CSI s business. If the plaintiffs in this litigation are successful, it could have a material adverse effect on CSI s business, operations and financial condition.

In addition, CSI is currently involved in a dispute with its founder, Dr. Leonid Shturman. Although CSI settled certain claims it had against Dr. Shturman in September 2008, Dr. Shturman raised counterclaims with regard to two shaft winding machines that CSI imported from Russia, which have not been resolved. Dr. Shturman is seeking monetary damages, which he believes to be in excess of $1.0 million. In an attempted settlement of these counterclaims, the parties entered into a settlement conditioned upon CSI s agreement to pay Dr. Shturman $50,000 by November 14, 2008, and in connection with Dr. Shturman s desire to sell 22,000 shares of CSI common stock held by him by November 14, 2008 at a fixed price, CSI agreed to refer to Dr. Shturman the names of parties that may be interested in purchasing such shares in private transactions. As of November 19, 2008, CSI had referred to Dr. Shturman names of parties that were interested in purchasing these shares and had also paid Dr. Shturman $50,000. In addition, CSI and Dr. Shturman have executed a settlement agreement and mutual releases. Dr. Shturman has since expressed his desire to keep the funds and void the releases. On January 22, 2009, the court denied Dr. Shturman s request to void the releases. If Dr. Shturman s counterclaims against CSI are not settled, it is possible that CSI may incur substantial costs as a result of this litigation. The technology that is the subject of these disputes is not used in the Diamondback 360° and the shaft winding machines represent obsolete technology that CSI will likely never use.

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Risks Related to Government Regulation

CSI s ability to market the Diamondback 360° in the United States is limited to use as a therapy in patients with PAD, and if CSI wants to expand its marketing claims, CSI will need to file for additional FDA clearances or approvals and conduct further clinical trials, which would be expensive and time-consuming and may not be successful.

The Diamondback 360° received FDA 510(k) clearance in the United States for use as a therapy in patients with PAD. This general clearance restricts CSI s ability to market or advertise the Diamondback 360° beyond this use and could affect CSI s growth. While off-label uses of medical devices are common and the FDA does not regulate physicians choice of treatments, the FDA does restrict a manufacturer s communications regarding such off-label use. CSI will not actively promote or advertise the Diamondback 360° for off-label uses. In addition, CSI cannot make comparative claims regarding the use of the Diamondback 360° against any alternative treatments without conducting head-to-head comparative clinical trials, which would be expensive and time consuming. If CSI s promotional activities fail to comply with the FDA s regulations or guidelines, CSI may be subject to FDA warnings or enforcement action.

If CSI determines to market the Diamondback 360° in the United States for other uses, for instance, use in the coronary arteries, CSI would need to conduct further clinical trials and obtain premarket approval from the FDA. Clinical trials are complex, expensive, time consuming, uncertain and subject to substantial and unanticipated delays. Before CSI may begin clinical trials, it must submit and obtain approval for an investigational device exemption, or IDE, that describes, among other things, the manufacture of, and controls for, the device and a complete investigational plan. Clinical trials generally involve a substantial number of patients in a multi-year study. CSI may encounter problems with its clinical trials, and any of those problems could cause CSI or the FDA to suspend those trials, or delay the analysis of the data derived from them.

A number of events or factors, including any of the following, could delay the completion of CSI s clinical trials in the future and negatively impact CSI s ability to obtain FDA clearance or approval for, and to introduce, a particular future product:

- failure to obtain approval from the FDA or any foreign regulatory authority to commence an investigational study;
- conditions imposed on CSI by the FDA or any foreign regulatory authority regarding the scope or design of CSI s clinical trials;
- delays in obtaining or maintaining required approvals from institutional review boards or other reviewing entities at clinical sites selected for participation in CSI s clinical trials;
- insufficient supply of CSI s future product candidates or other materials necessary to conduct CSI s clinical trials;
- difficulties in enrolling patients in CSI s clinical trials;
- negative or inconclusive results from clinical trials, results that are inconsistent with earlier results, or the likelihood that the part of the human anatomy involved is more prone to serious adverse events, necessitating additional clinical trials;

serious or unexpected side effects experienced by patients who use CSI s future product candidates; or

failure by any of CSI s third-party contractors or investigators to comply with regulatory requirements or meet other contractual obligations in a timely manner.

CSI s clinical trials may not begin as planned, may need to be redesigned, and may not be completed on schedule, if at all. Delays in CSI s clinical trials may result in increased development costs for CSI s future product candidates, which could cause CSI s stock price to decline and limit CSI s ability to obtain additional financing. In addition, if one or more of CSI s clinical trials are delayed, competitors may be able to bring products to market before CSI does, and the commercial viability of CSI s future product candidates could be significantly reduced.

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Even if CSI believes that a clinical trial demonstrates promising safety and efficacy data, such results may not be sufficient to obtain FDA clearance or approval. Without conducting and successfully completing further clinical trials, CSI s ability to market the Diamondback 360° will be limited and CSI s revenue expectations may not be realized.

CSI may become subject to regulatory actions if it is found to have promoted the Diamondback 360° for unapproved uses.

If the FDA determines that CSI s promotional materials, training or other activities constitute promotion of CSI s product for an unapproved use, it could request that CSI cease use of or modify its training or promotional materials or subject CSI to regulatory enforcement actions, including the issuance of an untitled or warning letter, injunction, seizure, civil fine and criminal penalties. It is also possible that other federal, state or foreign enforcement authorities might take action if they consider promotional, training or other materials to constitute promotion of CSI s product for an unapproved or uncleared use, which could result in significant fines or penalties under other statutory authorities, such as laws prohibiting false claims for reimbursement.

The Diamondback 360° may in the future be subject to product recalls that could harm CSI s reputation.

The FDA and similar governmental authorities in other countries have the authority to require the recall of commercialized products in the event of material regulatory deficiencies or defects in design or manufacture. A government mandated or voluntary recall by CSI could occur as a result of component failures, manufacturing errors or design or labeling defects. CSI has not had any instances requiring consideration of a recall, although as CSI continues to grow and develop its products, including the Diamondback 360°, CSI may see instances of field performance requiring a recall. Any recalls of CSI s product would divert managerial and financial resources, harm its reputation with customers and have an adverse effect on its financial condition and results of operations.

If CSI or its suppliers fail to comply with ongoing regulatory requirements, or if CSI experiences unanticipated problems, CSI s products could be subject to restrictions or withdrawal from the market.

The Diamondback 360° and related manufacturing processes, clinical data, adverse events, recalls or corrections and promotional activities, are subject to extensive regulation by the FDA and other regulatory bodies. In particular, CSI and its component suppliers are required to comply with the FDA s Quality System Regulation, or QSR, and other regulations, which cover the methods and documentation of the design, testing, production, control, quality assurance, labeling, packaging, storage and shipping of any product for which CSI obtains marketing clearance or approval. The FDA enforces the QSR through announced and unannounced inspections. CSI and certain of its third-party manufacturers have not yet been inspected by the FDA. Failure by CSI or one of its component suppliers to comply with the QSR requirements or other statutes and regulations administered by the FDA and other regulatory bodies, or failure to adequately respond to any observations, could result in, among other things:

- warning or other letters from the FDA;
- fines, injunctions and civil penalties;
- product recall or seizure;
- unanticipated expenditures;
- delays in clearing or approving or refusal to clear or approve products;
- withdrawal or suspension of approval or clearance by the FDA or other regulatory bodies;

orders for physician notification or device repair, replacement or refund;

operating restrictions, partial suspension or total shutdown of production or clinical trials; and

criminal prosecution.

If any of these actions were to occur, it would harm CSI s reputation and cause its product sales to suffer.

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Furthermore, any modification to a device that has received FDA clearance or approval that could significantly affect its safety or efficacy, or that would constitute a major change in its intended use, design or manufacture, requires a new clearance or approval from the FDA. If the FDA disagrees with any determination by CSI that new clearance or approval is not required, CSI may be required to cease marketing or to recall the modified product until CSI obtains clearance or approval. In addition, CSI could be subject to significant regulatory fines or penalties.

Regulatory clearance or approval of a product may also require costly post-marketing testing or surveillance to monitor the safety or efficacy of the product. Later discovery of previously unknown problems with CSI s products, including unanticipated adverse events or adverse events of unanticipated severity or frequency, manufacturing problems, or failure to comply with regulatory requirements such as the QSR, may result in restrictions on such products or manufacturing processes, withdrawal of the products from the market, voluntary or mandatory recalls, fines, suspension of regulatory approvals, product seizures, injunctions or the imposition of civil or criminal penalties.

The use, misuse or off-label use of the Diamondback 360° may increase the risk of injury, which could result in product liability claims and damage to CSI s business.

The use, misuse or off-label use of the Diamondback 360° may result in injuries that lead to product liability suits, which could be costly to CSI s business. The Diamondback 360° is not FDA-cleared or approved for treatment of the carotid arteries, the coronary arteries, within bypass grafts or stents, of thrombus or where the lesion cannot be crossed with a guidewire or a significant dissection is present at the lesion site. CSI cannot prevent a physician from using the Diamondback 360° for off-label applications. The application of the Diamondback 360° to coronary or carotid arteries, as opposed to peripheral arteries, is more likely to result in complications that have serious consequences, including heart attacks or strokes which could result, in certain circumstances, in death.

CSI will face risks related to product liability claims, which could exceed the limits of available insurance coverage.

If the Diamondback 360° is defectively designed, manufactured or labeled, contains defective components or is misused, CSI may become subject to costly litigation by its customers or their patients. The medical device industry is subject to substantial litigation, and CSI faces an inherent risk of exposure to product liability claims in the event that the use of CSI s product results or is alleged to have resulted in adverse effects to a patient. In most jurisdictions, producers of medical products are strictly liable for personal injuries caused by medical devices. CSI may be subject in the future to claims for personal injuries arising out of the use of CSI s products. Product liability claims could divert management s attention from CSI s core business, be expensive to defend and result in sizable damage awards against CSI. A product liability claim against CSI, even if ultimately unsuccessful, could have a material adverse effect on its financial condition, results of operations and reputation. While CSI has product liability insurance coverage for its products and intends to maintain such insurance coverage in the future, there can be no assurance that CSI will be adequately protected from the claims that will be brought against it.

Compliance with environmental laws and regulations could be expensive. Failure to comply with environmental laws and regulations could subject CSI to significant liability.

CSI s operations are subject to regulatory requirements relating to the environment, waste management and health and safety matters, including measures relating to the release, use, storage, treatment, transportation, discharge, disposal and remediation of hazardous substances. Although CSI is currently classified as a Very Small Quantity Hazardous Waste Generator within Ramsey County, Minnesota, CSI cannot ensure that it will maintain its licensed status as such, nor can CSI ensure that it will not incur material costs or liability in connection with its operations, or that CSI s past or future operations will not result in claims or injury by employees or the public. Environmental laws and regulations could also become more stringent over time, imposing greater compliance costs and increasing risks and penalties associated with violations.

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CSI and its distributors must comply with various federal and state anti-kickback, self-referral, false claims and similar laws, any breach of which could cause a material adverse effect on CSI s business, financial condition and results of operations.

CSI s relationships with physicians, hospitals and the marketers of CSI s products are subject to scrutiny under various federal anti-kickback, self-referral, false claims and similar laws, often referred to collectively as healthcare fraud and abuse laws.

Healthcare fraud and abuse laws are complex, and even minor, inadvertent violations can give rise to claims that the relevant law has been violated. If CSI s operations are found to be in violation of these laws, CSI, as well as its employees, may be subject to penalties, including monetary fines, civil and criminal penalties, exclusion from federal and state healthcare programs, including Medicare, Medicaid, Veterans Administration health programs, workers compensation programs and TRICARE (the healthcare system administered by or on behalf of the U.S. Department of Defense for uniformed services beneficiaries, including active duty and their dependents, retirees and their dependents), and forfeiture of amounts collected in violation of such prohibitions. Individual employees may need to defend such suits on behalf of CSI or themselves, which could lead to significant disruption in CSI s present and future operations. Certain states in which CSI intends to market its products have similar fraud and abuse laws, imposing substantial penalties for violations. Any government investigation or a finding of a violation of these laws would likely have a material adverse effect on CSI s business, financial condition and results of operations.

Anti-kickback laws and regulations prohibit any knowing and willful offer, payment, solicitation or receipt of any form of remuneration in return for the referral of an individual or the ordering or recommending of the use of a product or service for which payment may be made by Medicare, Medicaid or other government-sponsored healthcare programs. In addition, the cost of non-compliance with these laws could be substantial, since CSI could be subject to monetary fines and civil or criminal penalties, and CSI could also be excluded from federally funded healthcare programs, including Medicare and Medicaid, for non-compliance.

CSI has entered into consulting agreements with physicians, including some who may make referrals to CSI or order its product. One of these physicians was one of 20 principal investigators in CSI s OASIS clinical trial at the same time he was acting as a paid consultant for CSI. In addition, some of these physicians own CSI s stock, which they purchased in arm s-length transactions on terms identical to those offered to non-physicians, or received stock options from CSI as consideration for consulting services performed by them. CSI believes that these consulting agreements and equity investments by physicians are common practice in CSI s industry, and while these transactions were structured with the intention of complying with all applicable laws, including the federal ban on physician self-referrals, commonly known as the Stark Law, state anti-referral laws and other applicable anti-kickback laws, it is possible that regulatory or enforcement agencies or courts may in the future view these transactions as prohibited arrangements that must be restructured or for which CSI would be subject to other significant civil or criminal penalties, or prohibit the company from accepting referrals from these physicians. Because CSI s strategy relies on the involvement of physicians who consult with CSI on the design of its product, CSI could be materially impacted if regulatory or enforcement agencies or courts interpret CSI s financial relationships with its physician advisors who refer or order CSI s product to be in violation of applicable laws and determine that CSI would be unable to achieve compliance with such applicable laws. This could harm CSI s reputation and the reputations of its clinical advisors.

The scope and enforcement of all of these laws is uncertain and subject to rapid change, especially in light of the lack of applicable precedent and regulations. There can be no assurance that federal or state regulatory or enforcement authorities will not investigate or challenge CSI s current or future activities under these laws. Any investigation or challenge could have a material adverse effect on CSI s business, financial condition and results of operations. Any state or federal regulatory or enforcement review of CSI, regardless of the outcome, would be costly and time consuming. Additionally, CSI cannot predict the impact of any changes in these laws, whether these changes are

retroactive or will have effect on a going-forward basis only.

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The combined company will incur significant costs as a result of operating as a public company, and the combined company s management will be required to devote substantial time to compliance initiatives.

As a public company, Replidyne currently incurs significant legal, accounting and other expenses that Replidyne did not incur as a private company. In addition, the Sarbanes-Oxley Act, as well as rules subsequently implemented by the Securities and Exchange Commission and the Nasdaq Global Market, have imposed various requirements on public companies, including requiring establishment and maintenance of effective disclosure and financial controls and changes in corporate governance practices. Replidyne s management and other personnel devote a substantial amount of time to these compliance initiatives. Moreover, these rules and regulations have increased Replidyne s legal and financial compliance costs and made some activities more time consuming and costly. While Replidyne has developed and instituted a corporate compliance program based on what Replidyne believes are the current appropriate best practices and continues to update the program in response to newly implemented or changing regulatory requirements, Replidyne cannot ensure that it is or will be in compliance with all potentially applicable regulations.

The Sarbanes-Oxley Act requires, among other things, that Replidyne maintain effective internal controls for financial reporting and disclosure controls and procedures. In particular, Replidyne must perform system and process evaluation and testing of Replidyne s internal controls over financial reporting to allow management and, at certain times, Replidyne s independent registered public accounting firm to report on the effectiveness of Replidyne s internal controls over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. Replidyne s testing, or the subsequent testing by its independent registered public accounting firm, when required, may reveal deficiencies in Replidyne s internal controls over financial reporting that are deemed to be material weaknesses. Moreover, if Replidyne is not able to comply with the requirements of Section 404 in a timely manner, or if Replidyne or its independent registered public accounting firm identifies deficiencies in Replidyne s internal controls over financial reporting that are deemed to be material weaknesses, the market price of Replidyne s stock could decline and Replidyne could be subject to sanctions or investigations by Nasdaq, the SEC or other regulatory authorities, which would require additional financial and management resources. The reductions in headcount that Replidyne has recently completed may make it more difficult for Replidyne to maintain its internal controls over financial reporting.

The combined company will be subject to all of the same obligations, but CSI s current management will be responsible for compliance. These obligations will require significant additional expenditures, place additional demands on the combined company s management and divert management s time and attention away from the combined company s business. These additional obligations will also require the combined company to hire additional personnel. CSI is currently evaluating its internal controls systems in order to allow the combined company to report on, and the combined company s independent registered public accounting firm to attest to, internal controls, as required by Section 404 of the Sarbanes-Oxley Act. CSI cannot be certain as to the timing of completion of the evaluation, testing and remediation actions or the impact of the same on the operations of the combined company. The combined company s management may not be able to effectively and timely implement controls and procedures that adequately respond to the increased regulatory compliance and reporting requirements that will be applicable. If the combined company fails to staff its accounting and finance function adequately or maintain internal controls adequate to meet the demands that will be placed upon it as a public company, including the requirements of the Sarbanes-Oxley Act, the combined company may be unable to report its financial results accurately or in a timely manner and the combined company s business and stock price may suffer. The costs of being a public company, as well as diversion of management s time and attention, may have a material adverse effect on the combined company s business, financial condition and results of operations.

Additionally, these laws and regulations could make it more difficult or more costly for the combined company to obtain certain types of insurance, including director and officer liability insurance, and the combined company may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. The impact of these events could also make it more difficult for the combined company to attract and retain

qualified persons to serve on its board of directors, board committees or as executive officers.

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Risks Relating to CSI s Intellectual Property

CSI s inability to adequately protect its intellectual property could allow its competitors and others to produce products based on CSI s technology, which could substantially impair CSI s ability to compete.

CSI s success and ability to compete depends, in part, upon its ability to maintain the proprietary nature of its technologies. CSI relies on a combination of patents, copyrights and trademarks, as well as trade secrets and nondisclosure agreements, to protect its intellectual property. As of December 31, 2008, CSI had a portfolio of 16 issued U.S. patents and 33 issued or granted non-U.S. patents covering aspects of CSI s core technology, which expire between 2017 and 2022. However, CSI s issued patents and related intellectual property may not be adequate to protect CSI or permit it to gain or maintain a competitive advantage. The issuance of a patent is not conclusive as to its scope, validity or enforceability. The scope, validity or enforceability of CSI s issued patents can be challenged in litigation or proceedings before the U.S. Patent and Trademark Office, or the USPTO. In addition, CSI s pending patent applications include claims to numerous important aspects of CSI s products under development that are not currently protected by any of CSI s issued patents. CSI cannot assure you that any of its pending patent applications will result in the issuance of patents to it. The USPTO may deny or require significant narrowing of claims in CSI s pending patent applications. Even if any patents are issued as a result of pending patent applications, they may not provide CSI with significant commercial protection or be issued in a form that is advantageous to it. Proceedings before the USPTO could result in adverse decisions as to the priority of CSI s inventions and the narrowing or invalidation of claims in issued patents. Further, if any patents CSI obtains or licenses are deemed invalid and unenforceable, or have their scope narrowed, it could impact CSI s ability to commercialize or license its technology.

Changes in either the patent laws or in interpretations of patent laws in the United States and other countries may diminish the value of CSI s intellectual property. For instance, the U.S. Supreme Court has recently modified some tests used by the USPTO in granting patents during the past 20 years, which may decrease the likelihood that CSI will be able to obtain patents and increase the likelihood of challenge of any patents CSI obtains or licenses. In addition, the USPTO has adopted new rules of practice (the application of which has been enjoined as a result of litigation) that limit the number of claims that may be filed in a patent application and the number of continuation or continuation-in-part applications that may be filed. These new rules may result in patent applicants being unable to secure all of the rights that they would otherwise have been entitled to in the absence of the new rules and, therefore, may negatively affect CSI s ability to obtain comprehensive patent coverage. The laws of some foreign countries may not protect CSI s intellectual property rights to the same extent as the laws of the United States, if at all.

To protect CSI s proprietary rights, CSI may, in the future, need to assert claims of infringement against third parties to protect CSI s intellectual property. The outcome of litigation to enforce its intellectual property rights in patents, copyrights, trade secrets or trademarks is highly unpredictable, could result in substantial costs and diversion of resources, and could have a material adverse effect on its financial condition, reputation and results of operations regardless of the final outcome of such litigation. In the event of an adverse judgment, a court could hold that some or all of CSI s asserted intellectual property rights are not infringed, invalid or unenforceable, and could order CSI to pay third-party attorneys fees. Despite CSI s efforts to safeguard its unpatented and unregistered intellectual property rights, CSI may not be successful in doing so or the steps taken by it in this regard may not be adequate to detect or deter misappropriation of CSI s technology or to prevent an unauthorized third party from copying or otherwise obtaining and using its products, technology or other information that it regards as proprietary. In addition, CSI may not have sufficient resources to litigate, enforce or defend its intellectual property rights. Additionally, third parties may be able to design around CSI s patents.

CSI also relies on trade secrets, technical know-how and continuing innovation to develop and maintain its competitive position. In this regard, CSI seeks to protect its proprietary information and other intellectual property by requiring its employees, consultants, contractors, outside scientific collaborators and other advisors to execute non-disclosure and assignment of invention agreements on commencement of their employment or engagement. Agreements with CSI s employees also forbid them from bringing the proprietary rights of third parties to it. CSI also requires confidentiality or material transfer agreements from third parties that receive CSI s confidential data or materials. However, trade secrets are difficult to protect. CSI cannot provide any assurance that employees and third parties will abide by the confidentiality or assignment terms of these agreements, or that CSI will be effective

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securing necessary assignments from these third parties. Despite measures taken to protect CSI s intellectual property, unauthorized parties might copy aspects of CSI s products or obtain and use information that CSI regards as proprietary. Enforcing a claim that a third party illegally obtained and is using any of CSI s trade secrets is expensive and time consuming, and the outcome is unpredictable. In addition, courts outside the United States are sometimes less willing to protect trade secrets. Finally, others may independently discover trade secrets and proprietary information, and this would prevent CSI from asserting any such trade secret rights against these parties.

CSI s inability to adequately protect its intellectual property could allow its competitors and others to produce products based on CSI s technology, which could substantially impair CSI s ability to compete.

Claims of infringement or misappropriation of the intellectual property rights of others could prohibit CSI from commercializing products, require it to obtain licenses from third parties or require it to develop non-infringing alternatives, and subject it to substantial monetary damages and injunctive relief.

The medical technology industry is characterized by extensive litigation and administrative proceedings over patent and other intellectual property rights. The likelihood that patent infringement or misappropriation claims may be brought against CSI increases as it achieves more visibility in the marketplace and introduces products to market. All issued patents are entitled to a presumption of validity under the laws of the United States. Whether a product infringes a patent involves complex legal and factual issues, the determination of which is often uncertain. Therefore, CSI cannot be certain that it has not infringed the intellectual property rights of such third parties or others. CSI s competitors may assert that CSI s products are covered by U.S. or foreign patents held by them. CSI is aware of numerous patents issued to third parties that relate to the manufacture and use of medical devices for interventional cardiology. The owners of each of these patents could assert that the manufacture, use or sale of CSI s products infringes one or more claims of their patents. Because patent applications may take years to issue, there may be applications now pending of which CSI is unaware that may later result in issued patents that CSI infringes. If another party has filed a U.S. patent application on inventions similar to CSI s, CSI may have to participate in an interference proceeding declared by the USPTO to determine priority of invention in the United States. The costs of these proceedings can be substantial, and it is possible that such efforts would be unsuccessful if unbeknownst to it, the other party had independently arrived at the same or similar invention prior to CSI s own invention, resulting in a loss of CSI s U.S. patent position with respect to such inventions. There could also be existing patents of which CSI is unaware that one or more aspects of its technology may inadvertently infringe. In some cases, litigation may be threatened or brought by a patent-holding company or other adverse patent owner who has no relevant product revenues and against whom CSI s patents may provide little or no deterrence.

Any infringement or misappropriation claim could cause CSI to incur significant costs, place significant strain on CSI s financial resources, divert management s attention from CSI s business and harm its reputation. Some of CSI s competitors may be able to sustain the costs of complex patent litigation more effectively than CSI can because they have substantially greater resources. In addition, any uncertainties resulting from the initiation and continuation of any litigation could have a material adverse effect on CSI s ability to raise the funds necessary to continue its operations. Although patent and intellectual property disputes in the medical device area have often been settled through licensing or similar arrangements, costs associated with such arrangements may be substantial and could include ongoing royalties. If the relevant patents were upheld in litigation as valid and enforceable and CSI were found to infringe, CSI could be prohibited from commercializing any infringing products unless it could obtain licenses to use the technology covered by the patent or are able to design around the patent. CSI may be unable to obtain a license on terms acceptable to it, if at all, and CSI may not be able to redesign any infringing products to avoid infringement. Further, any redesign may not receive FDA clearance or approval or may not receive such clearance or approval in a timely manner. Any such license could impair operating margins on future product revenue. A court could also order CSI to pay compensatory damages for such infringement, and potentially treble damages, plus prejudgment interest and third-party attorneys fees. These damages could be substantial and could harm CSI s reputation, business, financial

condition and operating results. A court also could enter orders that temporarily, preliminarily or permanently enjoin CSI and its customers from making, using, selling, offering to sell or importing infringing products, or could enter an order mandating that CSI undertake certain remedial activities. Depending on the nature of the relief ordered by the court, CSI could become liable for additional damages to third parties. Adverse determinations in a judicial or administrative proceeding or failure to obtain necessary licenses could prevent CSI from manufacturing and selling its products, which would have a significant adverse impact on its business.

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Risks Relating to Ownership of Common Stock of the Combined Company

Because there has not been a public market for CSI common stock, the combined company s stock price is expected to be volatile and you may not be able to resell your shares in the combined company.

The market price of the combined company s common stock could be subject to significant fluctuations following the merger. Market prices for securities of early-stage pharmaceutical, medical device, biotechnology and other life sciences companies have historically been particularly volatile. Some of the factors that may cause the market price of the combined company s common stock to fluctuate include:

difficulties in integrating Replidyne and CSI following the merger;

its ability to develop, obtain regulatory clearances or approvals for and market new and enhanced products on a timely basis;

changes in governmental regulations or in the status of its regulatory approvals, clearances or future applications;

its announcements or its competitors announcements regarding new products, product enhancements, significant contracts, number of hospitals and physicians using CSI s products, acquisitions or strategic investments;

announcements of technological or medical innovations for the treatment of vascular disease;

delays or other problems with the manufacturing of the Diamondback 360°;

volume and timing of orders for the Diamondback 360° and any future products, if and when commercialized;

changes in the availability of third-party reimbursement in the United States and other countries;

quarterly variations in the combined company s or its competitors results of operations;

changes in earnings estimates or recommendations by securities analysts, if any, who cover the combined company s common stock;

failure to meet estimates or recommendations by securities analysts, if any, who cover the combined company s stock;

changes in healthcare policy;

product liability claims or other litigation involving CSI or the combined company;

product recalls;

accusations that CSI or the combined company has violated a law or regulation;

sales of large blocks of the combined company s common stock, including sales by CSI s executive officers, directors and significant stockholders;

disputes or other developments with respect to intellectual property rights;

changes in accounting principles; and

general market conditions and other factors, including factors unrelated to the combined company s operating performance or the operating performance of its competitors.

In addition, if securities class action litigation is initiated against the combined company, it would incur substantial costs and its management s attention would be diverted from operations. All of these factors could cause the price of the combined company s stock to decline, and you may lose some or all of your investment.

Moreover, the stock markets in general have experienced substantial volatility that has often been unrelated to the operating performance of individual companies. These broad market fluctuations may also adversely affect the trading price of the combined company s common stock.

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In the past, following periods of volatility in the market price of a company s securities, stockholders have often instituted class action securities litigation against such company. Such litigation, if instituted, could result in substantial costs and diversion of management attention and resources, which could significantly harm the combined company s profitability and reputation.

Replidyne and CSI do not expect the combined company to pay cash dividends, and accordingly, stockholders must rely on stock appreciation for any return on their investment in the combined company.

Replidyne and CSI anticipate that the combined company will retain its earnings, if any, for future growth and therefore do not anticipate that the combined company will pay cash dividends in the future. As a result, appreciation of the price of the combined company s common stock is the only potential source of return to stockholders. Investors seeking cash dividends should not invest in the combined company s common stock.

If equity research analysts do not publish research or reports about the combined company s business or if they issue unfavorable research or downgrade the combined company s common stock, the price of its common stock could decline.

Investors may look to reports of equity research analysts for additional information regarding the combined company s industry and operations. Therefore, any trading market for the combined company s common stock will rely in part on the research and reports that equity research analysts publish about the combined company and its business. The combined company does not control these analysts. Equity research analysts may elect not to provide research coverage of the combined company s common stock, which may adversely affect the market price of its common stock. If equity research analysts do provide research coverage of the combined company s common stock, the price of its common stock could decline if one or more of these analysts downgrade the common stock or if they issue other unfavorable commentary about the combined company or its business. If one or more of these analysts ceases coverage of the combined company, it could lose visibility in the market, which in turn could cause its stock price to decline.

The combined company will not be able to utilize Replidyne s net operating loss carryforwards.

Under Section 382 of the Internal Revenue Code, if a corporation undergoes an ownership change (generally defined as a greater than 50% change (by value) in its equity ownership over a three-year period), the corporation s ability to use its pre-change net operating loss carryforwards and other pre-change tax attributes to offset its post-change income may be limited. Further, if the continuity of business requirement defined in Section 382 is not met in a change of control transaction, the pre-transaction net operating loss carryforward deductions become substantially reduced or unavailable for use by the surviving corporation in the transaction. An ownership change will occur as a result of the merger and there will not be a continuation of Replidyne s business following completion of the merger, which will substantially reduce or eliminate the ability of the combined company to utilize Replidyne s net operating loss carryforwards.

Some provisions of the charter documents of the combined company and Delaware law may have anti-takeover effects that could discourage an acquisition of the combined company by others, even if an acquisition would be beneficial to the combined company s stockholders.

Provisions in Replidyne s restated certificate of incorporation and bylaws, which will be the charter documents of the combined company, as well as provisions of Delaware law, could make it more difficult for a third party to acquire the combined company, even if doing so would benefit the combined company s stockholders. These provisions include:

authorizing the issuance of blank check preferred stock, the terms of which may be established and shares of which may be issued without stockholder approval;

limiting the removal of directors by the stockholders;

prohibiting stockholder action by written consent, thereby requiring all stockholder actions to be taken at a meeting of stockholders;

eliminating the ability of stockholders to call a special meeting of stockholders; and

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establishing advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted upon at stockholder meetings.

In addition, the combined company will be subject to Section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with an interested stockholder for a period of three years following the date on which the stockholder became an interested stockholder, unless such transactions are approved by such corporation s board of directors. This provision could have the effect of delaying or preventing a change of control, whether or not it is desired by or beneficial to the combined company s stockholders.

Future sales and issuances of the combined company s common stock or rights to purchase common stock, including pursuant to equity incentive plans, could result in additional dilution of the percentage ownership of the combined company s stockholders and could cause the stock price to fall.

Sales of a substantial number of shares of the combined company s common stock in the public market or the perception that these sales might occur, could depress the market price of the combined company s common stock and could impair its ability to raise capital through the sale of additional equity securities. Replidyne and CSI are unable to predict the effect that sales may have on the prevailing market price of the common stock.

To the extent the combined company raises additional capital by issuing equity securities, including in a debt financing where the combined company issues convertible notes or notes with warrants, the combined company s stockholders may experience substantial dilution. The combined company may sell common stock in one or more transactions at prices and in a manner it determines from time to time. If the combined company sells common stock in more than one transaction, existing stockholders may be materially diluted. In addition, new investors could gain rights superior to existing stockholders, such as liquidation and other preferences. In connection with the merger, the combined company will assume the equity incentive plans of CSI as well as all outstanding options and warrants to purchase shares of CSI common stock that will become exercisable for shares of the combined company s common stock. In addition, the number of shares available for future grant under the equity incentive plans that the combined company will be assuming in connection with the merger will be increased. In addition, Replidyne and CSI also have warrants outstanding to purchase shares of capital stock. The combined company s stockholders will incur dilution upon exercise of any outstanding stock options or warrants.

All of Replidyne s outstanding shares of common stock are, and any shares that are issued in the merger will be, freely tradable without restrictions or further registration under the Securities Act of 1933, as amended, except for any shares subject to lock-up agreements executed in connection with the merger and any shares held by affiliates, as defined in Rule 144 under the Securities Act. Rule 144 defines an affiliate as a person who directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the combined company and would include persons such as the combined company s directors and executive officers.

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FORWARD-LOOKING INFORMATION

This proxy statement/prospectus includes forward-looking statements within the meaning of the safe harbor provisions of the United States Private Securities Litigation Reform Act of 1995. Words such as anticipate, believes, budget, continue, could, estimate, expect, forecast, intend, may, plan, potential, predicts, project, sho expressions are intended to identify such forward-looking statements. Forward-looking statements in this proxy statement/prospectus include, without limitation, statements regarding benefits of the proposed merger and future expectations concerning available cash and cash equivalents, the timing of regulatory filings, and other matters that involve known and unknown risks, uncertainties and other factors that may cause actual results, levels of activity, performance or achievements to differ materially from results expressed in or implied by this proxy statement/prospectus. Such risk factors include, among others: the ability of Replidyne and CSI to consummate the proposed merger; the ability of the combined company to market and sell the Diamondback 360°; the ability of the combined company to obtain the substantial additional funding required to conduct development and commercialization activities; the ability of the combined company to obtain regulatory approvals; the ability of the combined company to gain listing on the Nasdaq Global Market and comply with Nasdaq listing standards; and the ability of the combined company to obtain, maintain and enforce patent and other intellectual property protection for its technology. These and other risks are described in greater detail in the section entitled Risk Factors beginning on page 18 of this proxy statement/prospectus.

Actual results may differ materially from those contained in the forward-looking statements in this proxy statement/prospectus. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this proxy statement/prospectus. All forward-looking statements are qualified in their entirety by this cautionary statement.

MARKET AND INDUSTRY DATA

Information and management estimates contained in this proxy statement/prospectus concerning the medical device industry, including general expectations and market position, market opportunity and market share, are based on publicly available information, such as clinical studies, academic research reports and other research reports, as well as information from industry reports provided by third-party sources, such as Millennium Research Group. The management estimates are also derived from CSI s internal research, using assumptions made by CSI that it believes to be reasonable and CSI s knowledge of the industry and markets in which CSI operates and expects to compete. Other than Millennium Research Group, none of the sources cited in this proxy statement/prospectus has consented to the inclusion of any data from its reports, nor have Replidyne or CSI sought their consent. CSI s internal research has not been verified by any independent source, and CSI has not independently verified any third-party information. In addition, while CSI believes the market position, market opportunity and market share information included in this proxy statement/prospectus is generally reliable, such information is inherently imprecise. Such data involves risks and uncertainties and are subject to change based on various factors, including those discussed under the heading Risk Factors.

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THE SPECIAL MEETING OF REPLIDYNE STOCKHOLDERS

Date, Time and Place

The special meeting of Replidyne stockholders will be held on February 24, 2009 at Cooley Godward Kronish LLP, 380 Interlocken Crescent, Suite 900, Broomfield, Colorado commencing at 9:00 a.m., local time. We are sending this proxy statement/prospectus to you in connection with the solicitation of proxies by the Replidyne board of directors for use at the Replidyne special meeting and any adjournments or postponements of the special meeting. This proxy statement/prospectus is first being furnished to Replidyne stockholders on or about January 30, 2009.

Purposes of the Replidyne Special Meeting

1. To consider and vote upon a proposal to approve the issuance of Replidyne common stock pursuant to the Agreement and Plan of Merger and Reorganization, dated November 3, 2008, by and among Replidyne, Responder Merger Sub, Inc., and CSI as described in this proxy statement/prospectus.

2. To authorize Replidyne s board of directors to amend Replidyne s restated certificate of incorporation in order to effect a reverse stock split of the issued and outstanding shares of Replidyne common stock in a ratio of up to one for 50, if and as determined by Replidyne s board of directors.

3. To approve an amendment to Replidyne s restated certificate of incorporation to change the name Replidyne, Inc. to Cardiovascular Systems, Inc.

4. To approve Replidyne s assumption of the Cardiovascular Systems, Inc. 2007 Equity Incentive Plan to be used by Replidyne following the consummation of the merger, together with an increase in the number of shares of CSI common stock reserved for issuance under the plan from 3,379,397 to 3,879,397, which following the merger will be converted into shares of Replidyne common stock, subject to further adjustment for the reverse stock split anticipated before closing of the merger.

5. To approve an amendment to the Replidyne, Inc. 2006 Employee Stock Purchase Plan to (i) increase the number of shares reserved under the plan from 305,872 to 1,920,872, subject to further adjustment for the reverse stock split anticipated before the closing of the merger and (ii) amend the evergreen provisions of the plan to provide that on July 1st of each year, beginning with July 1, 2009, the share reserve under the plan automatically will be increased by a number of shares equal to the lesser of (A) one percent (1.0%) of the total number of shares of Replidyne common stock outstanding on such date, or (B) 1,800,000 shares (subject to adjustment for the reverse stock split anticipated before the closing of the merger), unless Replidyne s board of directors designates a smaller number of shares.

6. To consider and vote upon an adjournment of the special meeting, if necessary, if a quorum is present, to solicit additional proxies if there are not sufficient votes in favor of Replidyne Proposal No. 1, 2, 3, 4 or 5.

7. To transact such other business as may properly come before the special meeting or any adjournment or postponement thereof.

The board of directors of Replidyne has fixed January 21, 2009 as the record date for the determination of stockholders entitled to notice of, and to vote at, the special meeting and any adjournment or postponement thereof. Only holders of record of shares of Replidyne common stock at the close of business on the record date are entitled to notice of, and to vote at, the special meeting. At the close of business on the record date, Replidyne had

27,114,677 shares of common stock outstanding and entitled to vote.

Recommendation of the Replidyne Board of Directors

THE REPLIDYNE BOARD OF DIRECTORS HAS DETERMINED AND BELIEVES THAT THE ISSUANCE OF SHARES OF REPLIDYNE COMMON STOCK IN THE MERGER IS ADVISABLE TO, AND IN THE BEST INTERESTS OF, REPLIDYNE AND ITS STOCKHOLDERS AND HAS APPROVED SUCH PROPOSAL. THE REPLIDYNE BOARD OF DIRECTORS RECOMMENDS THAT REPLIDYNE STOCKHOLDERS VOTE FOR REPLIDYNE PROPOSAL NO. 1 TO APPROVE THE ISSUANCE OF SHARES OF REPLIDYNE COMMON STOCK IN THE MERGER.

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THE REPLIDYNE BOARD OF DIRECTORS HAS DETERMINED AND BELIEVES THAT THE APPROVAL OF THE AMENDMENT TO REPLIDYNE S RESTATED CERTIFICATE OF INCORPORATION TO EFFECT A REVERSE STOCK SPLIT IS ADVISABLE TO, AND IN THE BEST INTERESTS OF, REPLIDYNE AND ITS STOCKHOLDERS AND HAS APPROVED SUCH PROPOSAL. THE REPLIDYNE BOARD OF DIRECTORS RECOMMENDS THAT REPLIDYNE STOCKHOLDERS VOTE FOR REPLIDYNE PROPOSAL NO. 2 TO APPROVE THE AMENDMENT TO REPLIDYNE S RESTATED CERTIFICATE OF INCORPORATION FOR THIS PURPOSE.

THE REPLIDYNE BOARD OF DIRECTORS HAS DETERMINED AND BELIEVES THAT THE APPROVAL OF THE AMENDMENT TO REPLIDYNE S RESTATED CERTIFICATE OF INCORPORATION TO EFFECT A NAME CHANGE FROM REPLIDYNE, INC. TO CARDIOVASCULAR SYSTEMS, INC. IS ADVISABLE TO, AND IN THE BEST INTERESTS OF, REPLIDYNE AND ITS STOCKHOLDERS AND HAS APPROVED SUCH PROPOSAL. THE REPLIDYNE BOARD OF DIRECTORS RECOMMENDS THAT REPLIDYNE STOCKHOLDERS VOTE FOR REPLIDYNE PROPOSAL NO. 3 TO APPROVE THE AMENDMENT TO REPLIDYNE S RESTATED CERTIFICATE OF INCORPORATION FOR THIS PURPOSE.

THE REPLIDYNE BOARD OF DIRECTORS HAS DETERMINED AND BELIEVES THAT THE APPROVAL OF THE ASSUMPTION OF THE CARDIOVASCULAR SYSTEMS, INC. 2007 EQUITY INCENTIVE PLAN, AS AMENDED TO INCREASE THE NUMBER OF CSI SHARES RESERVED UNDER THE PLAN TO 3,879,397 CSI SHARES, SUBJECT TO CONVERSION UPON THE CONSUMMATION OF THE MERGER AND FURTHER ADJUSTMENT FOR THE REVERSE STOCK SPLIT, IS ADVISABLE TO, AND IN THE BEST INTERESTS OF, REPLIDYNE AND ITS STOCKHOLDERS AND HAS APPROVED SUCH PROPOSAL. THE REPLIDYNE BOARD OF DIRECTORS RECOMMENDS THAT REPLIDYNE STOCKHOLDERS VOTE FOR REPLIDYNE PROPOSAL NO. 4 TO APPROVE THE ASSUMPTION OF THE CARDIOVASCULAR SYSTEMS, INC. 2007 EQUITY INCENTIVE PLAN, AS AMENDED.

THE REPLIDYNE BOARD OF DIRECTORS HAS DETERMINED AND BELIEVES THAT THE APPROVAL OF THE AMENDMENT TO THE REPLIDYNE 2006 EMPLOYEE STOCK PURCHASE PLAN TO INCREASE THE NUMBER OF SHARES RESERVED UNDER THE PLAN BY 1,615,000 SHARES TO 1,920,872 SHARES, SUBJECT TO FURTHER ADJUSTMENT FOR THE REVERSE STOCK SPLIT, AND AMEND THE EVERGREEN PROVISIONS THEREOF AS DESCRIBED HEREIN IS ADVISABLE TO, AND IN THE BEST INTERESTS OF, REPLIDYNE AND ITS STOCKHOLDERS AND HAS APPROVED SUCH PROPOSAL. THE REPLIDYNE BOARD OF DIRECTORS RECOMMENDS THAT REPLIDYNE STOCKHOLDERS VOTE FOR REPLIDYNE PROPOSAL NO. 5 TO APPROVE THE INCREASE IN THE NUMBER OF SHARES RESERVED UNDER THE REPLIDYNE 2006 EMPLOYEE STOCK PURCHASE PLAN.

THE REPLIDYNE BOARD OF DIRECTORS HAS DETERMINED AND BELIEVES THAT ADJOURNING THE SPECIAL MEETING, IF NECESSARY, IF A QUORUM IS PRESENT, TO SOLICIT ADDITIONAL PROXIES IF THERE ARE NOT SUFFICIENT VOTES IN FAVOR OF REPLIDYNE PROPOSAL NO. 1, 2, 3, 4 OR 5 IS ADVISABLE TO, AND IN THE BEST INTERESTS OF REPLIDYNE AND HAS APPROVED SUCH ADJOURNMENT, IF NECESSARY. REPLIDYNE S BOARD OF DIRECTORS RECOMMENDS THAT REPLIDYNE STOCKHOLDERS VOTE FOR REPLIDYNE PROPOSAL NO. 6 TO ADJOURN THE SPECIAL MEETING, IF NECESSARY, IF A QUORUM IS PRESENT, TO SOLICIT ADDITIONAL PROXIES IF THERE ARE NOT SUFFICIENT VOTES IN FAVOR OF REPLIDYNE PROPOSAL NO. 1, 2, 3, 4 OR 5.

Record Date and Voting Power

Only holders of record of Replidyne common stock at the close of business on the record date, January 21, 2009, are entitled to notice of, and to vote at, the Replidyne special meeting. There were approximately 77 holders of record of Replidyne common stock at the close of business on the record date. Because many of such shares are held by brokers and other institutions on behalf of stockholders, Replidyne is unable to estimate the total number of stockholders represented by these record holders. At the close of business on the record date, 27,114,677 shares of

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Replidyne common stock were issued and outstanding. Each share of Replidyne common stock entitles the holder thereof to one vote on each matter submitted for stockholder approval. See Replidyne Security Ownership by Certain Beneficial Owners and Management for information regarding persons known to the management of Replidyne to be the beneficial owners of more than 5% of the outstanding shares of Replidyne common stock.

Voting and Revocation of Proxies

The proxy accompanying this proxy statement/prospectus is solicited on behalf of Replidyne s board of directors for use at the Replidyne special meeting.

If you are a stockholder of record of Replidyne as of the record date referred to above, you may vote in person at the special meeting or vote by proxy over the Internet, by telephone or using the enclosed proxy card. Whether or not you plan to attend the special meeting, Replidyne urges you to vote by proxy to ensure your vote is counted. You may still attend the special meeting and vote in person if you have already voted by proxy.

If your shares are registered directly in your name, you may vote:

Over the Internet. Go to the web site of Replidyne s tabulator, American Stock Transfer & Trust Company, LLC, at http://www.voteproxy.com and follow the instructions you will find there. You must specify how you want your shares voted or your Internet vote cannot be completed and you will receive an error message. Your shares will be voted according to your instructions.

By Telephone. Call 1-800-776-9437 toll-free from the United States or 1-718-921-8500 from foreign countries and follow the instructions. You must specify how you want your shares voted and confirm your vote at the end of the call or your telephone vote cannot be completed. Your shares will be voted according to your instructions.

By Mail. Complete, date and sign the enclosed proxy card and mail it in the enclosed postage-paid envelope to American Stock Transfer & Trust Company, LLC. Your proxy will be voted according to your instructions. If you do not specify how you want your shares voted, they will be voted as recommended by Replidyne s board of directors.

In Person at the Meeting. If you attend the meeting, you may deliver your completed proxy card in person or you may vote by completing a ballot, which will be available at the meeting.

If your shares are held in street name for your account by a bank broker or other nominee, you may vote:

Over the Internet or By Telephone. You will receive instructions from your broker or other nominee if you are permitted to vote over the Internet or by telephone.

By Mail. You will receive instructions from your broker or other nominee explaining how to vote your shares.

In Person at the Meeting. Contact the bank, broker or other nominee that holds your shares to obtain a broker s proxy card and bring it with you to the meeting. **A broker s proxy is *not* the form of proxy enclosed with this proxy statement/prospectus. You will not be able to vote shares you hold in street name at the meeting unless you have a proxy from your broker issued in your name giving you the right to vote the shares.**

All properly executed proxies that are not revoked will be voted at the special meeting and at any adjournments or postponements of the special meeting in accordance with the instructions contained in the proxy. If a holder of

Replidyne common stock executes and returns a proxy and does not specify otherwise, the shares represented by that proxy will be voted FOR each Replidyne Proposal set forth at the special meeting.

Any Replidyne stockholder of record voting by proxy, other than those stockholders who have executed a voting agreement and irrevocable proxy, has the right to revoke the proxy at any time before the polls close at the special meeting by sending a written notice stating that it would like to revoke its proxy to the Secretary of Replidyne, by voting again over the Internet or by telephone, by providing a duly executed proxy card bearing a later date than the proxy being revoked or by attending the special meeting and voting in person. Attendance alone at the special meeting will not revoke a proxy. A beneficial owner of Replidyne common stock that holds shares in street name must follow directions received from the bank, broker or other nominee that holds the shares to change its voting instructions.

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Quorum and Required Vote

The presence, in person or by proxy, at the special meeting of the holders of a majority of the shares of Replidyne common stock outstanding and entitled to vote at the special meeting is necessary to constitute a quorum at the meeting. If Replidyne stockholders do not vote by proxy or in person at the special meeting, the shares of common stock of such stockholders will not be counted as present for the purpose of determining a quorum. Abstentions and broker non-votes will be counted towards a quorum.

The affirmative vote of the holders of a majority of the shares of Replidyne common stock casting votes in person or by proxy at the Replidyne special meeting is required for approval of Replidyne Proposal Nos. 1, 4, 5 and 6. The affirmative vote of holders of a majority of the issued and outstanding shares of Replidyne common stock having voting power on the record date for the special meeting is required for approval of Replidyne Proposal Nos. 2 and 3.

For Replidyne Proposal Nos. 1, 4, 5 and 6, a failure to submit a proxy card or vote at the special meeting, or an abstention, vote withheld or broker non-votes will have no effect on the outcome of such proposals. For Replidyne Proposal Nos. 2 and 3, a failure to vote by proxy or in person at the special meeting, or an abstention, vote withheld or broker non-vote for such proposal, will have the same effect as a vote against the approval Replidyne Proposal Nos. 2 and 3.

In order to induce CSI to enter into the merger agreement, several Replidyne stockholders, who together with their respective affiliates, beneficially own approximately 48% of the outstanding common stock of Replidyne, entered into voting agreements and irrevocable proxies in favor of CSI pursuant to which, among other things, each of these stockholders agreed, solely in his capacity as a stockholder, to vote shares representing approximately 32% of the outstanding common stock of Replidyne in favor of the issuance of the shares of Replidyne common stock pursuant to the merger and the other actions contemplated by the merger agreement.

Solicitation of Proxies

In addition to solicitation by mail, the directors, officers, employees and agents of Replidyne may solicit proxies from Replidyne stockholders by telephone, other electronic means or in person. Directors, officers, employees and agents of Replidyne will not receive any additional compensation for their services, but Replidyne will reimburse them for their out-of-pocket expenses. Replidyne also will make arrangements with banks, brokers, nominees, custodians and fiduciaries who are record holders of Replidyne common stock for the forwarding of solicitation materials to the beneficial owners of Replidyne common stock. Replidyne will reimburse these banks, brokers, nominees, custodians and fiduciaries for the reasonable out-of-pocket expenses they incur in connection with the forwarding of solicitation materials and in obtaining voting instructions from these owners.

Replidyne has retained D. F. King & Co., Inc., a proxy solicitation firm, to assist in the solicitation of proxies by mail, telephone or other electronic means or in person for a fee of $15,000, plus an additional fee of $4.50 per incoming and outgoing telephone contact.

Other Matters

As of the date of this proxy statement/prospectus, the Replidyne board of directors does not know of any business to be presented at the Replidyne special meeting other than as set forth in the notice accompanying this proxy statement/prospectus. If any other matters should come before the special meeting, it is intended that the shares represented by proxies will be voted with respect to such matters in accordance with the judgment of the persons

voting the proxies.

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REPLIDYNE PROPOSAL NO. 1

APPROVAL OF ISSUANCE OF SHARES OF REPLIDYNE COMMON STOCK IN THE MERGER

General Description of the Merger

Replidyne, CSI, and Responder Merger Sub, Inc., a Minnesota corporation and wholly owned subsidiary of Replidyne, have entered into an Agreement and Plan of Merger dated as of November 3, 2008, which is referred to in this proxy statement/prospectus as the merger agreement, that contains the terms and conditions of the proposed business combination of Replidyne and CSI. Pursuant to the merger agreement, on the terms and conditions set forth therein, Responder Merger Sub, Inc. will be merged with and into CSI, with CSI surviving the merger as a wholly owned subsidiary of Replidyne.

Background of the Merger

Historical Background for CSI

CSI has periodically considered opportunities for strategic transactions and has from time to time engaged in preliminary discussions and negotiations with other companies regarding these types of transactions.

In the fall of 2007, at the direction of CSI s board of directors, the management team of CSI began meeting with representatives of Morgan Stanley & Co. Incorporated, Citigroup Global Markets, Inc. and William Blair & Company, L.L.C., as lead underwriters, to prepare for an initial public offering of CSI common stock. Following an organizational meeting on October 29, 2007, representatives of CSI, the underwriters and their respective legal counsel began the process of conducting due diligence reviews of CSI s affairs and drafting a registration statement to be filed with the Securities and Exchange Commission, or SEC. CSI filed the registration statement with the SEC on January 22, 2008. CSI filed amendments to the registration statement in response to SEC comments on March 20, 2008, April 18, 2008, May 9, 2008 and May 23, 2008, resolving substantially all of the SEC s comments. Due to a deterioration in U.S. economic conditions during the spring of 2008, CSI and its underwriters elected not to begin a road show for the proposed initial public offering in May or June 2008 and decided to monitor market conditions with the hope that markets might be receptive to CSI s initial public offering after Labor Day.

At the July 22, 2008 meeting of CSI s board of directors, the board discussed its financing plans in the event the initial public offering was further delayed and approved a $13.5 million debt financing facility with Silicon Valley Bank.

On August 15, 2008, CSI filed another amendment to its registration statement to update the financial information to include results for the fiscal year ended June 30, 2008.

Historical Background for Replidyne

In February 2006, Replidyne entered into a collaboration and commercialization agreement with Forest Laboratories to be its exclusive partner for the development and marketing of faropenem medoxomil, or faropenem, in the United States.

In October 2006, the U.S. Food and Drug Administration, or FDA, issued a non-approval letter with respect to Replidyne s new drug application for faropenem. In its letter, the FDA did not raise any safety concerns for faropenem, but indicated that for respiratory indications of acute bacterial sinusitis and acute exacerbations of chronic bronchitis,

superiority studies may be required, and for community-acquired pneumonia further microbiologic evaluation may be needed. Historically, the FDA had not required superiority design studies for the approval of antibiotics and all of Replidyne s trials were conducted using a non-inferiority design, which required these trials to demonstrate that a product candidate is not significantly less effective than an approved treatment. Faropenem was Replidyne s lead product candidate and the most advanced of its four pipeline programs.

On February 6, 2007, Replidyne announced that Forest Laboratories intended to terminate its collaboration and commercialization agreement with Replidyne at the end of the 90-day termination period set forth in the agreement.

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On May 9, 2007, Replidyne engaged Morgan Stanley to act as its exclusive financial advisor in connection with a possible partnership between Replidyne and one or more parties for licensing of faropenem or a merger or sale of or business combination involving Replidyne. Over the next several months, Morgan Stanley and Replidyne contacted 31 potential collaboration partners.

In July and August 2007, management presented to the interested parties an overview of faropenem and two pharmaceutical companies pursued follow-up commercial and technical diligence. On August 31, 2007, Replidyne received a non-binding term sheet from one interested party. By November 2007, the parties terminated discussions with Replidyne, citing development and regulatory risks as the major factors. One of these parties subsequently restarted discussions with Replidyne, but those discussions were again terminated in January 2008.

On December 6, 2007, the Replidyne board of directors met to discuss management s recommended restructuring plan. On December 10, 2007, Replidyne announced an operational restructuring to properly allocate resources. Headcount was reduced by approximately 35%, primarily in the administrative, clinical, regulatory, and commercial functions. Replidyne continued to advance its preclinical programs, including REP3123, its investigational antibacterial for the treatment of *C. difficile*-infections, and its DNA replication inhibition program. Replidyne suspended the development of topical antibiotic REP8839 after concluding that the additional investment required to optimize the formulation was too large relative to the niche market opportunity. Replidyne continued its placebo-controlled Phase III trial for faropenem in acute exacerbation of chronic bronchitis. Replidyne did not initiate enrollment in clinical trials for faropenem in acute bacterial sinusitis and community-acquired pneumonia, hoping to identify a partner to assist in financing and conducting the trials.

In January 2008, management made a presentation to another party that expressed interest in entering into a partnership to commercialize the faropenem program.

In January 2008, management assembled a list of potential companies on which Replidyne could focus its efforts in its strategic alternatives process. A special committee of the Replidyne board of directors reviewed this list and recommended that Replidyne expand its focus beyond companies that were focused on anti-infective products. Following this review by Replidyne management and this committee, Replidyne initiated a strategic alternatives process with a total of 72 biotechnology and pharmaceutical companies screened by Morgan Stanley and Replidyne over the next several months.

Discussions and due diligence regarding a potential partnership to commercialize faropenem continued into February 2008.

On March 6, 2008, the Replidyne board of directors met to discuss the faropenem commercialization process as well as the strategic alternatives process. Background materials on a potential partner for faropenem were presented and the timing and process for decision-making were discussed. The board reviewed the potential strategic alternatives and discussed decision criteria for potential merger partners, including correlation or diversification of technology and regulatory risk, cash burn rate and stage of development. The board also discussed the general state of the initial public offering environment and implications for potential counterparties and precedent transactions, as well as potential target companies, their motivation to pursue a transaction and the due diligence process.

In March 2008, a potential partner for faropenem completed its own restructuring, which caused delays in its ability to continue discussions.

From March through June 2008, Replidyne management continued its regular meetings to review and evaluate, with the assistance of representatives of Morgan Stanley, candidates for a strategic transaction. If a company met Replidyne s criteria and metrics, one or more members of Replidyne s management would meet directly with a

potential strategic partner s management team.

On April 17, 2008, the Replidyne board of directors met to discuss the strategic alternatives process, faropenem program updates and the potential sale of the REP3123 and DNA replication inhibitor programs. The board of directors directed management to identify potential strategic buyers who might be interested in purchasing these assets and venture funds that might be interested in financing a spin-out of these assets.

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On April 23, 2008, Replidyne discontinued enrollment in a placebo-controlled Phase III clinical trial testing faropenem in patients with acute exacerbation of chronic bronchitis. Replidyne took this action to conserve its cash assets and support initiatives that included pursuing strategic transactions and maintaining its research programs. Following delays in discussions with potential partners, the final discussions in the faropenem process occurred in April 2008.

In May 2008, process letters were sent to 10 potential merger partners, requesting term sheets for a merger transaction.

In early June 2008, five term sheets were received for a potential merger transaction. On June 5, 2008, the Replidyne board of directors met with representatives of Morgan Stanley present to discuss the companies that had submitted a response, including terms submitted and a valuation analysis. The board discussed with representatives of Morgan Stanley present the stage of development of the lead compounds for each potential merger partner, market potential, the probability of success, management teams, downside risk and potential upsides for each potential transaction. The board of directors also discussed with representatives of Morgan Stanley present the advantages and disadvantages to expanding the process to include other potential merger partners, including technology areas other than biotechnology.

Replidyne received another term sheet from a potential merger partner in June 2008. Under the direction of Replidyne s board of directors, management conducted discussions with two parties. Management continued to conduct due diligence and engaged experts to assist in evaluating the potential candidates.

On June 20, 2008, one potential merger party, referred to as Party A, agreed to the financial terms proposed by Replidyne. Replidyne entered into merger agreement negotiations with that party.

On June 23, 2008, Replidyne terminated its license agreement with Asubio Pharma Co., Ltd. for faropenem and terminated its supply agreement with Asubio Pharma Co., Ltd. and Nippon Soda Co. Ltd. for production of faropenem.

On July 17, 2008, the Replidyne board of directors met with representatives of Morgan Stanley present to review the status of discussions with two potential merger partners including recent FDA activity with respect to one of the companies, as well as status and expected timeline of the partnership discussions. Management updated the board that legal diligence and review of the initial draft of merger agreement was underway.

Replidyne s discussion with Party A ended after continued diligence and merger agreement negotiation when a major milestone was not achieved by Party A.

In August 2008, discussions with the other potential merger party, referred to as Party B, continued. Replidyne continued to negotiate financial terms and merger agreement provisions with Party B.

In August 2008, the Replidyne board of directors directed management to review companies in the medical technology industry. A total of 61 medical technology companies were screened by Morgan Stanley and Replidyne over the subsequent months.

On August 8, 2008, the Replidyne board of directors met to discuss strategic alternatives. Representatives of Morgan Stanley presented several medical technology companies. Under direction of the board of directors, Replidyne s management and representatives of Morgan Stanley proceeded to contact several medical technology potential merger partners.

Over the next several weeks, Replidyne management, with the assistance of representatives of Morgan Stanley, proceeded to contact candidates for a strategic transaction. In August 2008, process letters were sent to five potential merger partners (excluding CSI), requesting term sheets for a merger transaction.

In August and September 2008, Replidyne received proposals from five interested parties, including Party B. Replidyne continued to conduct due diligence on the potential merger partners and made the parties aware that Replidyne would respond to the proposals after the Replidyne board of directors was able to review the bids.

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Background of Transaction Between Replidyne and CSI

On August 22, 2008, representatives of Morgan Stanley contacted CSI to introduce the idea of a merger with Replidyne and inquired whether CSI would consider the opportunity to present to the management of Replidyne.

On August 27, 2008, Replidyne announced a restructuring of its operations that would reduce its current employee headcount by approximately 80% to six employees during September 2008 and October 2008. Replidyne suspended further development activities of REP3123 and novel anti-infective compounds based on its DNA replication inhibition technology.

On August 29, 2008, CSI management presented to the management of Replidyne an overview of CSI and both parties discussed the potential for a merger transaction. David Martin, CSI s president and chief executive officer, described CSI s business, including the growth in revenues achieved since the introduction of its product.

On September 2, 2008, Replidyne and CSI signed a confidentiality agreement and began exchanging confidential information about each other s business.

During August and September 2008, Replidyne continued parallel discussions with CSI and five other companies identified by Replidyne management and the board of directors for final stage evaluation regarding a potential business combination. Replidyne management engaged experts and conducted on-site visits and numerous teleconference calls with the interested parties.

On September 8, 2008, CSI filed an additional amendment to its registration statement to address additional comments from the SEC.

On September 10, 2008, Replidyne management met with CSI to discuss CSI and a potential merger between the two companies. Also on September 10, 2008, the pricing committee of CSI s board of directors met by telephone conference call with representatives of CSI s underwriters to discuss prospects for launching CSI s initial public offering. Representatives of the underwriters reported that they could not recommend proceeding with the initial public offering at that time, but suggested that an offering remained possible in the coming weeks if market conditions improved.

On September 11, 2008, the Replidyne board of directors met with representatives of Morgan Stanley present to discuss the status of the strategic alternatives process and to review the bids received. The board also discussed with representatives of Morgan Stanley present Party B and the possibility of continuing discussions with this party. The board also discussed with representatives of Morgan Stanley present the timeline that would be associated with effecting a cash distribution. The board decided to proceed with four parties, including Party B and CSI.

On September 17, 2008, Replidyne sent three parties counterproposals to the term sheets that these parties had presented to Replidyne.

On September 18, 2008, Replidyne sent CSI a written proposal and a draft merger agreement for a transaction between the two companies whereby CSI stockholders would achieve fully diluted ownership of 83% of the combined company, based on Replidyne net assets of $40 million at closing.

On September 19, 2008, CSI s pricing committee met by telephone conference call with representatives of CSI s underwriters. The representatives of CSI s underwriters reported that markets had deteriorated further since the preceding week, with continuing uncertainty and volatility. The representatives of the underwriters recommended

waiting for several weeks to see how market conditions would develop. Mr. Martin reported to the pricing committee that he had received the preceding evening the proposal from Replidyne together with the draft merger agreement. The pricing committee encouraged Mr. Martin to continue discussions with Replidyne in view of the uncertainty regarding the initial public offering.

In late September 2008, one interested party, referred to as Party C, agreed to the terms proposed by Replidyne and Replidyne sent the party a proposed merger agreement. Two parties, including Party B, decided not to proceed with Replidyne based on Replidyne s requests, but remained open to continued dialogue. Replidyne management continued to conduct due diligence and discuss merger agreement terms with Party C.

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On or about September 23, 2008, Replidyne began providing CSI and its legal counsel, Fredrikson & Byron, P.A., with access to a secure website containing due diligence documents relating to Replidyne.

On September 24, 2008, Replidyne sent CSI a letter inviting CSI to respond to the non-binding proposal Replidyne sent on September 18, 2008 by September 26, 2008.

On September 26, 2008, the CSI pricing committee met again by telephone conference call with representatives of CSI s underwriters to discuss the market conditions for the proposed initial public offering. Representatives of the underwriters reported that conditions had only worsened since the last meeting of the pricing committee, including significant declines in the Dow Jones and Nasdaq indexes and the highest levels of volatility seen since 2003. They explained that prospects for an initial public offering during the rest of the year were uncertain. CSI s board of directors also met by telephone conference call on September 26, 2008 to discuss the proposal from Replidyne and CSI s response. CSI s board authorized a counterproposal to Replidyne whereby CSI would issue 15% of its common stock to Replidyne in exchange for $40 million and Replidyne would thereafter dissolve and distribute the common stock to its stockholders. This proposal was communicated to Replidyne by a letter dated September 26, 2008.

On September 27, 2008, the Replidyne board of directors met with representatives of Morgan Stanley present to discuss in greater detail Party C and CSI. The board also discussed with representatives of Morgan Stanley present the status of the negotiations, financial and other diligence review and discussions with Party C. Under the direction of the board, Replidyne management responded to CSI s September 26, 2008 letter restating the September 18, 2008 financial terms and merger structure.

On September 30, 2008, CSI responded to Replidyne s letter agreeing with the reverse merger structure proposed by Replidyne and proposing a transaction whereby CSI stockholders would achieve fully diluted ownership of 84% of the combined company, based on Replidyne net assets of $40 million at closing.

In response to the Replidyne proposal s requirement that all CSI preferred stock convert to common stock prior to the merger, which may not otherwise have occurred automatically as a result of the merger, representatives of CSI s preferred stockholders proposed that CSI issue to the preferred stockholders five-year warrants to purchase 3,500,000 shares of CSI common stock, exercisable at a price of $5.71 per share, as consideration for the conversion of the preferred stock and the loss of various rights and preferences resulting from the conversion. Upon the advice of Fredrikson & Byron, CSI s board formed a special committee consisting of those directors not holding any preferred stock of CSI to consider this proposal. The special committee was formed by written action of CSI s board of directors as of October 2, 2008.

On or about October 2, 2008, CSI began providing Replidyne and its legal counsel, Cooley Godward Kronish LLP, with access to a secure website containing due diligence documents relating to CSI.

Beginning on October 3, 2008, Replidyne and CSI management, their respective counsel and representatives of Morgan Stanley met several times via teleconference to discuss due diligence items and the terms of the merger agreement.

On October 3, 2008, the Replidyne board of directors met with representatives of Morgan Stanley present to discuss the two potential merger partners (Party C and CSI). Replidyne s management reviewed diligence efforts with the board and the status of valuation discussions. Replidyne s management discussed with the board the perceived risks and certainty of closing with respect to the two candidates. Following the board of directors meeting, Replidyne responded to CSI s letter proposing a transaction whereby CSI stockholders would achieve fully diluted ownership of 83% of the combined company, based on Replidyne net assets of $40 million at closing.

On October 6, 2008, the CSI special committee met to discuss the proposal from CSI s preferred stockholders and authorize the issuance of the warrants as proposed in connection with a proposed transaction with Replidyne.

Later on October 6, 2008, CSI s board of directors met and authorized management of CSI to continue negotiating a merger transaction with Replidyne on terms that would result in Replidyne stockholders owning 17% of the post-merger company, assuming Replidyne s net assets were $40 million prior to the merger. Based upon the recommendation of the special committee, the board of directors also authorized the issuance of the warrants as

consideration for the conversion of the preferred stock in connection with the closing of the merger, should the merger proceed and be consummated. Replidyne decided to proceed with CSI and alerted Party C.

On October 7, 2008, Replidyne and CSI entered into a mutual exclusivity agreement. Over the next several weeks, Replidyne and CSI conducted due diligence on each other.

On October 8, 2008, at the direction of CSI, Fredrikson & Byron distributed comments to the draft merger agreement to Cooley. The parties exchanged several drafts of the merger agreement, the attachments thereto, including the disclosure schedules, and other ancillary documents until the execution of the merger agreement.

In connection with the ongoing negotiation of the merger agreement and related documents and agreements, including discussions relating to voting agreements, Fredrikson & Byron advised CSI s board of directors to form a committee pursuant to Section 302A.673 of the Minnesota Business Corporation Act, which prohibits certain business combinations involving a Minnesota corporation unless a properly-formed committee provides certain approvals before the business combination. In response to this recommendation, CSI s board of directors formed another special committee consisting of all non-management directors for this purpose by written action dated October 14, 2008.

On October 16, 2008, the Replidyne board of directors met with representatives of Morgan Stanley present to discuss the status of the due diligence and merger agreement discussion with CSI, and received an update on recent developments in the market from representatives of Morgan Stanley.

At a regularly scheduled board meeting on October 21, 2008, CSI s special committee and board of directors discussed with Fredrikson & Byron the terms of the merger agreement with Replidyne as negotiated to that date and the unresolved issues remaining in the negotiations. Among other things, the special committee and board discussed in-depth the mechanism for adjustment of the number of shares to be issued to the parties based on the net assets of Replidyne available on the date of closing, the termination provisions and termination fees provided in the merger agreement and the governance of the post-merger company, including Replidyne s request that two Replidyne directors be added to the combined company board.

On October 22, 2008, Replidyne management and a board member conducted on-site diligence at CSI s offices.

On October 24, 2008, the Replidyne board of directors met with representatives of Morgan Stanley present to discuss the results of the continued diligence review, the status of the merger agreement and the proposed timing for the transaction. The board also received an update on recent developments in the market from representatives of Morgan Stanley. The board also approved management s recommendation that the exclusivity period be extended. The board reviewed with representatives of Morgan Stanley present certain key provisions of the merger agreement, including among other things, matters related to voting agreements, lock-ups, termination fees and termination rights.

On October 24, 2008, CSI management began consulting with representatives of Citi on the financial aspects of the merger.

On October 25, 2008, the Replidyne board of directors received a letter from a potential merger partner with which Replidyne had previously discussed a merger proposing new financial terms.

On October 27, 2008, Replidyne sent CSI a letter outlining certain merger agreement provisions including lock-up agreements, voting agreements, termination fees, interim financing by CSI and board of directors nominations. Replidyne also suggested that Replidyne pro forma ownership be adjusted based on Replidyne net assets above or below a collar, rather than an adjustment for any change in net assets.

On the morning of October 28, 2008, CSI s special committee and board of directors met by telephone conference call to discuss with Fredrikson & Byron the current status of the proposed merger agreement with Replidyne and the open issues remaining to be resolved.

On October 28, 2008, CSI filed a Form 10 with the SEC to register its common stock under Section 12(g) of the Securities Exchange Act of 1934, due to CSI exceeding 500 record holders of its common stock as of June 30, 2008.

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On October 29, 2008, the Replidyne board of directors met with representatives of Morgan Stanley present to discuss the recent updates on the merger agreement provisions and continued to discuss certain provisions of the merger agreement after the meeting. Representatives of Morgan Stanley also provided an update on recent developments in the markets.

On October 31, 2008, the special committee and board of directors of CSI held a meeting by telephone conference call to discuss the proposed merger with Replidyne. Prior to the meeting, the CSI special committee and board received copies of the merger agreement and related documents. CSI management, together with Fredrikson & Byron, summarized the status of the open and resolved issues in the merger agreement and answered questions posed by members of the special committee and board. Following the discussion, CSI s special committee and board each unanimously approved the proposed merger with Replidyne and the merger agreement, the voting agreements and all other agreements related to the merger in substantially the form presented to the CSI board, with such changes as CSI management deemed necessary or advisable.

On November 3, 2008, the Replidyne board of directors met with representatives of Morgan Stanley present and reviewed the proposed transaction with CSI. Replidyne s legal counsel described the terms of the merger agreement. At the meeting, Morgan Stanley rendered its oral opinion to the board of directors, subsequently confirmed in writing, that, as of the date of and based upon and subject to the various assumptions, qualifications and limitations set forth in the opinion, the conversion factor pursuant to the merger agreement was fair from a financial point of view to Replidyne. After discussion, the board of directors of Replidyne approved the merger agreement and the transaction with CSI, subject to certain revisions to the merger agreement specified by the board.

Later on November 3, 2008, Replidyne and CSI executed the merger agreement, certain Replidyne directors, officers and stockholders executed voting agreements with CSI, certain CSI directors, officers and stockholders executed voting agreements with Replidyne, and certain Replidyne and CSI security holders executed lock-up agreements for the benefit of Replidyne and CSI.

On the morning of Tuesday, November 4, 2008, the parties issued a joint press release announcing the execution of the merger agreement. In addition, on November 4, 2008 at 8:30 a.m. Eastern Time, Replidyne and CSI held a joint conference call to discuss the planned merger and a business overview. That same morning, CSI withdrew the registration statement for its initial public offering.

Reasons for the Merger

Replidyne Reasons for the Merger

In evaluating the merger, Replidyne s board of directors consulted with senior management and Replidyne s legal and financial advisors. In the course of reaching its determination to approve the merger agreement and the transactions contemplated by the merger agreement, Replidyne s board of directors considered a number of factors, including the following:

- The Replidyne board believed that a merger with CSI was the most attractive transaction among the strategic alternatives Replidyne had reviewed. Replidyne s board of directors had considered numerous other potential transactions, had reviewed more than 130 candidate companies from within the biotechnology, pharmaceutical and medical technology sectors and had considered the liquidation of the company and the restructuring of its commercial and administrative operations to continue development of REP3123, its product candidate for the treatment of CDI, and its novel DNA replication inhibition program, together referred to as Replidyne s research pipeline programs.

Replidyne noted that CSI s Diamondback 360° Orbital Atherectomy System had received FDA clearance and has features that differentiate it in the market from other FDA approved or cleared minimally invasive atherectomy devices, including those features described under the caption Information Regarding CSI s Business CSI s Solution. CSI s revenues in the four fiscal quarters since the launch of the product and the high reorder rate among its initial customers demonstrate CSI s ability to retain its customer base.

Replidyne believes that CSI s other cash resources, together with Replidyne s projected available cash at closing, will be sufficient to fund CSI s currently projected operating requirements for the foreseeable

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future, assuming that delays in CSI s business plan or other unforseen events do not substantially reduce the amount of cash available from operations.

Replidyne believes that use of the Diamondback 360° for Peripheral Arterial Disease, or PAD, represents a significant untapped market opportunity.

CSI plans to launch additional products to treat lesions in larger vessels, including superficial femoral arteries of up to 7mm in diameter, and to seek pre-market approval from the FDA to use the Diamondback 360° to treat patients with coronary artery disease. Replidyne s board believes that these market opportunities represent potential future growth opportunities for investors.

CSI s management team has a background in developing and marketing PAD devices and has demonstrated the ability to successfully execute its growth strategy.

The Centers for Medicare and Medicaid Services has established reimbursement codes describing atherectomy products and procedures using atherectomy products, and many private insurers follow these policies. CSI believes that physicians and hospitals that treat PAD with the Diamondback 360° will generally be eligible to receive adequate reimbursement from Medicare and private insurers for the cost of the single-use catheter and the physician s services.

CSI s atherectomy device may be complementary to products that are currently sold by larger medical device companies such as stents, drug coated stents and angioplasty balloons. Replidyne s board of directors believes that CSI may be an attractive candidate for an acquisition by a larger medical device company, which could provide an opportunity for returns to Replidyne stockholders, particularly if future revenue growth is achieved by CSI.

CSI had already filed a registration statement on Form S-1 with the SEC and had substantially completed the SEC s review process in connection with its proposed initial public offering. CSI has also subsequently filed a registration statement on Form 10 with the SEC. This allowed the transaction timetable to be accelerated.

In addition to the specific factors concerning CSI outlined above, the Replidyne board of directors considered the following factors in reaching its conclusion to approve the merger and to recommend that the Replidyne stockholders approve the issuance of shares of Replidyne common stock in the merger, all of which it reviewed as supporting its decision to approve the business combination with CSI.

Replidyne s net cash position and its public listing enabled Replidyne to provide access to capital that otherwise may not have been available to CSI or that would be available to CSI only at less favorable valuation levels, which allowed Replidyne to obtain favorable terms.

Due to the recent volatility of the public markets, companies such as CSI were unable to complete an initial public offering. These conditions made a merger more attractive to CSI and allowed Replidyne to obtain favorable terms.

Faropenem did not receive approval from the FDA for its new drug application. This resulted in loss of current value for Replidyne stockholders and diminished the prospects for the creation of future value for Replidyne stockholders through the operation of its ongoing business.

Replidyne s research pipeline programs were determined to be too early in their stage of development to sustain the operations of a public company on a stand-alone basis, and Replidyne expected to incur significant losses

and require substantial additional capital to complete these development programs, and seek regulatory approval, none of which could be assured.

The liquidation of Replidyne likely would not have produced the maximum potential value for Replidyne stockholders. The process of completing a liquidation of Replidyne under applicable law may also have resulted in delays in returning funds to Replidyne stockholders.

The Replidyne board of directors considered the financial analyses of Morgan Stanley, including its written opinion to the board of directors dated November 3, 2008 that, as of that date, and based upon and subject to the various assumptions, qualifications and limitations set forth in the opinion, the conversion factor

pursuant to the merger agreement was fair from a financial point of view to Replidyne, as more fully described below under the caption Opinion of Replidyne s Financial Advisor.

Replidyne stockholders holding approximately 48% of Replidyne s outstanding common stock have entered into voting agreements whereby they have agreed to vote approximately 32% of the outstanding shares of Replidyne in favor of the issuance of the shares of Replidyne common stock pursuant to the merger and the other transactions contemplated by the merger agreement. Certain CSI stockholders have entered into voting agreements whereby they have agreed to vote approximately 20% of the outstanding shares of CSI in favor of the merger and the other transactions contemplated by the merger agreement.

The Replidyne board of directors believes that the merger has a high likelihood of being consummated on a timely basis, including the likelihood that the merger will receive all necessary approvals.

The Replidyne board of directors also considered the terms and conditions of the merger agreement, including the following factors:

financial terms negotiated under the merger agreement;

the expectation that the merger will be treated as a reorganization for U.S. federal income tax purposes, with the result that in the merger, the Replidyne stockholders will generally not recognize taxable gain or loss for U.S. federal income tax purposes;

the limited number and nature of the conditions to CSI s obligation to consummate the merger and the limited risk of non-satisfaction of such conditions;

Replidyne s right under the merger agreement to consider certain unsolicited acquisition proposals under certain circumstances should Replidyne receive a superior proposal;

the conclusion of the Replidyne board of directors that the potential termination fee of $1.5 million plus certain transaction related expenses, which would become payable upon the termination of the merger agreement in certain circumstances, was reasonable;

the constraint on CSI s ability to secure debt or equity financing or to issue debt or equity securities prior to closing without the consent of Replidyne;

the provisions limiting the ability of CSI to solicit, initiate or knowingly encourage any other acquisition proposal; and

the belief that the terms of the merger agreement, including the parties representations, warranties and covenants, and the conditions to their respective obligations, are reasonable under the circumstances.

In the course of its deliberations, the Replidyne board of directors also considered a variety of risks and other countervailing factors related to entering into the merger agreement, including:

the potential effect of the termination fee that would be payable to CSI upon the termination of the merger agreement in certain circumstances in deterring other potential acquirers from proposing an alternative transaction that may be more advantageous to Replidyne stockholders;

the substantial expenses to be incurred in connection with the merger;

the possible volatility, at least in the short term, of the trading price of the Replidyne common stock resulting from the announcement of the merger;

the risk that the merger might not be consummated in a timely manner or at all and the potential adverse effect of the public announcement of the merger or of the delay or failure to complete the merger with CSI on the reputation of Replidyne;

the risk to the liquidation value of Replidyne in the event that the merger is not consummated; and

various other risks associated with the combined company and the merger, including those described in the section entitled Risk Factors in this proxy statement/prospectus.

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The foregoing information and factors considered by the Replidyne board of directors are not intended to be exhaustive but are believed to include all of the material factors considered by the Replidyne board of directors. In view of the wide variety of factors considered in connection with its evaluation of the merger and the complexity of these matters, the Replidyne board of directors did not find it useful, and did not attempt, to quantify, rank or otherwise assign relative weights to these factors. In considering the factors described above, individual members of the Replidyne board of directors may have given different weight to different factors. The Replidyne board of directors conducted an overall analysis of the factors described above, including thorough discussions with, and questioning of, the Replidyne management and the Replidyne legal and financial advisors, and considered the factors overall to be favorable to, and to support, its determination.

CSI Reasons for the Merger

In the course of their deliberations, CSI s special committee and board of directors reviewed CSI s historical, present and projected financials, CSI s historical and long-term strategic objectives, the opportunities that CSI is pursuing and the risks associated therewith, and general economic and market conditions.

In evaluating the merger, CSI s special committee and board of directors consulted with CSI s management and legal and financial advisors, and in the course of reaching their determinations to approve the merger, the merger agreement and the other transactions contemplated by the merger agreement, CSI s special committee and board of directors considered various factors supporting those determinations, including, without limitation, the following:

CSI believes that Replidyne s projected available cash at closing, together with CSI s other cash resources, will be sufficient to fund CSI s currently projected operating requirements for the foreseeable future;

the expectation that the merger would be a more time- and cost-effective means to access capital than other options considered, including an initial public offering or an additional round of private equity financing, given the state of the markets for initial public offerings and private equity financings and the anticipated delays and complications associated therewith;

the familiarity of the special committee and board of directors with the business, operations, financial condition and prospects of CSI and general industry, economic and market conditions, including the inherent risks and uncertainties in CSI s business, in each case on a historical, current and prospective basis;

the view that the range of options available to the combined company to access private and public equity markets should additional capital be needed in the future will likely be greater following the merger than if CSI did not complete the merger;

the judgment of the special committee and board of directors that the merger is the best available alternative to CSI and its stockholders;

the terms and conditions of the merger agreement, including, without limitation, the following:

the determination that the expected relative percentage ownership of Replidyne securityholders and CSI securityholders in the combined company is appropriate and reasonable based on the approximate valuations of each company in the judgment of the CSI special committee and board of directors;

that the terms of the merger agreement are reasonable, including the parties representations, warranties and covenants and the conditions to the parties respective obligations;

the expectation that the merger will be treated as a reorganization for U.S. federal income tax purposes, with the result that in the merger CSI stockholders will generally not recognize taxable gain or loss for U.S. federal income tax purposes;

the rights of CSI under the merger agreement to consider certain unsolicited acquisition proposals under certain circumstances should CSI receive a superior proposal;

the fact that the merger agreement must be submitted to CSI stockholders for approval, which allows for an informed vote of the stockholders on the merits of the transaction, and the fact that dissenters rights

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would be available to CSI stockholders who do not vote in favor of the merger under the Minnesota Business Corporation Act;

the fact that all of the officers and eight of the directors of CSI will serve as the management of Replidyne following the closing; and

the conclusion of the special committee and board of directors of CSI that the potential termination fee of up to $1.5 million, plus the reimbursement of certain transaction expenses incurred by CSI in connection with the merger, payable by Replidyne to CSI and the circumstances under which such fee may be payable, were reasonable;

the fact that shares of Replidyne common stock to be issued to CSI stockholders will be registered on a Form S-4 registration statement by Replidyne and will become freely tradable for CSI stockholders who are not affiliates of CSI and who are not parties to lock-up agreements; and

the likelihood that the merger will be consummated on a timely basis.

In the course of its deliberations, the CSI special committee and board of directors also considered a variety of risks and other countervailing factors related to entering into the merger agreement, including, without limitation, the following:

the possibility that the merger might not be completed and the potential adverse effect of the public announcement of the merger or of the delay or failure to complete the merger on the reputation of CSI and the ability of CSI to obtain financing in the future in the event the merger is not completed;

the termination fee of up to $1.5 million, plus the reimbursement of certain transaction expenses incurred by Replidyne in connection with the merger, payable by CSI to Replidyne upon the occurrence of certain events, and the potential effect of such termination fee on CSI s ability to carry out its operating plan and in deterring other potential acquirers from proposing an alternative transaction that may be more advantageous to CSI stockholders;

the risk of diverting management s attention from other strategic priorities to implement the merger and integrate each company s operations and infrastructure following the merger;

the risk that the merger might not be consummated in a timely manner or at all;

the customary restrictions on the conduct of CSI s business prior to the completion of the merger, requiring CSI to conduct its business in all material respects only in the ordinary course, subject to specified limitations, which may delay or prevent CSI from undertaking business opportunities that may arise pending completion of the merger;

the requirement that CSI terminate its efforts to conduct an initial public offering and cease any other material financing activities and the resulting dependence of CSI on completing the merger to provide the financing to execute its business plan;

the expenses to be incurred in connection with, and liabilities of Replidyne to be assumed following, the merger and related administrative challenges associated with combining the companies; and

various other risks associated with the combined company and the merger, including the risks described in the section entitled Risk Factors in this proxy statement/prospectus.

The foregoing information and factors considered by the CSI special committee and board of directors are not intended to be exhaustive but set forth the principal factors considered by the CSI special committee and board of directors. In view of the wide variety of factors considered in connection with its evaluation of the merger and the complexity of these matters, the CSI special committee and board of directors did not find it useful, and did not attempt, to quantify, rank or otherwise assign relative weights to these factors. In considering the factors described above, individual members of the CSI special committee and board of directors may have given different weight to different factors. The CSI special committee and board of directors conducted an overall analysis of the factors described above, including thorough discussions with, and questioning of, CSI management and legal advisors, and considered the factors overall to be favorable to, and to support, their determinations.

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Opinion of Replidyne s Financial Advisor

On May 9, 2007, Replidyne retained Morgan Stanley & Co. Incorporated, or Morgan Stanley, to act as its exclusive financial advisor and provide a financial opinion letter in connection with a possible merger or sale of or business combination involving Replidyne or a partnership between Replidyne and one or more parties for licensing of one or more products of Replidyne s lead product candidate, faropenem. Replidyne s board of directors selected Morgan Stanley to act as its exclusive financial advisor based on Morgan Stanley s qualifications, expertise and reputation and its familiarity with Replidyne. At a meeting of Replidyne s board of directors held on November 3, 2008, Morgan Stanley rendered its oral opinion, subsequently confirmed in writing, that, as of that date of and based upon and subject to the various assumptions, qualifications and limitations set forth in the opinion, the conversion factor pursuant to the merger agreement was fair from a financial point of view to Replidyne.

The full text of Morgan Stanley s opinion, dated November 3, 2008, which sets forth, among other things, the assumptions made, procedures followed, matters considered and qualifications and limitations on the scope of the review undertaken by Morgan Stanley in rendering its opinion, is included as *Annex D* to this proxy statement/prospectus. The summary of Morgan Stanley s fairness opinion set forth in this proxy statement/prospectus is qualified in its entirety by reference to the full text of the opinion. Replidyne stockholders should read this opinion carefully and in its entirety. Morgan Stanley s opinion was directed to the board of directors of Replidyne and only addresses the fairness from a financial point of view of the conversion factor to Replidyne as of the date of the opinion. Morgan Stanley s opinion does not address any other aspect of the proposed merger. Morgan Stanley expressed no opinion or recommendation as to how the stockholders of Replidyne or CSI should vote at the stockholders meetings to be held in connection with the merger.

In connection with rendering its opinion, Morgan Stanley, among other things:

- reviewed certain publicly available financial statements and other business and financial information of CSI and Replidyne, respectively;
- reviewed certain internal financial statements and other financial and operating data, including certain financial projections, concerning Replidyne prepared by the management of Replidyne;
- reviewed certain financial projections concerning CSI prepared by the management of CSI;
- discussed the past and current operations and financial condition and the prospects of CSI with senior executives of CSI;
- reviewed the reported prices and trading activity for Replidyne common stock;
- compared the financial performance of CSI with that of certain other publicly traded companies comparable with CSI, and their securities;
- reviewed the financial terms, to the extent publicly available, of certain comparable acquisition transactions;
- participated in certain discussions and negotiations among representatives of CSI and Replidyne and their legal advisors;

reviewed the merger agreement in the form of a draft dated November 2, 2008, the CSI preferred stockholder conversion agreement in the form of a draft dated October 28, 2008 and certain related documents; and

performed such other analyses and considered such other factors as Morgan Stanley deemed appropriate.

In arriving at its opinion, Morgan Stanley assumed and relied upon, without independent verification, the accuracy and completeness of the information that was publicly available or supplied or otherwise made available to it by CSI and Replidyne for the purposes of its opinion. With respect to the financial projections prepared by the respective managements of Replidyne and CSI, Morgan Stanley assumed that they had been reasonably prepared on bases reflecting the best currently available estimates and judgments of the respective managements of CSI and Replidyne of the future financial performance of CSI and Replidyne. In addition, Morgan Stanley assumed that the merger will be consummated in accordance with the terms set forth in the merger agreement without any waiver, amendment or delay of any terms or conditions, including, among other things, that the merger will be treated as a

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tax-free reorganization pursuant to the Internal Revenue Code of 1986, as amended. Morgan Stanley assumed that, in connection with the receipt of all the necessary governmental, regulatory or other approvals and consents required for the merger, no delays, limitations, conditions or restrictions will be imposed that would have a material adverse effect on the contemplated benefits expected to be derived in the merger. Morgan Stanley relied upon, without independent verification, the assessment by the managements of Replidyne or CSI of:

- their ability to retain key employees of CSI; and
- the validity of, and risks associated with, CSI s existing and future technologies, intellectual property, products, services and business models.

Morgan Stanley is not a legal, tax or regulatory advisor. Morgan Stanley is a financial advisor only and has relied upon, without independent verification, the assessment of Replidyne and CSI and their legal, tax or regulatory advisors with respect to legal, tax and regulatory matters. Morgan Stanley s opinion only addresses the fairness from a financial point of view of the conversion factor to Replidyne as of the date of the opinion. Morgan Stanley expressed no opinion with respect to the fairness of the amount or nature of the compensation to any of CSI s officers, directors or employees, or any class of such persons, relative to the consideration to be paid to holders of the shares of CSI common stock in the transaction. Morgan Stanley did not make any independent valuation or appraisal of the assets or liabilities of CSI or Replidyne, nor was Morgan Stanley furnished with any such appraisals. Morgan Stanley s opinion did not address the relative merits of the merger as compared to any other alternative business transaction, or other alternatives, including without limitation, the potential liquidation of Replidyne, or whether or not such alternatives could be achieved or are available. Morgan Stanley s opinion was necessarily based on financial, economic, market and other conditions as in effect on, and the information made available to Morgan Stanley as of, November 3, 2008. Events occurring after November 3, 2008 may affect this opinion and the assumptions used in preparing it, and Morgan Stanley has not assumed any obligation to update, revise or reaffirm its opinion.

The opinion was for the information of Replidyne s board of directors in connection with the merger. In addition, Morgan Stanley s opinion did not in any manner address the prices at which Replidyne common stock will trade following consummation of the merger and expressed no opinion or recommendation as to how the stockholders of Replidyne or CSI should vote at the stockholders meetings to be held in connection with the merger.

Valuation Methods and Analyses

The following is a summary of the material financial analyses performed by Morgan Stanley in connection with its oral opinion and the preparation of its written opinion letter dated November 3, 2008. The various analyses summarized below were based on closing prices for the common stock of Replidyne as of October 31, 2008, the last full trading day preceding the day of the special meeting of the Replidyne board of directors to consider and approve, adopt and authorize the merger agreement, the merger and the issuance of shares of Replidyne common stock to the stockholders of CSI. Although each analysis was provided to the Replidyne board of directors, in connection with arriving at its opinion, Morgan Stanley considered all of its analyses as a whole and did not attribute any particular weight to any analysis described below. Some of these summaries of financial analyses include information presented in tabular format. In order to fully understand the financial analyses used by Morgan Stanley, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses used by Morgan Stanley.

Implied Value of the Equity of the Combined Company Based on Replidyne s Share Price

Based on Replidyne s 27.280 million fully diluted shares outstanding and the share price of Replidyne common stock of $1.12, both as of the close of market on October 31, 2008, and by dividing Replidyne s fully diluted equity value by

the 17% equity ownership percentage of the combined company held by Replidyne s equity holders, Morgan Stanley calculated an implied value of the equity of the combined company of $180 million.

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Implied Value of the Equity of the Combined Company Based on Replidyne s Net Assets

Based on Replidyne s net assets at the closing of the merger of $37 million to $40 million, and by dividing Replidyne s net assets at the closing of the merger by the 17% equity ownership percentage of the combined company held by Replidyne s equity holders, Morgan Stanley calculated an implied value of the equity of the combined company in the range of $218 million to $235 million.

Comparable Company Analysis

Morgan Stanley performed a comparable company analysis, which attempts to provide a range of implied aggregate values for CSI s equity and the combined company s net cash at the closing of the merger, which is referred to as the implied pro forma equity value for CSI, by comparing it to similar companies. Morgan Stanley reviewed the market values and trading multiples of the following 10 publicly held companies in the cardiovascular medical device industry that Morgan Stanley deemed comparable to CSI, as well as the following five other publicly held growth companies in the medical technology industry:

Cardiovascular Medical Device Industry Comparables

Abiomed, Inc.

AngioDynamics Inc.

Edwards Lifesciences Corp.

ev3, Inc.

Hansen Medical, Inc.

Micrus Endovascular Corp.

The Spectranetics Corporation

Thoratec Corp.

VNUS Medical Technologies Inc.

Volcano Corp.

Other Medical Technology Industry Comparables

Conceptus, Inc.

Insulet Corporation

NuVasive, Inc.

Somanetics Corp.

TranS1, Inc.

All multiples were based on closing stock prices on October 31, 2008. Estimated financial data for the selected companies were based on public filings and publicly available equity research analysts estimates, as aggregated by the Institutional Brokers Estimate System. Estimated financial data for CSI were based on CSI management projections.

For each of the comparable companies, Morgan Stanley calculated the following:

Aggregate Value, which is defined as market value of common equity plus debt, less cash.

Aggregate Value/LQA Revenue, which is defined as the ratio of Aggregate Value to the annualized value of the last quarter s revenue.

Aggregate Value/LQA Gross Profit, which is defined as the ratio of Aggregate Value to the annualized value of the last quarter s gross profit.

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Aggregate Value/2008E Revenue, which is defined as the ratio of Aggregate Value to estimated revenue for calendar year 2008.

Aggregate Value/2009E Revenue, which is defined as the ratio of Aggregate Value to estimated revenue for calendar year 2009.

Aggregate Value/2010E Revenue, which is defined as the ratio of Aggregate Value to estimated revenue for calendar year 2010.

Based on the analysis of the relevant metrics for each of the comparable companies, Morgan Stanley selected representative ranges of financial multiples of the comparable companies and applied these ranges of multiples to the relevant CSI financial statistic. For purposes of estimated calendar years 2008, 2009 and 2010 CSI estimates, Morgan Stanley utilized CSI management projections. Based on the combined company s expected capitalization as a result of the merger, Morgan Stanley calculated the estimated implied pro forma equity value of CSI as of October 31, 2008 as follows:

Financial Statistic	Comparable Company Representative Multiple Range	Implied Pro Forma Equity Value of CSI ($ millions)
Aggregate Value/LQA Revenue	3.6x-5.8x	$ 201-$307
Aggregate Value/LQA Gross Profit	4.8x-8.4x	$ 183-$298
Aggregate Value/2008E Revenue	3.8x-5.8x	$ 189-$273
Aggregate Value/2009E Revenue	1.4x-3.2x	$ 163-$332
Aggregate Value/2010E Revenue	1.2x-2.3x	$ 249-$449

Morgan Stanley noted that based on Replidyne s number of fully diluted shares outstanding and the share price of Replidyne common stock, both as of the close of market on October 31, 2008, the implied value of the equity of the combined company is $180 million and based on Replidyne s net assets at the closing of the merger of $37 million to $40 million, the implied value of the equity of the combined company is in the range of $218 million to $235 million.

Although the foregoing companies were compared to CSI for purposes of this analysis, Morgan Stanley noted that no company used in the comparable company analysis is identical to CSI because of differences between the business mix, markets served, operations, and other characteristics of CSI and the comparable companies. In evaluating the comparable companies, Morgan Stanley relied on publicly available equity research analyst estimates, which estimates are based in part on judgments and assumptions with regard to industry performance, general business, economic, market and financial conditions, and other matters, many of which are beyond the control of CSI, such as the impact of competition on the business of CSI, as well as on the industry generally, industry growth, and the absence of any adverse material change in the financial condition and prospects of CSI or the industry or in the markets generally. Mathematical analysis, such as determining the average or median, is not in itself a meaningful method of using comparable company data.

Analysis of Precedent Transactions

Morgan Stanley performed a precedent transactions analysis, which is designed to imply a range of equity values of a company based on publicly available financial terms of selected transactions involving companies with some similarities to CSI. In connection with its analysis, Morgan Stanley compared publicly available statistics for six

selected cardiovascular medical device transactions announced between April 30, 2007 and September 25, 2008

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in which the target company was publicly traded and transaction values were between $100 million and $2.025 billion. The transactions, listed by month and year of announcement and target/acquirer, were:

Date	Target/Acquirer
9/25/08	Cryocath Technologies Inc./Medtronic, Inc.
9/16/08	Datascope Corp./Getinge AB
2/11/08	Possis Medical, Inc./MEDRAD Inc. (Bayer Healthcare)
7/23/07	Arrow International Inc./Teleflex Medical
7/22/07	FoxHollow Technologies, Inc./ev3, Inc.
4/30/07	Enpath Medical Inc./Greatbatch Inc.

For each transaction listed above, Morgan Stanley noted the following financial statistics where available:

the ratio of the aggregate value of the transaction to the annualized value of the last quarter s revenue; and

the ratio of the aggregate value of the transaction to the next 12 months estimated revenue.

Based on the analysis of the relevant metrics for each transaction listed above, Morgan Stanley selected representative ranges of implied financial multiples of the transactions and applied these ranges of financial multiples to the relevant financial statistic for CSI. For purposes of estimated next 12 months CSI estimates, Morgan Stanley utilized quarterly projections for the quarter ending December 31, 2008 and the following three quarters provided by CSI management. The following table summarizes Morgan Stanley s analysis:

Precedent Transactions Financial Statistic	Representative Range	Implied Pro Forma Equity Value of CSI ($ millions)
Aggregate Value/LQA Revenue	2.7x-3.9x	$ 159-$218
Aggregate Value/FTM Revenue	3.0x-3.9x	$ 250-$318

Morgan Stanley noted that based on Replidyne s number of fully diluted shares outstanding and the share price of Replidyne common stock, both as of the close of market on October 31, 2008, the implied value of the equity of the combined company is $180 million and based on Replidyne s net assets at the closing of the merger of $37 million to $40 million, the implied value of the equity of the combined company is in the range of $218 million to $235 million.

No company or transaction utilized in the precedent transactions analysis is identical to CSI or the merger. In evaluating the precedent transactions, Morgan Stanley made judgments and assumptions with regard to general business, market and financial conditions and other matters, which are beyond the control of CSI, such as the impact of competition on the business of CSI or the industry generally, industry growth and the absence of any adverse material change in the financial condition of CSI or the industry or in the financial markets in general, which could affect the public trading value of the companies and the equity value of the transactions to which they are being compared.

Discounted Cash Flow Analysis

Morgan Stanley performed a discounted cash flow analysis of the projected unlevered free cash flows of CSI for calendar years 2009 through 2013, based on forecasts prepared by the management of CSI. Morgan Stanley calculated

implied pro forma equity values of CSI common stock by using estimated discount rates ranging from 7% to 11% and multiples of estimated 2013 revenue ranging from 1x to 2x. Based on selected ranges of multiples and discount rates, this analysis yielded an implied equity valuation range of approximately $321 million to $662 million.

Morgan Stanley noted that based on Replidyne s number of fully diluted shares outstanding and the share price of Replidyne common stock, both as of the close of market on October 31, 2008, the implied value of the equity of the combined company is $180 million and based on Replidyne s net assets at the closing of the merger of $37 million to $40 million, the implied value of the equity of the combined company is in the range of $218 million to $235 million.

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The valuation stated above is not necessarily indicative of CSI s respective actual, present or future value or results, which may be more or less favorable than suggested by this type of analysis.

General

In connection with the review of the merger and the issuance of shares of Replidyne common stock to CSI stockholders by Replidyne s board of directors, Morgan Stanley performed a variety of financial and comparative analyses for purposes of rendering its opinion. The preparation of a fairness opinion is a complex process and is not necessarily susceptible to a partial analysis or summary description. In arriving at its opinion, Morgan Stanley considered the results of all of its analyses as a whole and did not attribute any particular weight to any particular analysis or factor it considered. Morgan Stanley believes that selecting any portion of its analyses, without considering all analyses as a whole, would create an incomplete view of the process underlying its analyses and opinion. In addition, Morgan Stanley may have given various analyses and factors more or less weight than other analyses and factors, and may have deemed various assumptions more or less probable than other assumptions. As a result, the ranges of valuations resulting from any particular analysis described above should not be taken to be Morgan Stanley s view of the actual value of CSI or Replidyne. In performing its analysis, Morgan Stanley made numerous assumptions with respect to industry performance, general business and economic conditions and other matters. Many of these assumptions are beyond the control of CSI or Replidyne. Any estimates contained in Morgan Stanley s analyses are not necessarily indicative of future results or actual values, which may be significantly more or less favorable than suggested by such estimates.

Morgan Stanley conducted the analyses described above solely as part of its analysis of the fairness of the conversion factor pursuant to the merger agreement from a financial point of view to Replidyne and in connection with the delivery of its opinion dated November 3, 2008 to Replidyne s board of directors. These analyses do not purport to be appraisals or to reflect the prices at which shares of common stock of Replidyne or CSI might naturally trade.

The conversion factor pursuant to the merger agreement was determined through arm s-length negotiations between Replidyne and CSI and was approved by Replidyne s board of directors. Morgan Stanley provided advice to Replidyne during these negotiations. Morgan Stanley did not, however, recommend any specific consideration to Replidyne or its board of directors or that any specific consideration constituted the only appropriate consideration for the merger.

Morgan Stanley s opinion was one of many factors taken into consideration by Replidyne s board of directors in deciding to approve the merger and the issuance of shares of Replidyne common stock to CSI stockholders. Consequently, the analyses as described above should not be viewed as determinative of the opinion of Replidyne s board of directors with respect to the conversion factor or of whether Replidyne s board of directors would have been willing to agree to different consideration. The foregoing summary describes the material analyses performed by Morgan Stanley but does not purport to be a complete description of the analyses performed by Morgan Stanley.

Replidyne s board of directors retained Morgan Stanley based upon Morgan Stanley s qualifications, experience and expertise. Morgan Stanley is an internationally recognized investment banking and advisory firm. Morgan Stanley s securities business is engaged in securities underwriting, trading and brokerage activities, foreign exchange, commodities and derivatives trading, prime brokerage, as well as providing investment banking, financing and financial advisory services. Morgan Stanley, its affiliates, directors and officers may at any time invest on a principal basis or manage funds that invest, hold long or short positions, finance positions, and may trade or otherwise structure and effect transactions, for their own account or the accounts of its customers, in debt or equity securities or loans of Replidyne, CSI, or any other company, or any currency or commodity, that may be involved in the merger, or any related derivative instrument.

Under the terms of its engagement letter, Morgan Stanley provided Replidyne financial advisory services and a financial opinion in connection with the merger, and Replidyne has agreed to pay Morgan Stanley a customary fee for its services, a portion of which was payable upon the execution of the merger agreement and the remainder of which is contingent upon the consummation of the merger. Replidyne has also agreed to reimburse Morgan Stanley for its fees and expenses, including attorneys fees, incurred in connection with its services. In addition, Replidyne has agreed to indemnify Morgan Stanley and any of its affiliates, their respective directors, officers, agents and

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employees and each person, if any, controlling Morgan Stanley or any of its affiliates against certain liabilities and expenses, including certain liabilities under the federal securities laws relating to or arising out of its engagement and any related transactions. In the past, Morgan Stanley and its affiliates have provided financial advisory and financing services for Replidyne and CSI and have received fees from Replidyne for the rendering of these services to Replidyne. Other than the fees disclosed above, since November 3, 2006, Morgan Stanley has not received any investment banking fees from Replidyne or its affiliates.

Officers and Directors of the Combined Company Following the Merger

The following table lists the names and ages as of December 31, 2008, and positions of the individuals who are expected to serve as directors and executive officers of Replidyne upon completion of the merger:

Name	Age	Position
David L. Martin	44	President, Chief Executive Officer and Director
Laurence L. Betterley	54	Chief Financial Officer
James E. Flaherty	55	Chief Administrative Officer and Secretary
John Borrell	41	Vice President of Sales
Brian Doughty	45	Vice President of Marketing
Robert J. Thatcher	54	Executive Vice President
Paul Tyska	51	Vice President of Business Development
Paul Koehn	46	Vice President of Manufacturing
Edward Brown	45	Director
Brent G. Blackey	50	Director
John H. Friedman	55	Director
Geoffrey O. Hartzler	62	Director
Roger J. Howe	65	Director
Augustine Lawlor	52	Director
Glen D. Nelson	71	Director
Gary M. Petrucci	67	Director

Interests of Replidyne s Executive Officers and Directors in the Merger

In considering the recommendation of the Replidyne board of directors with respect to issuing shares of Replidyne common stock as contemplated by the merger agreement, Replidyne stockholders should be aware that certain members of the board of directors and executive officers of Replidyne have interests in the merger that are different from, or in addition to, their interests as Replidyne stockholders. These interests relate to or arise from, among other things:

- severance benefits to which each of Donald Morrissey, Kenneth Collins and Mark Smith would become entitled in the event of a change of control of Replidyne and/or his termination of employment within specific periods of time relative to the consummation of the merger;
- retention transaction bonuses to which each of Donald Morrissey and Mark Smith would become entitled in the event of such officers continued employment with Replidyne through consummation of the merger;
- the accelerated vesting of certain stock options held by the Replidyne executive officers and non-employee board members in connection with the consummation of the merger; and

the agreement that two Replidyne directors will continue to serve on the board of directors of the combined company following the consummation of the merger.

Except with respect to the transactions described herein that occurred subsequent to such decisions, each of the Replidyne and CSI boards of directors and the CSI special committee were aware of these potential conflicts of interest and considered them, among other matters, in reaching their respective decisions to approve the merger

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agreement and the merger, and to recommend that their respective securityholders approve the Replidyne and CSI proposals, as applicable.

Ownership Interests

As of December 31, 2008, all directors and executive officers of Replidyne, together with their affiliates, beneficially owned approximately 35% of the shares of Replidyne common stock. The affirmative vote of the holders of a majority of the votes cast in person or by proxy at the Replidyne special meeting is required for approval of Replidyne Proposal Nos. 1, 4, 5 and 6 and the affirmative vote of a majority of Replidyne issued and outstanding shares of common stock is required for approval of Proposal Nos. 2 and 3. Directors, and their affiliates, have also entered into voting agreements in connection with the merger. For a more detailed discussion of the voting agreements see the section entitled Other Agreements Related to the Merger Voting Agreements in this proxy statement/prospectus.

Employment Agreements with Executive Officers

On April 4, 2006, Replidyne entered into employment agreements with each of Donald Morrissey, Kenneth Collins and Mark Smith. These employment agreements were amended on June 15, 2007. Pursuant to the employment agreements, if the executive s employment is terminated without cause or terminated by the executive for good reason within one month before or 13 months following a change of control, then the executive will be entitled to the following additional benefits:

- the equivalent of 12 months (or 18 months with respect to Mr. Collins) of the executive s base salary as in effect immediately prior to the date of termination;
- reimbursement for the cost of continued medical insurance coverage through the end of this 12 month period (or 18 month period with respect to Mr. Collins) or if earlier, the date on which the executive obtains alternative group health insurance; and
- acceleration of vesting of all of the executive s outstanding unvested options to purchase Replidyne common stock, except that 100,000 stock options granted to each of Messrs. Collins, Smith and Morrissey in March 2008 vest solely at the discretion of the board of directors.

In addition, if the executive officer s employment is terminated without cause or terminated by him for good reason within one month before or 13 months following a change of control of Replidyne, then he would be entitled to payment of a bonus equal to the average of his annual bonus for the two years prior to such termination (or one and a half times the average of his annual bonus for the two years prior to such termination with respect to Mr. Collins). Any such change of control bonuses are paid at the same time as bonuses are paid pursuant to Replidyne s bonus policy.

The executives employment agreements also provide for severance benefits in the event of the executive s termination that is not in connection with a change of control. Replidyne may terminate the executive at any time with or without cause. However, if the executive s employment is terminated without cause or terminated by the executive for good reason, then the executive shall be entitled to receive a severance package consisting of:

- the equivalent of 12 months (or 18 months with respect to Mr. Collins) of the executive s base salary as in effect immediately prior to the date of termination; and
- reimbursement for the cost of continued medical insurance coverage through the end of this 12 month period (or 18 month period with respect to Mr. Collins) or, if earlier, the date on which the executive obtains

alternative group health insurance.

Retention Bonus Agreements with Replidyne s Chief Financial Officer and its Senior Vice President, Corporate Development

On March 31, 2008, Replidyne entered into a retention bonus agreement with each of Mark Smith, Replidyne s Chief Financial Officer, and Donald Morrissey, Replidyne s Senior Vice President, Corporate Development. Pursuant to the terms of the retention bonus agreements, Replidyne paid each of Mr. Smith and Mr. Morrissey a cash

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bonus in the amount of $100,000 in October 2008 because such executives remained employed by Replidyne through September 30, 2008. The retention bonus agreements provide for an additional cash bonus to each of Mr. Smith and Mr. Morrissey in an amount of not less than $100,000 and not greater than $150,000, which final amount will be determined by Replidyne s board of directors in its sole discretion, provided that the executive remains employed by Replidyne through the consummation of a strategic transaction. For purposes of the retention bonus agreements, a strategic transaction is defined as, subject to the sole discretion of Replidyne s board of directors, (i) a strategic alliance or partnership with an unaffiliated third party that relates to the development and commercialization of faropenem medoxomil or (ii) another strategic transaction to which Replidyne is a party.

The retention bonus agreements extend until ten days following the consummation of a strategic transaction, subject to certain conditions. The retention bonus agreements do not affect the terms of the employment agreements that Replidyne has entered into with Mr. Smith and Mr. Morrissey.

Amounts Payable to Replidyne Executive Officers Upon Consummation of the Merger

The consummation of the merger will constitute a change of control for purposes of the amended employment agreements. Assuming that Replidyne s board of directors deems the merger to be a strategic transaction for purposes of the retention bonus agreements, set forth below is an estimate of the sum of the value of the change of control, severance and retention payments that would become payable to Messrs. Morrissey, Collins and Smith under the amended employment agreements or retention bonus agreements, as applicable, assuming the consummation of the merger and a termination of each executive s employment as of December 31, 2008, and excluding the value of any accelerated vesting and/or exerciseability of stock awards. The amounts shown also assume that the executives did not receive a bonus for fiscal year 2008 when calculating the change of control bonuses payable to such executives pursuant to the terms of their amended employment agreements. The amounts shown are in addition to the information shown in the next table regarding the accelerated vesting of stock options.

Name of Executive Officer	Estimate of Severance Payments and Change of Control Payments Pursuant to Employment Agreements	Estimate of Retention Payments Pursuant to Retention Bonus Agreements	Total
Kenneth Collins	$ 564,375	N/A	$ 564,375
Mark Smith	$ 317,400	$ 250,000(1)(2)	$ 567,400
Donald Morrissey	$ 286,800	$ 250,000(1)(2)	$ 536,800

(1) This amount includes a cash bonus of $100,000 paid to this executive in October 2008 pursuant to the terms of his retention bonus agreement which provides for such bonus in the event the executive remained employed with Replidyne through September 30, 2008.

(2) This amount assumes a cash bonus of $150,000 payable to this executive upon consummation of a strategic transaction per the terms of such executive s retention bonus agreement.

Separation Agreement and Consulting Agreement with Replidyne s Former Chief Scientific Officer

On December 8, 2008, Replidyne entered into a separation agreement with Dr. Nebojsa Janjic, pursuant to which Replidyne and Dr. Janjic agreed to terminate the employment of Dr. Janjic as Replidyne s Chief Scientific Officer. Pursuant to the terms of Dr. Janjic s separation agreement, Replidyne paid to Dr. Janjic a lump sum payment of $290,000, which was the equivalent of twelve months of his base salary in effect immediately prior to his termination. Replidyne also agreed to pay Dr. Janjic (i) a bonus in the amount of $50,000 within 10 days following the consummation of a strategic transaction to which Replidyne is a party and (ii) a bonus in the amount of $50,000 within 10 days following the sale by Replidyne of its preclinical programs for a defined minimum purchase price, provided such sale occurs prior to the completion of a strategic transaction to which Replidyne is a party. For purposes of the separation agreement, a strategic transaction means, subject to the sole discretion of the Replidyne board of directors, a strategic transaction to which Replidyne is a party. In addition, Replidyne also agreed to pay the premiums of group health insurance COBRA continuation coverage for Dr. Janjic and his eligible

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dependents up to a maximum period of twelve months from his termination date, with certain exceptions. As consideration for the benefits of the separation agreement, Dr. Janjic executed a full general release of claims against Replidyne and its affiliates.

On December 9, 2008, Replidyne entered into a consultant agreement with Dr. Janjic. Pursuant to Dr. Janjic s consultant agreement, Dr. Janjic will advise and consult with Replidyne with respect to the divestment of Replidyne s preclinical programs, finalization of previously initiated studies currently in progress related to these programs and close-out of Replidyne s laboratory facilities. Dr. Janjic will also perform such other services that relate to his areas of expertise and which Replidyne s executive officers believe would be beneficial to Replidyne.

Pursuant to Dr. Janjic s consultant agreement, Replidyne has agreed to pay Dr. Janjic an amount equal to $10,000 for each full month of consulting services rendered to Replidyne by him during the period from the effective date of the consultant agreement until the consummation of the merger with CSI (not to exceed a period of three months), subject to pro ration for partial months of service. For any hours in excess of forty hours per month during this initial consulting period, and during the period from March 9, 2009 through June 9, 2009, Dr. Janjic will be compensated at a rate of $300 per hour. In addition, the stock options previously granted to Dr. Janjic during his employment with Replidyne shall continue to vest for so long as Dr. Janjic continues to provide continuous service (as defined in Replidyne s 2006 Equity Incentive Plan) to Replidyne. Dr. Janjic s consultant agreement also provides that, in the event that Replidyne consummates a change in control (as defined in Replidyne s 2006 Equity Incentive Plan), prior to the termination date of the consultant agreement, Dr. Janjic s outstanding stock options shall become fully vested and exercisable.

Dr. Janjic s consultant agreement terminates on June 9, 2009, provided that the consultant agreement will automatically terminate immediately upon just cause (as defined in the consultant agreement), or the consummation of a change in control (as defined in Replidyne s 2006 Equity Incentive Plan). The merger will constitute a change of control for purposes of the consultant agreement.

Stock Options

Each of the executive officers and non-employee directors of Replidyne holds options to purchase shares of Replidyne common stock that were granted under the Replidyne 2006 Equity Incentive Plan, as amended. Each stock option grant typically vests in a series of installments over a set number of years, with certain exceptions. In March 2008, Replidyne granted each of Messrs. Collins, Smith and Morrissey and Dr. Janjic stock options to purchase 200,000 shares of Replidyne common stock, each with an exercise price of $1.86 per share, in two separate grants. One grant of 100,000 stock options vests monthly over a four year period. The other grant of 100,000 stock options will vest in full, solely at the discretion of Replidyne s board of directors, immediately prior to the consummation of a strategic transaction. All of these March 2008 option grants provide that the executive officers have three years from the date of termination of such executive s service to Replidyne to exercise any vested shares underlying the grants instead of the standard three month exercise period for all other options held by the executives. With the exception of the March 2008 grant of 100,000 options that will vest in full solely at the discretion of Replidyne s board of directors immediately prior to the consummation of a strategic transaction, all other stock options held by these executives will vest in full upon the occurrence of a change of control pursuant to the terms of the amended employment agreements.

With respect to the non-employee directors, the vesting of all options held by such directors shall accelerate in full immediately prior to effective time of a change of control transaction and such options shall terminate if not exercised at a time prior to such effective time.

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The following table shows the total number of stock options held as of December 31, 2008 by each executive officer and non-employee director of Replidyne. These options to purchase Replidyne common stock have exercise prices ranging between $0.613 and $10.00 per share.

Name	Total Options Held	Vested	Unvested	Weighted Average Exercise Price per Share
Donald Morrissey	404,192	133,106	271,086	$ 2.804
Mark L. Smith	453,131	170,277	282,854	$ 3.755
Kenneth J. Collins(1)(2)	626,263	181,450	444,813	$ 3.109
Nebojsa Janjic(3)	428,661	108,679	319,982	$ 3.022
Kirk K. Calhoun(2)	32,625	24,469	8,156	$ 2.369
Geoffrey Duyk(2)	32,625	21,750	10,875	$ 6.708
Daniel Mitchell(2)	32,625	21,750	10,875	$ 6.708
Edward Brown	24,469	8,610	15,859	$ 4.097
Augustine Lawlor	32,625	21,750	10,875	$ 6.708

(1) This executive officer is also a director of Replidyne.

(2) This director will not serve on the board of directors of the combined company following the merger.

(3) Dr. Janjic s employment with Replidyne ceased as of December 8, 2008.

Combined Company s Board of Directors After the Merger

Following the merger, the combined company will initially have a nine member board of directors that will include two individuals from the Replidyne board of directors, Edward Brown and Augustine Lawlor. Each of the other current Replidyne directors will resign effective as of the closing of the merger.

Limitations of Liability and Indemnification

In addition to the indemnification required in Replidyne s governing documents, Replidyne s officers and directors have entered into indemnification agreements with Replidyne. The merger agreement provides that, for a period of six years following the consummation of the merger, the combined company will maintain in effect Replidyne s current directors and officers liability insurance policy with respect to matters occurring prior to the effective date of the merger. In addition, the merger agreement provides that Replidyne shall maintain directors and officers liability insurance policies commencing at the effective date of the merger, with coverage limits customary for U.S. public companies similarly situated to Replidyne.

Interests of CSI s Executive Officers and Directors in the Merger

In considering the recommendation of the CSI special committee and board of directors with respect to adopting the merger agreement, CSI stockholders should be aware that certain members of the board of directors and executive

officers of CSI have interests in the merger that may be different from, or in addition to, interests they may have as CSI stockholders or the interests of other CSI stockholders. As discussed below, certain of CSI s directors and executive officers hold options to purchase CSI common stock that will be assumed in the merger. Certain of CSI s directors, including Messrs. Blackey, Friedman, Nelson and Petrucci and Ms. Wyskiel, hold or are affiliates of CSI investors that hold shares of CSI s convertible preferred stock, whose interest may be different from the interests of the CSI common stockholders. Each of the Replidyne and CSI boards of directors and the CSI special committee were aware of these potential conflicts of interest and considered them, among other matters, in reaching their respective decisions to approve the merger agreement and the merger, and to recommend that their respective securityholders approve the Replidyne and CSI proposals, as applicable.

Ownership Interests

As of December 31, 2008, all directors and executive officers of CSI, together with their affiliates, beneficially owned approximately 28% of the shares of CSI capital stock. CSI cannot complete the merger unless the merger

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agreement is adopted by the affirmative vote of (a) the holders of a majority of the outstanding shares of CSI common stock and CSI convertible preferred stock, voting as a single class on an as-converted basis, and (b) the holders of a majority of the outstanding shares of CSI convertible preferred stock, voting as a single class on an as-converted basis and including the shares of CSI convertible preferred stock held by entities affiliated with Easton Capital Investment Group and entities affiliated with Maverick Capital, Ltd. Certain CSI officers and directors, and their affiliates, have entered into voting agreements in connection with the merger, and have executed and delivered irrevocable proxies to approve the merger. For a more detailed discussion of the voting agreements see Other Agreements Related to the Merger Voting Agreements.

Stock Options

At the effective time of the merger, each outstanding stock option to purchase CSI common stock not exercised prior to the merger will be assumed by Replidyne and become exercisable for such number of shares of Replidyne common stock as is determined by multiplying the number of shares of CSI common stock that were subject to such stock option immediately prior to the effective time by the company share conversion factor and rounding the resulting number down to the nearest whole number of shares of Replidyne common stock, and at a per share exercise price as is determined by dividing the existing exercise price of the option by the company share conversion factor and rounding the resulting exercise price up to the nearest whole cent.

The table below sets forth, as of December 31, 2008, information with respect to options held by each of CSI s current executive officers and directors.

Name	Total Options Held	Vested	Unvested	Weighted Average Exercise Price per Share
Executive Officers:				
David L. Martin(1)	1,225,000	501,667	723,333	$ 6.30
Laurence L. Betterley				
James E. Flaherty	203,000	98,333	104,167	$ 6.59
Michael J. Kallok, Ph.D.(1)(2)	783,215	683,215	100,000	$ 7.35
John Borrell	309,000	116,334	192,666	$ 6.34
Paul Tyska	225,000	105,000	120,000	$ 6.09
Robert J. Thatcher	243,000	135,000	108,000	$ 7.01
Directors:				
John H. Friedman	90,000	70,000	20,000	$ 6.14
Geoffrey O. Hartzler, M.D.	199,809	199,809		$ 8.00
Roger J. Howe, Ph.D.	272,775	272,775		$ 7.34
Brent G. Blackey	70,000	30,000	40,000	$ 5.11
Glen D. Nelson, M.D.	75,000	75,000		$ 6.67
Gary M. Petrucci	476,161	476,161		$ 7.50
Christy Wyskiel(2)	90,000	70,000	20,000	$ 6.09

(1) These executive officers are also directors of CSI.

(2) This director will not serve on the board of directors of the combined company following the merger.

Combined Company s Board of Directors After the Merger

Following the merger, the combined company will initially have a nine member board of directors, comprised of two individuals from the Replidyne board of directors, Edward Brown and Augustine Lawlor, and seven individuals who are currently members of the CSI board of directors, Brent G. Blackey, John H. Friedman, Geoffrey O. Hartzler, Roger J. Howe, David L. Martin, Glen D. Nelson and Gary M. Petrucci.

Summary of Potential Payments in Connection with the Merger

CSI has entered into employment agreements and stock option agreements with each of its executive officers. Stock options to purchase an aggregate of 775,000 shares of CSI common stock, which would have expired if CSI

did not complete an initial public offering or a change of control transaction before December 31, 2008, were amended by the CSI board to provide for vesting of 50% of the options on the first anniversary, and 50% of the options on the second anniversary, of the closing of the merger.

Certain of CSI s stock option and restricted stock agreements provide that in the event of a change of control (the sale by CSI of substantially all of its assets and the consequent discontinuance of its business, or in the event of a merger, exchange or liquidation of CSI), the vesting of all options and shares of restricted stock will accelerate and the options will be immediately exercisable as of the effective date of the change of control. Excluding the options to purchase 775,000 shares of CSI common stock described in the previous paragraph, CSI s executive officers are the holders of unvested options to purchase 791,167 shares of CSI common stock and 75,000 shares of unvested restricted stock that are subject to a stock option or restricted stock agreement that contains this provision. It is a condition to the closing of the merger that CSI obtain an acknowledgement in a form reasonably acceptable to Replidyne from the holders of these options and shares of restricted stock that the terms of the option or restricted stock agreements related thereto do not provide that the vesting of such securities will accelerate, in whole or in part, in connection with or as a result of the consummation of the merger and the other transactions contemplated by the merger agreement.

Limitations of Liability and Indemnification

In addition to the indemnification required in Replidyne s governing documents, the CSI directors who will become directors of the combined company will enter into indemnification agreements with the combined company. CSI believes that these indemnification agreements are necessary to attract and retain qualified persons as directors.

The merger agreement provides that, for a period of six years following the consummation of the merger, the combined company will maintain in effect a directors and officers liability insurance policy covering the directors and officers of CSI, with coverage in amount and scope at least as favorable as the insurance policies maintained by CSI with respect to matters occurring prior to the effective date of the merger. In addition, the merger agreement provides that Replidyne shall maintain directors and officers liability insurance policies commencing at the effective date of the merger, with coverage limits customary for U.S. public companies similarly situated to Replidyne.

CSI Stock Options

Each outstanding option to purchase shares of CSI common stock that is not exercised prior to the effective time of the merger will be assumed by Replidyne at the effective time of the merger in accordance with the terms of the CSI option plan under which the option was issued and the terms of the stock option agreement by which the option is evidenced, including the vesting terms. Each assumed option will become an option to purchase shares of Replidyne common stock. The number of shares of Replidyne common stock subject to each assumed option will be determined by multiplying the number of shares of CSI common stock underlying the option prior to the effective time of the merger by a conversion factor determined pursuant to the merger agreement. Any resulting fractional shares will be rounded down to the nearest whole number of shares of Replidyne common stock. The per share exercise price for the assumed options will be determined by dividing the per share exercise price of the option as in effect immediately prior to the effective time of the merger by the conversion factor and rounding that result up to the nearest whole cent.

CSI Warrants

CSI has issued warrants to purchase shares of its preferred stock and its common stock. Each outstanding warrant to purchase shares of CSI preferred stock will, immediately prior to the effective time of the merger, be converted into a warrant to purchase shares of CSI common stock concurrently with the conversion of all outstanding shares of CSI preferred stock into shares of CSI common stock described below. Each outstanding warrant to purchase shares of CSI common stock will then be assumed by Replidyne at the effective time of the merger in accordance with its terms

and will become a warrant to purchase shares of Replidyne common stock. The number of shares of Replidyne common stock subject to each assumed warrant will be determined by multiplying

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the number of shares of CSI common stock that was subject to each warrant prior to the effective time of the merger by a conversion factor determined pursuant to the merger agreement. Any resulting fractional shares will be rounded down to the nearest whole number of shares of Replidyne common stock. The per share exercise price for the assumed warrants will be determined by dividing the per share exercise price of the warrant as in effect immediately prior to the effective time of the merger by the conversion factor and rounding that result up to the nearest whole cent.

CSI Preferred Stock

Concurrently with the execution of the merger agreement, the holders of approximately 68% of CSI s outstanding preferred stock, calculated on an as-converted to common stock basis, entered into an agreement with CSI pursuant to which all outstanding shares of CSI preferred stock will be automatically converted into shares of CSI common stock, effective as of immediately prior to the effective time of the merger. For further discussion regarding the terms of the conversion of all shares of CSI preferred stock into shares of CSI common stock, see Other Agreements Related to the Merger CSI Preferred Stockholder Conversion Agreement.

Regulatory Approvals

As of the date of this proxy statement/prospectus, neither Replidyne nor CSI is required to obtain approvals or clearances from any antitrust regulatory authorities in the United States or other countries to consummate the merger. In the United States, Replidyne must comply with applicable federal and state securities laws and the rules and regulations of Nasdaq, in connection with the issuance of shares of Replidyne common stock in the merger and the filing of a registration statement, of which this proxy statement/prospectus is a part, with the SEC. As of the date hereof, the registration statement has not become effective. Replidyne and CSI have filed an initial listing application with the Nasdaq Global Market pursuant to Nasdaq s reverse merger rules to effect the initial listing of Replidyne common stock issuable in connection with the merger.

Appraisal and Dissenters Rights

Under Delaware law, holders of Replidyne common stock are not entitled to appraisal rights in connection with the merger.

If the merger is completed, CSI stockholders as of the record date who do not vote in favor of the merger and continue to hold CSI common stock at the effective time of the merger, will, by complying with the dissenters rights procedures set forth in the Minnesota Business Corporation Act, or the MBCA, be entitled to receive an amount equal to the fair value of their shares. A copy of MBCA Sections 302A.471 and 302A.473 is attached to this document as *Annex F*. The discussion in this section is qualified in its entirety by the reference to *Annex F*. CSI stockholders intending to exercise dissenters rights should carefully review *Annex F*. Failure to follow precisely any of the statutory procedures set forth in *Annex F* may result in a termination or waiver of these rights. This summary does not constitute legal or other advice, nor does it constitute a recommendation that CSI stockholders exercise their dissenters rights under the MBCA.

Before the CSI stockholder vote on the merger is taken, a CSI stockholder who desires to exercise dissenters rights must notify CSI, in writing, of an intent to demand the fair value of the shares owned by that stockholder if the merger is effected. A stockholder who would like to exercise dissenters rights must not vote in favor of the merger. Dissenters rights must be exercised with respect to all, and not less than all, of a CSI stockholder s shares.

CSI will send to each dissenting stockholder a notice, after the merger is approved, containing the address to which a demand for payment and the dissenting stockholder s stock certificate(s) must be sent and the date by which they must be received, a form to be used by the stockholder to demand payment, and a copy of MBCA Sections 302A.471 and

302A.473 and a brief description of the procedures to be followed under those sections. The dissenting stockholder is required to demand payment and deposit the stockholder s CSI stock certificates with CSI within 30 days after such notice is given.

Following receipt of a dissenting stockholder s demand for payment, CSI will remit to the dissenting stockholder the amount CSI deems to be the fair value of the dissenter s shares plus interest, along with certain

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CSI financial information, a description of the method used by CSI to determine the fair value of the shares, copies of the applicable provisions of the MBCA and a description of the procedures to be followed by the dissenting stockholder to demand supplemental payment. Under the MBCA, the fair value of the shares is the value of the shares immediately before the effective date of the merger.

If a dissenting stockholder believes that the amount remitted by CSI was less than the fair value of the shares plus interest, the stockholder, within 30 days after CSI mails the remittance, may give written notice to CSI of the stockholder s estimate of the fair value plus interest and demand payment of the difference. Within 60 days of receiving such notice, CSI will either pay the amount demanded by the dissenting stockholder or file a petition with the Minnesota district court requesting that the court determine the fair value of the CSI shares. The fair value of CSI shares determined by the court will be binding on all stockholders. You should be aware that the fair value of your shares as determined by the court could be more than, the same as or less than the value that you are entitled to receive under the terms of the merger agreement. The costs and expenses of such court proceeding will be assessed against CSI, except that the court may assess part or all of those costs and expenses against a dissenting stockholder whose action in demanding a supplemental payment is found to be arbitrary, vexatious or not in good faith.

Failure to follow the steps required by the MBCA to dissent may result in the loss of dissenters rights. In view of the complexity of the MBCA, stockholders who may wish to dissent from the merger and pursue dissenters rights should consult their legal advisors.

Material U.S. Federal Income Tax Consequences of the Merger

The following discussion summarizes the material U.S. federal income tax consequences of the merger that are expected to apply generally to CSI stockholders upon an exchange of their CSI capital stock for Replidyne common stock and cash in lieu of fractional shares of Replidyne common stock. This summary is based upon current provisions of the Internal Revenue Code of 1986, as amended, or the Code, existing Treasury Regulations, and current administrative rulings and court decisions, all of which are subject to change and to differing interpretations, possibly with retroactive effect. Any change could alter the tax consequences to Replidyne, CSI, or the stockholders of CSI, as described in this summary. This summary is not binding on the Internal Revenue Service, or the IRS, and there can be no assurance that the IRS (or a court, in the event of an IRS challenge) will agree with the conclusions stated herein. No ruling has been or will be requested from the IRS in connection with the merger. The discussion below does not address the following: the tax consequences of the merger under U.S. federal non-income tax laws or under state, local, or foreign tax laws; the tax consequences of transactions effectuated before, after, or at the same time as the merger, whether or not they are in connection with the merger, including, without limitation, transactions in which CSI shares are acquired or Replidyne shares are disposed of; the tax consequences to holders of options issued by CSI that are assumed, replaced, exercised, or converted, as the case may be, in connection with the merger; the tax consequences of the receipt of Replidyne shares other than in exchange for CSI shares; or the tax consequences for holders of CSI preferred stock of their conversion of CSI preferred stock, their receipt of warrants issued by CSI, or their receipt of warrants issued by Replidyne in the merger.

No attempt has been made to comment on all U.S. federal income tax consequences of the merger that may be relevant to particular holders of CSI capital stock that are subject to special treatment under U.S. federal income tax laws, including, without limitation:

- dealers, brokers and traders in securities;
- foreign persons or entities;
- tax-exempt entities;

financial institutions, regulated investment companies, real estate investment trusts or insurance companies;

partnerships or limited liability companies that are not treated as corporations for U.S. federal income tax purposes, subchapter S corporations and other pass-through entities and investors in such entities;

holders who are subject to the alternative minimum tax provisions of the Code;

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holders who acquired their shares in connection with stock option or stock purchase plans or in other compensatory transactions;

holders who hold shares that constitute small business stock within the meaning of Section 1202 of the Code;

holders with a functional currency other than the U.S. dollar;

holders who hold their shares as part of an integrated investment such as a hedge or as part of a hedging, straddle or other risk reduction strategy; or

holders who do not hold their shares as capital assets within the meaning of Section 1221 of the Code (generally, property held for investment will be a capital asset).

Accordingly, holders of CSI capital stock are advised and expected to consult their own tax advisors regarding the U.S. federal income tax consequences of the merger in light of their personal circumstances and the consequences of the merger under U.S. federal non-income tax laws and state, local, and foreign tax laws.

It is a condition to the consummation of the transaction that each of Fredrikson & Byron, P.A., outside counsel to CSI, and Cooley Godward Kronish LLP, outside counsel to Replidyne, render a tax opinion to their respective clients to the effect that the merger will qualify as a reorganization pursuant to Section 368(a) of the Code. The tax opinion of Fredrikson & Byron, P.A., and the tax opinion of Cooley Godward Kronish LLP, discussed in this section are each conditioned upon certain assumptions stated in their respective tax opinions and certain customary representations being delivered by CSI, Responder Merger Sub, Inc., and Replidyne. Whether counsel to CSI and counsel to Replidyne can render such opinions also depends on certain facts that cannot be known on the date hereof including, in particular, the percentage of CSI capital stock held by CSI stockholders, if any, who properly perfect dissenters rights and the value of the Replidyne stock and warrants issued to CSI stockholders pursuant to the merger. If the percentage of CSI capital stock exchanged for cash due to the exercise of dissenters rights is sufficiently high, and depending on certain other factors, the merger would not qualify as a reorganization and counsel would be unable to render such tax opinions. Pursuant to the terms of the merger agreement, the condition that Replidyne and CSI receive such tax opinions may be waived by the applicable party. If counsel to CSI or counsel to Replidyne is unable to render such a tax opinion and the merger will not qualify as a reorganization pursuant to Section 368(a) of the Code, Replidyne and CSI each currently anticipate that they would waive the condition that such a tax opinion be delivered. In the event of such a waiver, CSI will resolicit the consent of its stockholders and provide them with updated information regarding the material federal income tax consequences to them as a result of the merger.

In addition, stockholders of CSI should be aware that as the tax opinions discussed in this section are not binding on the IRS, the IRS could adopt a contrary position and a contrary position could be sustained by a court. In addition, if any of the representations or assumptions upon which the closing tax opinions of Fredrikson & Byron, P.A., and Cooley Godward Kronish LLP are based are inconsistent with the actual facts, the tax consequences of the merger could be adversely affected. Assuming that the merger will be treated for U.S. federal income tax purposes as a reorganization within the meaning of Section 368 of the Code, the following material U.S. federal income tax consequences will result:

Replidyne, Responder Merger Sub, Inc., CSI and the Replidyne stockholders will not recognize any gain or loss solely as a result of the merger;

CSI stockholders will not recognize any gain or loss upon receipt of solely Replidyne common stock in exchange for their CSI capital stock, other than with respect to cash received in lieu of fractional shares of

Replidyne common stock;

the aggregate tax basis of the shares of Replidyne common stock received by a CSI stockholder in the merger (including any fractional share deemed received, as described below) will be equal to the aggregate tax basis of the shares of CSI capital stock surrendered in exchange therefor;

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the holding period of the shares of Replidyne common stock received by a CSI stockholder in the merger (including any fractional share deemed received as described below) will include the holding period of the shares of CSI capital stock surrendered in exchange therefor; and

generally, cash payments received by CSI stockholders in lieu of fractional shares of Replidyne common stock will be treated as if such fractional shares were issued in the merger and then redeemed by Replidyne for cash resulting in a recognition of gain or loss equal to the difference, if any, between the stockholder s basis in the fractional share and the amount of cash received. The gain or loss recognized by stockholders will be a capital gain and will be long term capital gain if the stockholder s holding period for his, her, or its CSI capital stock is more than one year.

CSI stockholders that owned at least one percent (by vote or value) of the total outstanding stock of CSI or CSI stock with a tax basis of $1 million or more are required to attach a statement to their tax returns for the year in which the merger is completed that contains the information listed in Treasury Regulations Section 1.368-3(b). Such statement must include the stockholder s tax basis in the stockholder s CSI capital stock and the fair market value of such stock.

For purposes of the above discussion of the bases and holding periods for shares of CSI capital stock and Replidyne common stock, stockholders who acquired different blocks of CSI capital stock at different times for different prices must calculate their basis, gains and losses, and holding periods separately for each identifiable block of such stock exchanged, converted, canceled or received in the merger.

The above discussion does not apply to CSI stockholders who properly perfect dissenters rights. Generally, a CSI stockholder who perfects dissenters rights with respect to such stockholder s shares of CSI capital stock will recognize capital gain or loss equal to the difference between such stockholder s tax basis in those shares and the amount of cash received in exchange for those shares.

Certain noncorporate CSI stockholders may be subject to backup withholding, at a rate of 28%, on cash received pursuant to the merger. Backup withholding will not apply, however, to a CSI stockholder who (i) furnishes a correct taxpayer identification number and certifies that the CSI stockholder is not subject to backup withholding on IRS Form W-9 or a substantially similar form, (ii) provides a certification of foreign status on an appropriate Form W-8 or successor form, or (iii) is otherwise exempt from backup withholding. If a CSI stockholder does not provide a correct taxpayer identification number on IRS Form W-9 or a substantially similar form, the CSI stockholder may be subject to penalties imposed by the IRS. Amounts withheld, if any, are generally not an additional tax and may be refunded or credited against the CSI stockholder s U.S. federal income tax liability, provided that the CSI stockholder timely furnishes the required information to the IRS.

Anticipated Accounting Treatment

The merger will be treated as an acquisition of the net assets of Replidyne in accordance with U.S. generally accepted accounting principles, or GAAP. For accounting purposes, CSI is considered to be acquiring the net assets of Replidyne in this transaction. Therefore, in accordance with GAAP, the aggregate consideration paid in connection with the merger will be allocated to Replidyne s tangible and intangible assets and liabilities based on their fair market values. These allocations will be based upon management s estimates and an evaluation of the fair value of assets and liabilities acquired.

Effects on CSI s Exchange Act Registration

On October 28, 2008, CSI filed a registration statement on Form 10 with the SEC to register its common stock under Section 12(g) of the Securities Exchange Act of 1934, or the Exchange Act, due to CSI exceeding 500 record holders of its common stock as of June 30, 2008. This registration statement became effective on December 29, 2008, at which time CSI became subject to the reporting requirements of the Exchange Act. Upon completion of the merger, registration of CSI common stock under the Exchange Act will be terminated, and CSI will be relieved of its

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obligation to comply with the reporting requirements of the Exchange Act. However, the combined company will remain subject to the reporting requirements applicable to Replidyne and will continue to file periodic reports.

Vote Required; Recommendation of Replidyne Board of Directors

The affirmative vote of the holders of a majority of the Replidyne common stock casting votes in person or by proxy at the Replidyne special meeting is required to approve the issuance of Replidyne common stock pursuant to the Agreement and Plan of Merger and Reorganization, dated November 3, 2008, by and among Replidyne, Responder Merger Sub, Inc. and CSI.

A failure to submit a proxy card or vote at the special meeting, or an abstention, vote withheld or broker non-vote will have no effect on the outcome of Replidyne Proposal No. 1.

REPLIDYNE S BOARD OF DIRECTORS RECOMMENDS THAT REPLIDYNE STOCKHOLDERS VOTE FOR REPLIDYNE PROPOSAL NO. 1 TO APPROVE THE ISSUANCE OF REPLIDYNE COMMON STOCK PURSUANT TO THE AGREEMENT AND PLAN OF MERGER AND REORGANIZATION, DATED NOVEMBER 3, 2008, BY AND AMONG REPLIDYNE, RESPONDER MERGER SUB, INC. AND CSI.

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THE MERGER AGREEMENT

The following description describes the material terms of the merger agreement. This description of the merger agreement is qualified in its entirety by reference to the full text of the merger agreement which is attached as Annex A to this proxy statement/prospectus, and incorporated herein by reference. The merger agreement has been included to provide you with information regarding their terms. We encourage you to read the entire merger agreement. For purposes of the merger agreement, reference to CSI shall include each subsidiary of CSI unless the context requires otherwise. The merger agreement is not intended to provide any other factual information about Replidyne or CSI. Such information can be found elsewhere in this proxy statement/prospectus and the other public filings of Replidyne and CSI made with the SEC, which are available without charge at www.sec.gov.

The merger agreement contains representations and warranties that Replidyne and Responder Merger Sub, Inc., on the one hand, and CSI, on the other hand, have made to one another as of specific dates. These representations and warranties have been made for the benefit of the other parties to the merger agreement and may be intended not as statements of fact but rather as a way of allocating the risk to one of the parties if those statements prove to be incorrect. In addition, the assertions embodied in the representations and warranties are qualified by information in confidential disclosure schedules exchanged by the parties in connection with signing the merger agreement. While Replidyne and CSI do not believe that these disclosure schedules contain information required to be publicly disclosed under the applicable securities laws, other than information that has already been so disclosed, the disclosure schedules do contain information that modifies, qualifies and creates exceptions to the representations and warranties set forth in the attached merger agreement. Accordingly, you should not rely on the representations and warranties as current characterizations of factual information about Replidyne or CSI, because they were made as of specific dates, may be intended merely as a risk allocation mechanism between Replidyne and merger sub and CSI and are modified by the disclosure schedules.

General

Replidyne, CSI, and Responder Merger Sub, Inc., a Minnesota corporation and wholly owned subsidiary of Replidyne, entered into an Agreement and Plan of Merger dated as of November 3, 2008, which, unless otherwise indicated, is referred to in this proxy statement/prospectus as the merger agreement. The merger agreement contains the terms and conditions of the proposed business combination of Replidyne and CSI. Pursuant to the merger agreement, on the terms and conditions set forth therein, Responder Merger Sub, Inc. will be merged with and into CSI, with CSI surviving the merger as a wholly owned subsidiary of Replidyne.

Closing of the Merger

The closing of the transactions contemplated by the merger agreement will occur no later than the fifth business day after the last of the conditions to the transaction have been satisfied or waived. Concurrently with, or as soon as practicable after the closing, CSI will file articles of merger with the Secretary of State of the State of Minnesota. The transaction will become effective upon the filing of these articles of merger or at another time as may be designated by Replidyne and CSI and specified in the articles of merger.

Merger Consideration

At the effective time of the merger, each share of CSI capital stock not held as treasury stock or held owned by CSI shall be converted into a right to receive a number of shares of Replidyne common stock equal to the conversion factor. The conversion factor shall equal: (i) (A) the number of surviving Replidyne securities divided by the

Replidyne post-closing stockholder ownership percentage, minus (B) the number of surviving Replidyne securities, divided by (ii) the number of converting CSI securities.

For purposes of determining the conversion factor:

converting CSI securities means, as of immediately prior to the effective time of the merger, the sum of (i) the issued and outstanding shares of CSI common stock as of such time and (ii) shares of CSI common stock that are subject to any issued and outstanding subscription, option, call, warrant, right or other convertible security (whether or not vested) exchangeable or exercisable for any shares of CSI common

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stock as of such time, calculated in accordance with the treasury method of accounting for options and warrants based on an implied share price that assigns a value to CSI of $195,000,000. This calculation will assume the conversion of all shares of CSI preferred stock into shares of CSI common stock and the issuance of warrants to purchase 3,500,000 shares of CSI common stock to the holders of CSI preferred stock in connection with such conversion.

surviving Replidyne securities means, as of immediately prior to the effective time of the merger and following the reverse stock split, the sum of (i) the issued and outstanding shares of Replidyne common stock as of such time and (ii) shares of Replidyne common stock that are subject to any issued and outstanding subscription, option, call, warrant, right or other convertible security (whether or not currently vested, provided that in the event that the vesting of any such shares shall cease upon the effective time of the merger as a result of the transactions contemplated by the merger agreement or the termination of the employment of the holder as of the effective time of the merger, any such unvested shares shall be excluded from the calculation of surviving Replidyne securities) exchangeable or exercisable for any shares of Replidyne common stock as of such time, calculated in accordance with the treasury method of accounting for options and warrants based on an implied share price using the Replidyne pre-closing equity valuation.

Replidyne pre-closing equity valuation shall mean Replidyne s net assets at the closing of the merger plus, to the extent that Replidyne s net assets at the closing of the merger are less than $40,000,000, the lesser of (i) the difference between $40,000,000 and Replidyne s net assets at the closing of the merger and (ii) $3,000,000.

Replidyne post-closing stockholder ownership percentage means the Replidyne pre-closing equity valuation divided by the Replidyne post-closing equity valuation.

Replidyne post-closing equity valuation means the Replidyne pre-closing equity valuation plus $195,000,000.

net assets means, as of any particular date, without repetition or duplication: (a) Replidyne s total current assets as of such date (as determined in accordance with United States generally accepted accounting principles) plus (b) the specified assets minus (c) Replidyne s total liabilities as of such date (as determined in accordance with United States generally accepted accounting principles), including, to the extent not accrued as a liability and not paid by Replidyne prior to such date, without duplication, (i) the cash cost of any change of control payments, severance payments (including any obligations that Replidyne has to reimburse COBRA costs of former employees) or payments under Section 280G of the Internal Revenue Code that are payable or expected to become payable as a result of the merger and the transactions contemplated by the merger agreement, (ii) amounts owed or expected to become due to Replidyne s legal counsel and financial advisor in connection with the merger agreement and the transactions contemplated by the merger agreement and (iii) any outstanding and future financial obligations owed by Replidyne in respect of certain contracts and employee benefit plans of Replidyne set forth in the merger agreement.

specified assets means (i) the deemed value at such date of any non-cash consideration received by Replidyne pursuant to a transaction entered into by Replidyne in connection with the divestment by Replidyne of its pre-clinical programs and other non-cash assets, as calculated in accordance with the terms of the merger agreement; (ii) any amounts paid on or prior to such date or payable after such date by Replidyne in satisfaction of its obligations under the merger agreement to purchase directors and officers insurance policies; and (iii) the amount of cash paid to CSI stockholders with respect to fractional shares in connection with the conversion of such shares of CSI capital stock into shares of Replidyne common stock in connection with the merger to the extent paid on or prior to such date or accrued as a total current liability of Replidyne as of such date.

For purposes of the definitions of surviving Replidyne securities and converting CSI securities that are set forth in the merger agreement, the number of outstanding shares is calculated using the treasury method of accounting for options and warrants. The treasury method is a means of adjusting the number of shares that a company is considered to have outstanding to reflect shares that are subject to outstanding options and warrants. The treasury method assumes that the proceeds that a company receives from an option or warrant exercise in which such option

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or warrant has an exercise price that is less than the fair market value of the underlying shares (often referred to as an option or warrant that is in-the-money) are used to repurchase shares in the open market. The total number of shares that are considered to be outstanding through operation of the treasury method is therefore the sum of (i) the number of outstanding shares plus (ii) the difference between (A) the number of shares that may be purchased pursuant to in-the-money options or warrants and (B) the number of shares that the company can purchase from the market with the proceeds from these in-the-money options or warrants.

Pursuant to the terms of the merger agreement, CSI and Replidyne have agreed upon a methodology to determine the conversion factor as defined above. The conversion factor shall be determined as of immediately prior to the effective time of the merger and is subject to change based upon Replidyne s net assets as of such time, and the number of shares of CSI and Replidyne capital stock outstanding and issuable upon exercise of outstanding options and warrants each as calculated in accordance with the terms of the merger agreement. For illustrative purposes only, below is a table that sets forth several levels of net assets for Replidyne as of the closing of the merger, and the conversion factor and aggregate post-closing ownership percentage in the combined company for the stockholders, optionholders and warrantholders of each of Replidyne and CSI that would result based on each such level of net assets, in each case calculated in accordance with the terms of the merger agreement and assuming that the capitalization of both Replidyne and CSI is as of October 31, 2008, except that the acceleration of vesting of certain outstanding options to purchase Replidyne common stock that is expected to occur upon the consummation of the merger is assumed to have occurred for purposes of this calculation.

Net Assets	Conversion Factor	Replidyne Securityholder Ownership Percentage in the Combined Company	CSI Securityholder Ownership Percentage in the Combined Company
$41,000,000	6.304	17.4%	82.6%
40,000,000	6.460	17.0%	83.0%
37,000,000	6.460	17.0%	83.0%
36,000,000	6.624	16.7%	83.3%
35,000,000	6.797	16.3%	83.7%
34,000,000	6.979	15.9%	84.1%
33,000,000	7.172	15.6%	84.4%

The foregoing table is presented for illustrative purposes only. The conversion factor is subject to the variables described above and will not be calculated until immediately prior to the effective time of the merger. Replidyne cannot assure you that its level of net assets as of the effective time of the merger will fall within the range set forth in this table. The conversion factor is subject to proportionate adjustment to account for the effect of the reverse stock split of Replidyne s issued and outstanding common stock.

Assumption of CSI Stock Options and Warrants

Following the conversion of all outstanding warrants to purchase shares of CSI preferred stock into warrants to purchase shares of CSI common stock as described in this proxy statement/prospectus, each option and warrant to purchase CSI common stock outstanding at the effective time of the merger shall be assumed by Replidyne. Each such option or warrant shall be converted into an option or warrant, as applicable, to acquire that number of shares of Replidyne common stock equal to the product obtained by multiplying (i) the number of shares of CSI common stock

subject to such option or warrant by (ii) the conversion factor, rounded down to the nearest whole share of Replidyne common stock. Each such option or warrant shall have a purchase price per share of Replidyne common stock equal to the quotient obtained by dividing (i) the per share purchase price of CSI common stock subject to such option or warrant by (ii) the conversion factor rounded up to the nearest whole cent. Each such option or warrant shall otherwise be subject to the same terms and conditions (including as to vesting and exercisability) as were applicable under the respective option or warrant to purchase CSI common stock immediately prior to the effective time of the merger.

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Fractional Shares

No fractional shares of Replidyne common stock will be issuable pursuant to the merger to CSI stockholders. Instead, each CSI stockholder who would otherwise be entitled to receive a fraction of a share of Replidyne common stock, after aggregating all fractional shares of Replidyne common stock issuable to such stockholder, will be entitled to receive in cash the dollar amount, rounded to the nearest whole cent, without interest, determined by multiplying such fraction by the closing price of a share of Replidyne common stock as quoted on the Nasdaq Global Market, on the date the merger becomes effective.

Exchange of CSI Stock Certificates

The merger agreement provides that, at the effective time of the merger, Replidyne will deposit with an exchange agent selected by Replidyne and CSI stock certificates representing the shares of Replidyne common stock issuable to the CSI stockholders and a sufficient amount of cash to make payments in lieu of fractional shares.

Promptly after the effective time of the merger, the exchange agent will mail to each record holder of CSI capital stock immediately prior to the effective time of the merger a letter of transmittal and instructions for surrendering and exchanging the record holder s CSI stock certificates for shares of Replidyne common stock. Upon surrender of a CSI stock certificate for exchange to the exchange agent, together with a duly signed letter of transmittal and such other documents as the exchange agent or Replidyne may reasonably require, the CSI stock certificate surrendered will be cancelled and the holder of the CSI stock certificate will be entitled to receive the following:

a certificate representing the number of whole shares of Replidyne common stock that such holder has the right to receive pursuant to the provisions of the merger agreement; and

cash in lieu of any fractional share of Replidyne common stock.

If any CSI stock certificate has been lost, stolen or destroyed, Replidyne may, in its discretion, and as a condition to the delivery of any shares of Replidyne common stock, require the owner of such lost, stolen or destroyed certificate to deliver an affidavit claiming such certificate has been lost, stolen or destroyed and post a bond indemnifying Replidyne against any claim that may be made against Replidyne with respect to such certificate.

From and after the effective time of the merger, until it is surrendered, each CSI stock certificate will be deemed to represent only the right to receive shares of Replidyne common stock, and cash in lieu of any fractional share of Replidyne common stock. No dividends or other distributions with respect to Replidyne common stock with a record date after the effective time of the merger shall be paid or otherwise delivered to the holder of any unsurrendered CSI stock certificate with respect to the shares of Replidyne common stock that such holder has a right to receive in the merger until such holder surrenders such CSI stock certificate.

Certificate of Incorporation and Bylaws of Replidyne

The merger agreement provides that Replidyne stockholders must approve, as a condition to closing the merger, an amendment to Replidyne s restated certificate of incorporation to effect a reverse stock split of the issued and outstanding shares of Replidyne common stock and change the name of the company from Replidyne, Inc. to Cardiovascular Systems, Inc., which requires the affirmative vote of holders of a majority of Replidyne s issued and outstanding common stock as of the record date for the special meeting. Upon the effectiveness of the amendment to Replidyne s restated certificate of incorporation, the outstanding shares of Replidyne common stock will be

reclassified and combined into a lesser number of shares such that one share of Replidyne common stock will be issued for a specified number of shares, which shall be greater than one and equal to or less than 50, of outstanding Replidyne common stock, with the exact number within the range to be determined by the mutual agreement of Replidyne and CSI prior to the effective time of such amendment. As applicable Nasdaq Global Market initial listing standards require Replidyne to have, among other things, a $4.00 per share minimum bid price, the reverse stock split is necessary in order to consummate the merger.

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The merger agreement also provides that Replidyne will use commercially reasonable efforts to amend and restate its bylaws in a form reasonably acceptable to Replidyne and CSI.

Conditions to the Completion of the Merger

In addition to the approval and filing and effectiveness of the amendment of Replidyne s restated certificate of incorporation, each party s obligation to complete the merger is subject to the satisfaction or waiver by each of the parties, at or prior to the merger, of various conditions, which include the following:

all representations and warranties of the other party in the merger agreement must be true and correct on the date of the merger agreement and as of the closing date of the merger as if made on the closing date, or as of a particular date if such representations and warranties address matters as of that particular date, disregarding materiality qualifications limiting the scope of representations and warranties; except that such inaccuracies will be disregarded if they collectively would not reasonably be expected to have a material adverse effect (as discussed in the section of this proxy statement/prospectus entitled The Merger Agreement Material Adverse Effect) on the party making the representations and warranties;

all of the covenants and obligations contained in the merger agreement that Replidyne, Responder Merger Sub, Inc., and CSI are required to comply with or to perform at or prior to the closing shall have been complied with and performed in all material respects;

the registration statement on Form S-4, of which this proxy statement/prospectus is a part, must have been declared effective by the SEC in accordance with the Securities Act and must not be subject to any SEC stop order or proceeding or threatened proceeding seeking a stop order;

the initial listing application on the Nasdaq Global Market shall have been conditionally approved, and the shares of Replidyne common stock to be issued in the merger shall be conditionally approved for listing on the Nasdaq Global Market, both subject only to the completion of the merger and completion by Replidyne of any reverse stock split required by Nasdaq;

since the signing of the merger agreement, there shall not have occurred and be continuing any material adverse effect with respect to the other party, and no event shall have occurred or circumstance shall exist that, in combination with any other events or circumstances, would reasonably be expected to have or result in a material adverse effect with respect to the other party;

the requisite stockholders of Replidyne must have approved the amendment of Replidyne s restated certificate of incorporation and the issuance of the Replidyne common stock pursuant to the merger agreement and the requisite stockholders of CSI must have approved the merger and adopted the merger agreement;

the other party to the merger agreement must have received all required third-party and governmental consents, and such consents must be in full force and effect at the closing of the merger;

the other party must have delivered certain certificates and other documents required under the merger agreement for the closing of the merger;

no temporary restraining order, preliminary or permanent injunction or other order preventing the consummation of the merger shall have been issued by any court of competent jurisdiction or other governmental body and remain in effect, and there shall not be any legal requirement enacted or deemed

applicable to the merger that makes consummation of the merger illegal;

Replidyne shall have terminated certain outstanding agreements specified by CSI and provided confirmation of such terminations reasonably acceptable to CSI;

CSI shall have obtained an acknowledgement from certain holders of options to purchase shares of CSI common stock and shares of CSI restricted stock that the terms of the option agreements and restricted stock agreements related thereto do not provide that the vesting of such securities accelerate, in whole or in part, in connection with or as a result of the consummation of the merger and the other transactions contemplated by the merger agreement; and

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there shall be no pending or threatened any legal proceeding in which a governmental body is or is threatened to become a party:

challenging or seeking to restrain or prohibit the consummation of the merger or any of the transactions contemplated by the merger agreement;

relating to the merger or any of the transactions contemplated by the merger agreement and seeking to obtain from Replidyne or CSI any damages or other relief that would reasonably be expected to be material to Replidyne or CSI;

seeking to prohibit or limit in any material respect Replidyne s ability to vote, transfer, receive dividends with respect to or otherwise exercise ownership rights with respect to the stock of the surviving corporation;

that could materially and adversely affect the right or ability of Replidyne or CSI to own any of the assets or operate the business of CSI;

seeking to compel any of CSI or Replidyne or any subsidiary of Replidyne to dispose of or hold separate any material assets or business as a result of the merger or any of the transactions contemplated by the merger agreement; or

seeking to impose (or that could result in the imposition of) any criminal sanctions or liability on Replidyne or CSI.

Conduct of Business Prior to the Merger

Except as set forth in the disclosure schedules to the merger agreement, Replidyne has agreed that it will (i) conduct its business in the ordinary course, by taking actions relating to the sale or disposition of assets and payment of liabilities in connection with winding up its business, or otherwise as necessary to maximize stockholder value and (ii) in compliance with all applicable legal requirements and the requirements of all material contracts.

Except as set forth in the disclosure schedules to the merger agreement, CSI has agreed that it will (i) conduct its business and operations in the ordinary course and in compliance with all applicable legal requirements and the requirements of all material contracts and (ii) preserve intact its current business organization, keep available the services of its current officers and other employees and maintain its relations and goodwill with all suppliers, customers, landlords, creditors, licensors, licensees, employees and other persons having business relationships with CSI.

Except as set forth in the disclosure schedules to the merger agreement, or, in the case of CSI, in the ordinary course, both Replidyne and CSI have also agreed that they will refrain from doing any of the following prior to the effectiveness of the merger without the prior written consent of the other party (which shall not be unreasonably withheld, conditioned or delayed):

declare, accrue, set aside or pay any dividend or made any other distribution in respect of any shares of its capital stock, or repurchase, redeem or otherwise reacquire any shares of its capital stock or other securities;

subject to limited exceptions, sell, issue, grant or authorize the issuance of (i) any capital stock or other securities; (ii) any option, call or right to acquire any capital stock or any other security; (iii) any instrument convertible into or exchangeable for any capital stock or other security; or (iv) any additional grants or shares

under its equity incentive plans;

amend or waive any of its rights under, or permit the acceleration of vesting under, its equity incentive plans, any stock options or agreement evidencing or relating to any outstanding stock option or warrant, any restricted stock purchase agreement, or any other contract evidencing or relating to any equity award;

amend its any of its constituent documents or effect or become a party to any acquisition transaction, recapitalization, reclassification of shares, stock split, reverse stock split or similar transaction;

form any subsidiary or acquire any equity interest or other interest in any other entity;

make any capital expenditure which, in the case of CSI, when added to all other capital expenditures made on behalf of CSI, exceeds $250,000;

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(i) enter into, or permit any of the assets owned or used by it to become bound by, any contract that contemplates or involves (A) the payment or delivery of cash or other consideration, in an amount or having a value in excess of $250,000 in the aggregate, in the case of CSI, or (B) the purchase or sale of any product, or performance of services by or to such party, that in the case of CSI, is outside the ordinary course and has a value in excess of $250,000 in the aggregate, or (ii) waive any right or remedy under any contract that, in the case of CSI, is outside of the ordinary course, or amend or prematurely terminate any contract;

acquire, lease or license any right or other asset from any other person, sell or otherwise dispose of, or lease or license, any right or other asset to any other person, or waive or relinquish any right, except for, in the case of CSI, immaterial rights or immaterial assets acquired, leased, licensed or disposed of in the ordinary course;

write off as uncollectible, or establish any extraordinary reserve with respect to, any account receivable or other indebtedness;

make any pledge of any of its assets or otherwise permit any of its assets to become subject to any encumbrance, except for, in the case of CSI, pledges of immaterial assets made in the ordinary course;

lend money to any person (other than pursuant to routine travel advances made to employees in the ordinary course), incur or guarantee any indebtedness for borrowed money (except, in the case of CSI, in amounts that are not in excess of $250,000 in the aggregate and other than draws under CSI s credit facilities in effect on the date of the merger agreement) or issue or sell any debt securities or options, warrants, calls or similar rights to acquire any debt securities of such party;

establish or adopt any employee benefit plan, pay any bonus or make any profit sharing, incentive compensation or similar payment to, or increase the amount of the wages, salary, commissions, fringe benefits or other compensation or remuneration payable to, any of its directors, officers or certain specified employees (except for payments made pursuant to any compensation plans in effect on the date of the merger agreement), or hire any new employee having, in the case of CSI, an annual salary in excess of $250,000;

change any of its personnel policies or other business policies, or any of its methods of accounting or accounting practices in any respect;

make any material tax election;

change any of its methods of accounting or accounting practices in any respect;

threaten, commence, settle or become subject to any legal proceeding;

pay, discharge or satisfy any claim, liability or obligation (absolute, accrued, asserted or unasserted, contingent or otherwise) other than the payment, discharge or satisfaction of non-material amounts in the ordinary course or as required by any contract or legal requirement;

in the case of Replidyne, enter into any transaction or taken any other action outside of the sale or disposition of assets and payment of liabilities in connection with winding up its business, other than entering into the merger agreement and the transactions contemplated by the merger agreement;

amend or prematurely terminate, or waive any material right or remedy under, any contract; or

agree to take, or commit to take, any of the above-referenced actions.

Notwithstanding the limitations set forth above:

CSI shall be entitled to consummate a qualified financing, as described below;

CSI shall not, without the prior written consent of Replidyne, issue options, warrants or other rights to acquire any capital stock or other securities, other than equity incentive awards issued under CSI s 2007 Equity Incentive Plan, or the CSI 2007 Plan, to employees of and consultants to CSI in the ordinary course that (i) do not cause the total number of shares subject to awards under the CSI 2007 Plan to exceed the number of shares reserved for issuance under the CSI 2007 Plan as of the date of the merger agreement and (ii) if such award requires exercise by the holder, have an exercise price not less than the fair market value of a share of CSI common stock on the applicable grant date; and

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Replidyne shall be entitled to take all action it deems appropriate in order to divest itself, whether by acquisition, liquidation or otherwise, of its pre-clinical programs and other non-cash assets; provided that Replidyne shall not, without the written consent of CSI (which may be withheld at the discretion of CSI), consummate or enter into any binding agreement to consummate any transaction to divest itself of such programs or other assets if Replidyne would incur any material obligations or liabilities that would survive the closing of the merger.

Limitation on Soliciting, Discussing or Negotiating Other Acquisition Proposals

Pursuant to the merger agreement, each of Replidyne and CSI agreed that, except as described below, they will not, during the pre-closing period, directly or indirectly:

solicit, initiate, knowingly encourage, induce or knowingly facilitate the communication, making, submission or announcement of any acquisition proposal or acquisition inquiry or take any action that would reasonably be expected to lead to an acquisition proposal or acquisition inquiry;

furnish any nonpublic information regarding CSI or Replidyne, as the case may be, to any person in connection with or in response to an acquisition proposal or acquisition inquiry;

engage in discussions or negotiations with any person with respect to any acquisition proposal or acquisition inquiry;

approve, endorse or recommend any acquisition proposal; or

execute or enter into any letter of intent or similar document or any contract contemplating or otherwise relating to any acquisition transaction.

An acquisition inquiry means any inquiry, indication of interest or request for information (other than an inquiry, indication of interest or request for information made or submitted by Replidyne or CSI, as the case may be) that could reasonably be expected to lead to an acquisition proposal (as defined below), except for any inquiry, indication of interest or request for information relating to certain actions set forth on the disclosure schedules to the merger agreement or the divestment by Replidyne of its pre-clinical programs and other non-cash assets.

An acquisition proposal means any offer or proposal (other than an offer or proposal made or submitted by Replidyne or CSI, as the case may be) contemplating or otherwise relating to any acquisition transaction (as defined below), except for any offer or proposal related to certain matters set forth on the disclosure schedules to the merger agreement or the divestment by Replidyne of its pre-clinical programs and other non-cash assets.

An acquisition transaction means any transaction or series of transactions involving:

any merger, consolidation, amalgamation, share exchange, business combination, issuance of securities, financing transaction, acquisition of securities, reorganization, recapitalization, tender offer, exchange offer or other similar transaction: (i) in which CSI or Replidyne, as the case may be, is a constituent corporation; (ii) in which a person or group (as defined in the Securities Exchange Act of 1934, or the Exchange Act, and the rules promulgated thereunder) of persons acquires beneficial or record ownership of securities representing more than 1% of the outstanding securities of any class of voting securities of CSI or Replidyne, as the case may be, or any subsidiary of CSI or Replidyne, as the case may be; or (iii) in which CSI or Replidyne, as the case may be, or any subsidiary of CSI or Replidyne, as the case may be, issues any debt securities, incurs any

indebtedness for borrowed money or issues securities representing more than 1% of the outstanding securities of any class of voting securities of CSI or Replidyne, as the case may be, or any subsidiary of CSI or Replidyne, as the case may be (other than issuances of CSI common stock or CSI preferred stock or Replidyne common stock pursuant to the exercise of options and warrants);

in the case of CSI, any sale, lease, exchange, transfer, license, acquisition or disposition of any business or businesses or assets that constitute or account for (i) 1% or more of the consolidated net revenues of CSI and its subsidiaries, taken as a whole, consolidated net income of CSI and its subsidiaries, taken as a whole, or consolidated book value of the assets of CSI and its subsidiaries, taken as a whole; or

any liquidation or dissolution of CSI or the merger sub;

provided, however, that both (i) any qualified financing and (ii) any transaction or series of transactions that relate to certain matters set forth on the disclosure schedules to the merger agreement or the divestment by Replidyne of its

pre-clinical programs and other non-cash assets and any transactions undertaken, continued or consummated in connection with those matters will be deemed not to be an acquisition transaction.

A qualified financing means mean any sale by CSI of debt or equity securities or the incurrence by CSI of indebtedness for borrowed money in an amount not to exceed $15,000,000 for all such issuances or incurrences in the aggregate, provided that CSI provides notice to Replidyne within five days of the commencement of discussions regarding any transaction that is reasonably likely to result in a qualified financing and continues to keep Replidyne reasonably apprised of such discussions through the consummation of any such transaction, and provided further that with respect to any issuance of equity securities (including, for the avoidance of doubt, the issuance of any indebtedness that is convertible into other equity securities of CSI) that values CSI at less than $181,000,000 prior to the consummation of such issuance, CSI has obtained the consent of Replidyne to the consummation of such issuance.

Notwithstanding the foregoing, prior to obtaining the consent of their stockholders, either party may furnish information regarding such party to, and may enter into discussions or negotiations with, any third party in response to a superior offer or an unsolicited bona fide written acquisition proposal made or received after the date of the merger agreement that is reasonably likely to result in a superior offer, if:

- neither such party nor any representative of such party has breached the no solicitation provisions of the merger agreement described above with respect to that particular superior offer or acquisition proposal;
- the board of directors of such party concludes in good faith, based on the advice of outside legal counsel, that such action is required in order for such party s board of directors to comply with its fiduciary obligations to such party s stockholders under applicable legal requirements;
- at least three business days prior to furnishing any such information to, or entering into discussions with, such person, such party gives the other party written notice of the identity of such person and of such party s intention to furnish information to, or enter into discussions with, such person;
- such party receives from such person an executed confidentiality agreement containing provisions (including nondisclosure provisions, use restrictions, non-solicitation provisions, no hire provisions and standstill provisions) at least as favorable to such party as those contained in the confidentiality agreement previously entered into between Replidyne and CSI; and
- at least three business days prior to furnishing any such nonpublic information to such person, such party furnishes such information to the other party (to the extent such nonpublic information has not been previously furnished by such party to the other party).

A superior offer means unsolicited bona fide written offer by a third party to enter into (i) a merger, consolidation, amalgamation, share exchange, business combination, issuance of securities, acquisition of securities, reorganization, recapitalization, tender offer, exchange offer or other similar transaction as a result of which either (A) Replidyne or CSI stockholders, as the case may be, prior to such transaction in the aggregate cease to own at least 50% of the voting securities of the entity surviving or resulting from such transaction (or the ultimate parent entity thereof) or (B) a person or group (as defined in the Exchange Act and the rules promulgated thereunder) directly or indirectly acquires beneficial or record ownership of securities representing 50% or more of Replidyne s or CSI s capital stock, as the case may be, or (ii) a sale, lease, exchange transfer, license, acquisition or disposition of any business or other disposition of at least 50% of the assets of Replidyne or CSI, as the case may be, or its subsidiaries, taken as a whole, in a single transaction or a series of related transactions that, in the case of either clause (i) or (ii): (a) was not obtained or made as a direct or indirect result of a breach of (or in violation of) the merger agreement; and (b) is on terms and conditions that the board of directors of Replidyne or CSI, as applicable, determines, in its good faith judgment, after

obtaining and taking into account such matters that its board of directors deems relevant following consultation with its outside legal counsel and financial advisor: (x) is more favorable to Replidyne stockholders or CSI stockholders, as the case may be, than the terms of the merger; and (y) is reasonably capable of being consummated.

Change in Recommendation

The merger agreement provides that neither Replidyne nor CSI shall withdraw or modify, or adopt or propose any resolution of the board of directors or any committee to withdraw or modify, in a manner adverse to the other

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party its recommendation to (i) issue shares of Replidyne common stock in connection with the merger, (ii) approve the amendment to Replidyne s restated certificate of incorporation, or (iii) approve the merger agreement, as the case may be. Notwithstanding the foregoing, Replidyne or CSI may withdraw or modify their recommendation in a manner adverse to the other party prior to the Replidyne stockholder meeting or the CSI stockholder meeting, as the case may be, if the board of directors of Replidyne or CSI, as the case may be, determines in good faith, based on the advice of its outside legal counsel, that such action is required in order for the applicable board of directors to comply with its fiduciary obligations under applicable legal requirements, provided, that Replidyne or CSI, as the case may be, must receive three business days prior written notice from the other party confirming that such party s board of directors has determined to change its recommendation.

Meeting of Stockholders

Replidyne is obligated under the merger agreement to call, give notice of and hold a special meeting of its stockholders for the purposes of considering the issuance of shares of Replidyne common stock and the amendment to Replidyne s restated certificate of incorporation. The meeting shall be held as promptly as practicable after the registration statement of which this proxy statement/prospectus is a part is declared effective. Replidyne shall proceed with holding the stockholder meeting despite the commencement, disclosure, announcement or submission or any superior offer or other acquisition proposal or Replidyne s withdrawal or modification of its board recommendation.

CSI is obligated under the merger agreement to call, give notice of and hold a special meeting of its stockholders for the purposes of considering the adoption of the merger agreement. The meeting shall be held as promptly as practicable after the registration statement of which this proxy statement/prospectus is a part is declared effective. CSI shall proceed with holding the stockholder meeting despite the commencement, disclosure, announcement or submission or any superior offer or other acquisition proposal or CSI s withdrawal or modification of its board recommendation.

Other Agreements

Each of Replidyne and CSI has agreed to use its commercially reasonable efforts to:

- cause to be taken all actions necessary to complete the merger and make effective the other transactions contemplated by the merger agreement;
- file or otherwise submit, as soon as practicable after the date of the merger agreement, all applications, notices, reports and other documents required to be filed by such party with or otherwise submitted by such party to any governmental body with respect to the merger and the other transactions contemplated by the merger agreement and to submit promptly any additional information requested by any such governmental body;
- obtain each consent (if any) reasonably required to be obtained (pursuant to any applicable legal requirement or contract, or otherwise) by such party in connection with the merger or any of the other transactions contemplated by the merger agreement or for such contract to remain in full force and effect;
- lift any restraint, injunction or other legal bar to the merger or any of the other transactions contemplated by the merger agreement;
- satisfy the conditions precedent to the consummation of the transactions contemplated by the merger agreement;

cause their respective legal advisors to deliver an opinion as to whether the merger qualifies as a reorganization within the meaning of Section 368 of the Internal Revenue Code or 1986, as amended; and

consult each other about any public statement or press release either will make concerning the merger.

Replidyne and CSI also have agreed:

that Replidyne, with the cooperation of CSI, will file an application for initial inclusion on The Nasdaq Global Market in connection with the listing of Replidyne common stock pursuant to Nasdaq s reverse merger rules and use commercially reasonable efforts to cause the shares issued in the merger to be approved for listing;

that Replidyne will use commercially reasonable efforts to obtain all regulatory approvals needed to ensure that the Replidyne common stock to be issued pursuant to the merger will (to the extent required) be registered or qualified or exempt from registration or qualification under the securities law of every jurisdiction of the United States in which any registered holder of CSI capital stock has an address of record on the record date applicable to CSI s special meeting of stockholders, except that Replidyne shall not be required: (i) to qualify to do business as a foreign corporation in any jurisdiction in which it is not now qualified; or (ii) to file a general consent to service of process in any jurisdiction; or (iii) otherwise become subject to taxation in any jurisdiction;

from the effective time of the merger through the sixth anniversary thereof, each of Replidyne and the surviving corporation shall indemnify and hold harmless each person who is now or had been at any time prior to the date of the merger agreement, or who becomes prior to the effective time of the merger, a director or officer of Replidyne or CSI against all claims, losses, liabilities, damages, judgments, fines and reasonable fees, costs and expenses, including attorneys fees and disbursements, incurred in connection with any claim, action, suit, proceeding or investigation, whether civil, criminal, administrative or investigative, arising out of or pertaining to the fact that such person is or was a director or officer of Replidyne or CSI, whether asserted or claimed prior to, at or after the effective time of the merger, to the fullest extent permitted under, as applicable, (i) the Delaware General Corporation Law for directors or officers of Delaware corporations and (ii) the Minnesota Business Corporation Act for directors or officers of Minnesota corporations;

that the certificate of incorporation or articles of incorporation, as applicable, and bylaws of each of Replidyne and the surviving corporation shall contain, and Replidyne shall cause the articles of incorporation and bylaws of the surviving corporation to so contain, provisions no less favorable with respect to indemnification, advancement of expenses and exculpation of present and former directors and officers of each of Replidyne and CSI than are presently set forth in the certificate of incorporation or articles of incorporation, as applicable, and bylaws of Replidyne and CSI, as applicable, which provisions shall not be amended, modified or repealed for a period of six years time from the effective time of the merger in a manner that would adversely affect the rights thereunder of individuals who, at or prior to the effective time of the merger, were officers or directors of Replidyne or CSI;

that Replidyne shall purchase directors and officers insurance policies that maintain in effect for six years from the closing of the merger the current insurance policies maintained by Replidyne and CSI with respect to matters occurring prior to the closing of the merger, and shall purchase a new directors and officers insurance policy that is effective as of the effective time of the merger on commercially available terms and conditions and with coverage limits customary for U.S. public companies similarly situated to Replidyne;

that Replidyne shall take all action necessary to cause the number of members of Replidyne s board of directors to be fixed at ten and the persons identified in the merger agreement to constitute Replidyne s board of directors, effective concurrently with the effective time of the merger;

that Replidyne shall appoint the persons identified in the merger agreement as officers of Replidyne and shall obtain the resignations of or otherwise terminate the employment of all officers and other employees or Replidyne, effective as of the effective time of the merger;

that CSI shall use commercially reasonable efforts to obtain an acknowledgement in a form reasonably acceptable to Replidyne from the holders of certain CSI options and shares of restricted CSI common stock that the terms of the option agreements and restricted stock agreements related thereto do not provide that the vesting of such securities will accelerate, in whole or in part, in connection with or as a result of the

consummation of the merger and the other transactions contemplated by the merger agreement;

that Replidyne shall use commercially reasonable efforts to terminate certain agreements and employee benefit plans identified in the merger agreement;

that Replidyne shall use commercially reasonable efforts to terminate, sublease or otherwise assign to a third party its remaining obligations under its lease agreement for its headquarters in Louisville, Colorado; and

that Replidyne and CSI shall each use commercially reasonable efforts to cause its respective officers to enter into lock-up agreements in favor of Replidyne and CSI pursuant to which such officers would agree not

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to sell, transfer or otherwise dispose of any securities of Replidyne or CSI until the date that is 90 days after the closing of the merger.

Representations and Warranties

The merger agreement contains customary representations and warranties of Replidyne and CSI relating to, among other things:

subsidiaries, corporate organization, authority and qualifications;

capital structure;

financial statements and documents filed with the SEC and the accuracy of information contained in those documents;

absence of material changes or events;

internal controls and procedures;

in the case of Replidyne, bank accounts;

equipment and leaseholds;

intellectual property rights and agreements;

material agreements, contracts and commitments;

absence of undisclosed liabilities;

permits and compliance with applicable laws;

tax matters;

employee and labor matters and employee benefit plans;

environmental matters;

insurance;

related party transactions;

legal proceedings and orders;

authorization to enter into the merger agreement and consummate the associated transactions;

inapplicability of anti-takeover statutes;

non-contravention of merger agreement with existing corporate documents, contracts, permits or applicable legal requirements;

the stockholder vote necessary to approve the merger and the transactions contemplated by the merger agreement;

brokers and finders fees;

in the case of Replidyne, the valid issuance of the shares of Replidyne common stock to be issued in the merger;

absence of certain payments made by a party or its officers, employees agents or other representatives; and

the accuracy of information supplied in connection with this proxy statement/prospectus and the registration statement of which it is a part.

Material Adverse Effect

Several of the representations, warranties, covenants and closing conditions of Replidyne and CSI in the merger agreement are qualified by reference to whether the item in question has had or could reasonably be expected to have a material adverse effect on the applicable company.

The merger agreement provides that material adverse effect means, when used in connection with CSI, any effect, change, event, circumstance or development that, considered together with all other effects, changes, events, circumstances or developments, is or would reasonably be expected to be or to become materially adverse to, or has

or would reasonably be expected to have or result in a material adverse effect on the business, financial condition, capitalization, assets, operations or financial performance or prospects of CSI or the ability of CSI to consummate the merger or any of the transactions contemplated by the merger agreement or to perform any of its covenants or obligations under the merger agreement. None of the following, either alone or in combination, shall constitute or be taken into account in determining whether there has been or will be, a material adverse effect with respect to CSI:

- any effect on the business, financial condition, capitalization, assets, operations or financial performance or prospects of CSI caused by, related to or resulting from the transactions contemplated by the merger agreement or the announcement or pendency thereof;

- any failure by CSI to meet internal revenue projections or forecasts for any period; provided that the actual results of CSI do not deviate by more than 20% from the results anticipated by such projections or forecasts;

- any adverse change, effect or occurrence attributable to the United States economy as a whole, provided that such change, effect or occurrence does not affect CSI in a disproportionate manner;

- any act or threat of terrorism or war anywhere in the world, any armed hostilities or terrorist activities anywhere in the world, any threat or escalation or armed hostilities or terrorist activities anywhere in the world or any governmental or other response or reaction to any of the foregoing; and

- any change in accounting requirements or principles or any change in applicable accounting laws, rules or regulations or the interpretation thereof.

The entrance of any settlement, arbitration award or judgment that results or would result in any payment in excess of $5.0 million by CSI, or the granting of any injunctive relief against CSI that has or would reasonably be expected to have or result in an adverse effect on the business, financial condition, capitalization, assets, operations or financial performance or prospects of CSI, in connection in each case with any legal proceeding to which CSI is a party, shall constitute a material adverse effect with respect to CSI.

The merger agreement provides that material adverse effect means, when used in connection with Replidyne, any effect, change, event, circumstance or development that, considered together with all other effects, changes, events, circumstances or developments, is or would reasonably be expected to be or to become materially adverse to, or has or would reasonably be expected to have or result in a material adverse effect on the financial condition or assets of Replidyne or the ability of Replidyne to consummate the merger or any of the transactions contemplated by the merger agreement or to perform any of its covenants or obligations under the merger agreement. None of the following, either alone or in combination, shall constitute or be taken into account in determining whether there has been or will be, a material adverse effect with respect to Replidyne:

- any effect on the financial condition or assets of Replidyne caused by, related to or resulting from the transactions contemplated by the merger agreement or the announcement or pendency thereof or any transactions undertaken, continued or consummated in connection with the divestment of its pre-clinical programs and other non-cash assets;

- any adverse change, effect or occurrence attributable to the United States economy as a whole, provided that such change, effect or occurrence does not affect Replidyne in a disproportionate manner;

- any act or threat of terrorism or war anywhere in the world, any armed hostilities or terrorist activities anywhere in the world, any threat or escalation or armed hostilities or terrorist activities anywhere in the world or any governmental or other response or reaction to any of the foregoing;

any change in the stock price or trading volume of Replidyne independent of any other event that would be deemed to have a material adverse effect with respect to Replidyne; and

any change in accounting requirements or principles or any change in applicable accounting laws, rules or regulations or the interpretation thereof.

The entrance of any settlement, arbitration award or judgment that results or would result in any payment in excess of $5.0 million by Replidyne, or the granting of any injunctive relief against Replidyne that has or would reasonably be expected to have or result in an adverse effect on the business, financial condition, capitalization, assets, operations or financial performance or prospects of Replidyne, in connection in each case with any legal proceeding to which Replidyne is a party, shall constitute a material adverse effect with respect to Replidyne. The

amount of net assets, or any increase or decrease in net assets above or below a particular level, shall not constitute a material adverse effect with respect to Replidyne.

Termination of the Merger Agreement

The merger agreement may be terminated prior to the effective time of the merger (whether before or after adoption of the merger agreement by CSI stockholders and whether before or after approval of the amendment to Replidyne s restated certificate of incorporation and the issuance of Replidyne common stock in the merger by Replidyne stockholders):

by mutual written consent of Replidyne and CSI, duly authorized by their respective boards of directors;

by either Replidyne or CSI if the merger shall not have been consummated by the April 30, 2009; provided, however, that a party shall not be permitted to terminate the merger agreement on this basis if the failure to consummate the merger by such date is attributable to a failure on the part of such party to perform any covenant or obligation in the merger agreement required to be performed by such party at or prior to the effective time of the merger;

by either Replidyne or CSI if a court of competent jurisdiction or other governmental body shall have issued a final and nonappealable order, or shall have taken any other final and nonappealable action, having the effect of permanently restraining, enjoining or otherwise prohibiting the consummation of the merger;

by either Replidyne or CSI if: (i) the Replidyne stockholders meeting (including any adjournments and postponements thereof) shall have been held and Replidyne stockholders shall have taken a final vote on the amendment to Replidyne s restated certificate of incorporation and the issuance of shares of Replidyne common stock in the merger; and (ii) either or both of the amendment to Replidyne s restated certificate of incorporation or the issuance of Replidyne common stock in the merger shall not have been approved at the Replidyne stockholders meeting;

by either Replidyne or CSI if: (i) the CSI stockholders meeting (including any adjournments and postponements thereof) shall have been held and CSI stockholders shall have taken a final vote on the adoption of the merger agreement (including the consummation of the merger); and (ii) the merger agreement (including the consummation of the merger) shall not have been approved and adopted at the CSI stockholders meeting;

by either Replidyne or CSI if (i) the Replidyne board of directors has withheld, withdrawn, amended or modified its recommendation because it has determined in good faith, based on the advice of its outside legal counsel, that such action is required in order for the Replidyne board of directors to comply with its fiduciary obligations to Replidyne stockholders under applicable legal requirements, or (ii) Replidyne enters into a letter of intent, memorandum of understanding or definitive agreement with respect to a superior offer;

by either Replidyne or CSI if (i) the CSI board of directors has withheld, withdrawn, amended or modified its recommendation because it has determined in good faith, based on the advice of its outside legal counsel, that such action is required in order for the CSI board of directors to comply with its fiduciary obligations to CSI stockholders under applicable legal requirements, or (ii) CSI enters into a letter of intent, memorandum of understanding or definitive agreement with respect to a superior offer;

by CSI if: (i) any of the representations and warranties of Replidyne or the merger sub set forth in the merger agreement shall have been inaccurate as of the date of the merger agreement or shall have become inaccurate as of a date subsequent to the date of the merger agreement (as if made on such subsequent date), provided,

that any inaccuracies to such representations and warranties will be disregarded if such inaccuracies do not collectively constitute, and would not reasonably be expected to have or result in, a material adverse effect, or (ii) any of Replidyne s or the merger sub s covenants or obligations contained in the merger agreement shall have been breached such that the requirement that Replidyne comply with or perform all of its covenants and obligations pursuant to the merger agreement in all material respects prior to the closing of the merger would not be satisfied; provided, that if an inaccuracy in any of Replidyne s or the merger sub s representations and warranties as of a date subsequent to the date of the merger agreement or breach of a covenant or obligation by Replidyne or the merger sub is curable by Replidyne or the merger sub, and Replidyne or the merger sub is continuing to exercise commercially reasonable efforts to cure such

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inaccuracy or breach, then CSI may not terminate the merger agreement on this basis on account of such inaccuracy or breach unless such inaccuracy or breach shall remain uncured for a period of 30 days commencing on the date that CSI gives Replidyne notice of such inaccuracy or breach; or

by Replidyne if: (i) any of the representations and warranties of CSI contained in the merger agreement shall have been inaccurate as of the date of the merger agreement or shall have become inaccurate as of a date subsequent to the date of the merger agreement (as if made on such subsequent date), provided, that any inaccuracies to such representations and warranties will be disregarded if such inaccuracies do not collectively constitute, and would not reasonably be expected to have or result in, a material adverse effect, or (ii) any of CSI s covenants or obligations contained in the merger agreement shall have been breached such that the requirement that CSI comply with or perform all of its covenants and obligations pursuant to the merger agreement in all material respects prior to the closing of the merger would not be satisfied; provided, that if an inaccuracy in any of CSI s representations and warranties as of a date subsequent to the date of the merger agreement or breach of a covenant or obligation by CSI is curable by CSI, and CSI is continuing to exercise commercially reasonable efforts to cure such inaccuracy or breach, then Replidyne may not terminate the merger agreement on this basis on account of such inaccuracy or breach unless such inaccuracy or breach shall remain uncured for a period of 30 days commencing on the date that Replidyne gives CSI notice of such inaccuracy or breach.

Termination Fees

Fees Payable by Replidyne

Replidyne must pay CSI a nonrefundable fee of $1.5 million and reimburse CSI for all actual out of pocket legal, accounting and investment advisory fees paid or payable in connection with the merger agreement and the transactions contemplated by the merger agreement if:

the merger agreement is terminated by Replidyne or CSI if (i) the Replidyne board of directors has withheld, withdrawn, amended or modified its recommendation because it has determined in good faith, based on the advice of its outside legal counsel, that such action is required in order for the Replidyne board of directors to comply with its fiduciary obligations to Replidyne stockholders under applicable legal requirements, or (ii) Replidyne enters into a letter of intent, memorandum of understanding or definitive agreement with respect to a superior offer; or

the merger agreement is terminated by Replidyne or CSI if the stockholders of Replidyne do not approve either the amendment to Replidyne s restated certificate of incorporation or the issuance of Replidyne common stock at the Replidyne special meeting of stockholders, and all of the following conditions are met:

prior to the Replidyne special meeting of stockholders, an acquisition proposal with respect to Replidyne has been publicly made and not withdrawn; and

within twelve months of the termination of the merger agreement, Replidyne enters into any agreement for an acquisition transaction contemplated by such acquisition proposal or consummates an acquisition transaction contemplated by such acquisition proposal.

CSI must pay Replidyne a nonrefundable fee of $1.5 million and reimburse Replidyne for all actual out of pocket legal, accounting and investment advisory fees paid or payable in connection with the merger agreement and the transactions contemplated by the merger agreement if:

the merger agreement is terminated by Replidyne or CSI if (i) the CSI board of directors has withheld, withdrawn, amended or modified its recommendation because it has determined in good faith, based on the advice of its outside legal counsel, that such action is required in order for the CSI board of directors to comply with its fiduciary obligations to CSI stockholders under applicable legal requirements, or (ii) CSI enters into a letter of intent, memorandum of understanding or definitive agreement with respect to a superior offer; or

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the merger agreement is terminated by Replidyne or CSI if the stockholders of CSI do not approve the adoption of the merger agreement (including the consummation of the merger) at the CSI special meeting of stockholders, and all of the following conditions are met:

prior to the CSI special meeting of stockholders, an acquisition proposal with respect to CSI has been publicly made and not withdrawn; and

within twelve months of the termination of the merger agreement, CSI enters into any agreement for an acquisition transaction contemplated by such acquisition proposal or consummates an acquisition transaction contemplated by such acquisition proposal.

Amendment and Waiver of the Merger Agreement

Amendment

The merger agreement may be amended with the approval of the respective boards of directors of CSI and Replidyne (or duly appointed committees thereof) at any time (whether before or after the adoption of the merger agreement by CSI stockholders and whether before or after approval of the amendment to Replidyne s restated certificate of incorporation and the issuance of Replidyne common stock in the merger by Replidyne stockholders); provided, however, that after any such adoption of the merger agreement by CSI stockholders, no amendment shall be made which by law requires further approval of CSI stockholders without the further approval of CSI stockholders. The merger agreement may not be amended except by an instrument in writing signed on behalf of each of the parties to the merger agreement.

Waiver

No failure on the part of Replidyne or CSI to exercise any power, right, privilege or remedy under the merger agreement, and no delay on the part of Replidyne or CSI in exercising any power, right, privilege or remedy under the merger agreement, shall operate as a waiver of such power, right, privilege or remedy; and no single or partial exercise of any such power, right, privilege or remedy shall preclude any other or further exercise thereof or of any other power, right, privilege or remedy.

Neither Replidyne nor CSI shall be deemed to have waived any claim arising out of the merger agreement, or any power, right, privilege or remedy under the merger agreement, unless the waiver of such claim, power, right, privilege or remedy is expressly set forth in a written instrument duly executed and delivered on behalf of Replidyne or CSI; and any such waiver shall not be applicable or have any effect except in the specific instance in which it is given.

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OTHER AGREEMENTS RELATED TO THE MERGER

Voting Agreements

The following description of the voting agreements describes the material terms of the voting agreements. This description of the voting agreements is qualified in its entirety by reference to the form of Replidyne voting agreement, which is attached as Annex B to this proxy statement/prospectus, and by reference to the form of CSI voting agreement, which is attached as Annex C to this proxy statement/prospectus, and which are incorporated herein by reference. We encourage you to read both forms of voting agreement in their entirety.

In order to induce Replidyne to enter into the merger agreement, several CSI stockholders entered into voting agreements and irrevocable proxies with Replidyne pursuant to which, among other things, each of these stockholders agreed, solely in his capacity as a stockholder, to vote all of their shares, representing approximately 20% of the outstanding capital stock of CSI, in favor of the merger and the other actions contemplated by the merger agreement. These stockholders represented the maximum number of the outstanding shares of CSI capital stock that could be made subject to these voting agreements under Minnesota corporate law. All of these stockholders are executive officers, directors, or entities controlled by such persons, or 5% stockholders, of CSI. In addition, in order to induce CSI to enter into the merger agreement, several Replidyne stockholders, who together with their respective affiliates, beneficially own approximately 48% of the outstanding common stock of Replidyne, entered into voting agreements and irrevocable proxies in favor of CSI pursuant to which, among other things, each of these stockholders agreed, solely in his capacity as a stockholder, to vote shares representing approximately 32% of the outstanding common stock of Replidyne in favor of the merger and the other actions contemplated by the merger agreement. In particular, each of the stockholders referenced above agreed to vote such securities:

- in favor of the merger, the execution and delivery by Replidyne or CSI, as the case may be, of the merger agreement and the adoption and approval of the merger agreement and the terms thereof, in favor of each of the other actions contemplated by the merger agreement and in favor of any action in furtherance of any of the foregoing;

- against any action or agreement that would result in a material breach of any covenant or obligation of Replidyne or CSI, as the case may be, in the merger agreement that would have the effect of preventing or materially delaying the merger; and

- against the following actions (other than the merger and the transactions contemplated by the merger agreement (including, in the case of Replidyne, the consummation of a transaction entered into in connection with the divestment by Replidyne of its pre-clinical programs and other non-cash assets)):

  - any extraordinary corporate transaction, such as a merger, consolidation or other business combination involving Replidyne or CSI, as the case may be, or any of its subsidiaries;

  - any sale, lease or transfer of a material amount of assets of Replidyne or CSI, as the case may be, or any of its subsidiaries;

  - any reorganization, recapitalization, dissolution or liquidation of Replidyne or CSI, as the case may be, or any of its subsidiaries;

  - any change in a majority of the board of directors of Replidyne or CSI, as the case may be;

any amendment to the restated certificate of incorporation, articles of incorporation or bylaws of Replidyne or CSI, as the case may be, which would materially delay the merger;

any acquisition transaction; and

any other action which is intended, or could reasonably be expected, to impede, interfere with, delay, postpone, discourage or adversely affect the merger or any of the other transactions contemplated by the merger agreement or the voting agreement.

These stockholders also granted Replidyne or CSI, as the case may be, an irrevocable proxy to their respective shares in accordance with the voting agreement. These stockholders may vote their shares of Replidyne or CSI capital stock, as the case may be, on all other matters not referred to in such proxy.

Under the voting agreements, subject to certain exceptions, these stockholders also have agreed not to sell or transfer Replidyne capital stock or CSI capital stock, as the case may be, held by them, or any voting rights with respect thereto, until the earlier of (i) the day after the merger is consummated, (ii) April 30, 2009, (iii) the date of

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any modification, waiver or amendment to the merger agreement in a manner that reduces the amount and form of consideration payable to such stockholders and (iv) the termination of the merger agreement. Subject to certain exceptions, to the extent that any such sale or transfer is permitted pursuant to the exceptions included in the voting agreement, each person to which any shares of Replidyne capital stock or CSI capital stock or securities are so sold or transferred must agree in writing to be bound by the terms and provisions of the voting agreement.

Replidyne and CSI stockholders that executed these voting agreements have agreed not to engage in certain actions that would solicit, encourage or support acquisition transactions other than the merger.

The Replidyne stockholders that entered into voting agreements and irrevocable proxies with CSI are Kenneth Collins, HealthCare Ventures VI, L.P., HealthCare Ventures VIII, L.P., Daniel J. Mitchell Trust, Morgenthaler Partners VII, L.P., Perseus-Soros Biopharmaceutical Fund L.P., Sequel Limited Partnership III, Sequel Entrepreneurs Fund III, L.P., TPG Biotechnology Partners, L.P. and TPG Ventures, L.P. HealthCare Investment Partners Holdings II LLC had also entered into a voting agreement and irrevocable proxy with CSI, but was released from its obligations thereunder in connection with the distribution of all of the shares of Replidyne common stock held by such stockholder to its members, none of whom are currently subject to a voting agreement or irrevocable proxy in respect of the shares received in connection with such distribution.

The CSI stockholders that entered into voting agreements and irrevocable proxies with Replidyne are Brent Blackey, Easton Hunt Capital Partners L.P., Geoffrey O. Hartzler, TTEE Geoffrey O. Hartzler Rev Trust dtd 1/8/97, as amended, GDN Holdings LLC, Charles Schwab & Co., Inc. Cust FBO Michael J. Kallok IRA, David L. Martin, Maverick Fund II, Ltd., Gary M. Petrucci, Sonora Web LLLP, Whitebox Hedged High Yield Partners, LP and Whitebox Combined Partners, LP.

Lock-up Agreements

The directors and certain stockholders of both Replidyne and CSI entered into lock-up agreements in favor of Replidyne and CSI pursuant to which they have agreed, subject to limited exceptions, not to offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly any shares of CSI common stock or Replidyne common stock or any securities convertible into or exercisable or exchangeable for shares of CSI common stock or Replidyne common stock or enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any shares of CSI common stock or Replidyne common stock or engage in any short selling of any shares of CSI common stock or Replidyne common stock or any securities convertible into or exercisable or exchangeable for shares of CSI common stock or Replidyne common stock during the period beginning on the date of the merger agreement and ending 90 days after the closing of the merger. The lock-up restrictions will not apply to certain transfers not involving a disposition for value, provided that the recipient agrees to be bound by these lock-up restrictions and provided that such transfers are not required to be reported, and are not voluntarily reported, in any public report or filing with the SEC during the lock-up period. As of December 31, 2008, the parties to the lock-up agreements owned approximately 37% of Replidyne s outstanding common stock and 28% of CSI s outstanding capital stock.

Pursuant to the merger agreement, Replidyne and CSI have each agreed to use commercially reasonable efforts to cause its respective officers to enter into lock-up agreements in favor of Replidyne and CSI on substantially the same terms as described above.

CSI Preferred Stockholder Conversion Agreement

Concurrently with the execution of the merger agreement, the holders of approximately 68% of CSI s outstanding preferred stock, calculated on an as-converted to common stock basis, entered into an agreement with CSI pursuant to which all outstanding shares of CSI preferred stock will be automatically converted into shares of CSI common stock, effective as of immediately prior to the effective time of the merger. In consideration of the agreement of such stockholders, CSI will issue to the holders of CSI preferred stock warrants to purchase 3,500,000 shares of CSI common stock at an exercise price of $5.71 per share, pro rata to each such holder based on its percentage of the outstanding shares of CSI preferred stock on an as-converted to common stock basis. Such warrants will be issued immediately following the effectiveness of the conversion of all outstanding shares of CSI preferred stock described above but prior to the effective time of the merger. This agreement also amends the terms of the investor rights agreement that CSI has entered into with certain of its stockholders to provide that such investor rights agreement will terminate upon the consummation of the merger.

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REPLIDYNE PROPOSAL NO. 2

AMENDMENT TO RESTATED CERTIFICATE OF INCORPORATION TO EFFECT A REVERSE STOCK SPLIT

Overview

The Replidyne board of directors has approved a proposal to amend its restated certificate of incorporation to effect a reverse stock split of the issued and outstanding shares of its common stock. The board has recommended that this proposal be presented to its stockholders for approval. The text of the form of proposed amendment to Replidyne s restated certificate of incorporation to effect a reverse stock split of the issued and outstanding shares of Replidyne common stock, along with the other proposed amendments to Replidyne s restated certificate of incorporation described in this proxy statement/prospectus, is attached to this proxy statement/prospectus as *Annex E.*

The proposed amendment to Replidyne s restated certificate of incorporation would effect a reverse stock split whereby a number of outstanding shares of Replidyne common stock between and including 1 and 50, such number consisting only of whole shares, will be combined into one share of Replidyne common stock, with this exact number within the range to be determined by the Replidyne board of directors, subject to its obligation under the merger agreement to agree with CSI on such determination. The Replidyne board of directors believes that stockholder approval of an amendment granting the board this discretion, rather than approval of a specified ratio, provides the Replidyne board of directors with appropriate flexibility to react to then-current market conditions and, therefore, is in the best interests of Replidyne and its stockholders.

By approving this amendment, stockholders will approve a series of amendments to Replidyne s restated certificate of incorporation pursuant to which any whole number of outstanding shares of Replidyne common stock between and including 1 and 50 would be combined into one share of Replidyne common stock, and authorize the Replidyne board of directors to file only one such amendment, as determined by the Replidyne board of directors in the manner described herein, and to abandon each amendment not selected by the Replidyne board of directors. The Replidyne board of directors may also elect not to undertake any reverse stock split.

If approved by the stockholders, and following such approval, the Replidyne board of directors determines that effecting a reverse stock split is in the best interests of Replidyne and its stockholders, the reverse stock split will become effective upon filing one such amendment with the Secretary of State of the State of Delaware. The amendment filed thereby will contain the number of shares selected by the Replidyne board of directors within the limits set forth in this proposal to be combined into one share of Replidyne common stock.

If Replidyne s board of directors elects to effect a reverse stock split following stockholder approval, the number of issued and outstanding shares of common stock would be reduced in accordance with an exchange ratio determined by the Replidyne board of directors within the limits set forth in this proposal. Except for adjustments that may result from the treatment of fractional shares as described below, each stockholder will hold the same percentage of Replidyne s outstanding common stock immediately following the reverse stock split as such stockholder held immediately prior to the reverse stock split. The par value of Replidyne common stock would remain unchanged at $0.001 per share.

Reasons for the Reverse Stock Split

The Replidyne board of directors believes that a reverse stock split may be desirable for a number of reasons. First, the Replidyne board of directors believes that a reverse stock split may allow Replidyne to remain listed on the Nasdaq Global Market. Second, the Replidyne board of directors believes that a reverse stock split could improve the marketability and liquidity of Replidyne common stock.

Replidyne common stock is currently quoted on the Nasdaq Global Market. According to applicable Nasdaq rules, in a transaction constituting a reverse merger in which an issuer combines with a non-Nasdaq entity, resulting in a change of control of the issuer and potentially allowing the non-Nasdaq entity to obtain a Nasdaq listing, the issuer must apply for initial inclusion on the applicable Nasdaq market. The merger agreement requires, as a condition to closing of the merger, that Replidyne have received conditional approval to list the shares issuable in connection with the merger on the Nasdaq Global Market. The listing standards of the Nasdaq Global Market require, among other things, a $4.00 per share minimum bid upon the effective time of the merger. Replidyne and

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CSI have filed an initial listing application for the Nasdaq Global Market in connection with the merger. On January 26, 2009, Replidyne common stock closed at $0.77 per share. Therefore, the reverse stock split is necessary in order to consummate the merger.

In addition to initial listing requirements for the Nasdaq Global Market that Replidyne must satisfy in connection with the merger, in order for Replidyne common stock to continue to be listed on the Nasdaq Global Market after the completion of the merger, Replidyne must satisfy certain listing maintenance standards established by the Nasdaq Global Market. Among other things, if the closing bid price of Replidyne common stock is under $1.00 per share for 30 consecutive trading days and does not thereafter reach $1.00 per share or higher for a minimum of ten consecutive trading days during the 180 calendar days following notification by Nasdaq, Nasdaq may delist Replidyne common stock from trading on the Nasdaq Global Market. On October 16, 2008, Nasdaq announced that it had suspended the enforcement of its rules requiring a minimum bid price of $1.00 per share through January 16, 2009. On December 19, 2008, Nasdaq announced an extension of the suspension of the $1.00 minimum bid price requirement through April 17, 2009. As a result of this suspension, Replidyne does not expect to receive a staff determination letter with respect to the delisting of Replidyne common stock resulting from a failure to meet the minimum bid requirement unless it has failed to demonstrate compliance with the minimum bid requirement on or before May 1, 2009. In the event that Replidyne receives a determination letter from the staff at Nasdaq with respect to its non-compliance with the minimum bid requirement, Replidyne expects to appeal such determination and present a plan for compliance to Nasdaq that includes the consummation of the merger and the implementation of the reverse stock split. The Replidyne board of directors expects that a reverse stock split of its common stock will increase the market price of its common stock so that Replidyne is able to achieve the initial listing requirements for the Nasdaq Global Market upon completion of the merger and thereafter maintain compliance with the Nasdaq minimum bid price listing standard for the foreseeable future. Notwithstanding the foregoing, there can be no assurance that the market price per share following the merger and the reverse stock split will remain in excess of the minimum bid price for a sustained period of time. In addition, there can be no assurance that the Replidyne common stock will not be delisted due to a failure to meet other continued listing requirements even if the market price per post-reverse split share of Replidyne common stock remains in excess of the minimum bid requirement.

The Replidyne board of directors also believes that the increased market price of Replidyne common stock expected as a result of implementing a reverse stock split will improve the marketability and liquidity of Replidyne common stock and will encourage interest and trading in Replidyne common stock. Because of the trading volatility often associated with low-priced stocks, many brokerage houses and institutional investors have internal policies and practices that either prohibit them from investing in low-priced stocks or tend to discourage individual brokers from recommending low-priced stocks to their customers. Some of those policies and practices may function to make the processing of trades in low-priced stocks economically unattractive to brokers. Additionally, because brokers commissions on low-priced stocks generally represent a higher percentage of the stock price than commissions on higher-priced stocks, the current average price per share of Replidyne common stock can result in individual stockholders paying transaction costs representing a higher percentage of their total share value than would be the case if the share price were substantially higher. It should be noted that the liquidity of Replidyne common stock may be harmed by the proposed reverse stock split given the reduced number of shares that would be outstanding after the reverse stock split. The Replidyne board of directors is hopeful, however, that the anticipated higher market price will reduce, to some extent, the negative effects of the policies and practices of institutional investors and brokerage houses described above on the liquidity and marketability of the common stock.

Effects of the Reverse Stock Split

After the effective date of the proposed reverse stock split, each stockholder will own a reduced number of shares of Replidyne common stock. However, the proposed reverse stock split will affect all Replidyne stockholders uniformly and will not affect any stockholder s percentage ownership interests in Replidyne, except to the extent that the reverse

stock split results in any of Replidyne stockholders owning a fractional share as described below. Proportionate voting rights and other rights and preferences of the holders of Replidyne common stock will not be affected by the proposed reverse stock split (other than as a result of the payment of cash in lieu of fractional shares). For example, a holder of 2% of the voting power of the outstanding shares of Replidyne common stock immediately prior to reverse stock split would continue to hold 2% of the voting power of the outstanding shares of Replidyne

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common stock immediately after the reverse stock split. The number of stockholders of record will not be affected by the proposed reverse stock split (except to the extent that any stockholder holds only a fractional share interest and receives cash for such interest after the proposed reverse stock split).

The amendment to Replidyne s restated certificate of incorporation to effect the reverse stock split will not change the number of authorized shares of Replidyne common stock. As a result, one of the effects of the reverse stock split will be to effectively increase the proportion of authorized shares which are unissued relative to those which are issued. This could result in the combined company being able to issue more shares without further stockholder approval.

If a proposed reverse stock split is implemented, it will increase the number of stockholders of Replidyne who own odd lots of less than 100 shares of Replidyne common stock. Brokerage commission and other costs of transactions in odd lots are generally higher than the costs of transactions of more than 100 shares of common stock. Accordingly, a reverse stock split may not achieve the desired results of increasing marketability and liquidity of Replidyne common stock that have been outlined above.

Replidyne common stock is currently registered under Section 12(b) of the Securities Exchange Act of 1934, or the Exchange Act, and Replidyne is subject to the periodic reporting and other requirements of the Exchange Act. The proposed reverse stock split will not affect the registration of the common stock under the Exchange Act. If the proposed reverse stock split is implemented, and Replidyne s initial listing application with the Nasdaq Global Market is approved, Replidyne common stock will continue to be reported on the Nasdaq Global Market under the symbol RDYN. It is expected that following the merger, the combined company will change its name to Cardiovascular Systems, Inc and that its trading symbol will be changed. CSI has reserved the ticker symbol CSII for this purpose.

Effective Date

The proposed reverse stock split would become effective on the date of filing of the certificate of amendment to Replidyne s restated certificate of incorporation with the office of the Secretary of State of the State of Delaware. Except as explained below with respect to fractional shares, on the effective date, shares of Replidyne common stock issued and outstanding immediately prior to the effective date will be combined and converted, automatically and without any action on the part of the stockholders, into new shares of common stock in accordance with the reverse stock split ratio determined by the Replidyne board of directors within the limits set forth in this proposal.

Payment for Fractional Shares

No fractional shares of common stock will be issued as a result of the proposed reverse stock split. Instead, Replidyne stockholders who otherwise would be entitled to receive fractional shares, upon surrender to the exchange agent (as defined below) of such certificates representing such fractional shares, will be entitled to receive cash in an amount equal to the product obtained by multiplying (i) the closing sales price of Replidyne common stock on the effective date of the reverse stock split as reported on the Nasdaq Global Market by (ii) the number of shares of Replidyne common stock held by such Replidyne stockholder that would otherwise have been exchanged for such fractional share interest.

Exchange of Stock Certificates

As soon as practicable after the effective date of the reverse stock split, stockholders will be notified that the reverse stock split has been effected. Replidyne s transfer agent will act as exchange agent for purposes of implementing the exchange of stock certificates. Holders of pre-reverse stock split shares will be asked to surrender to the exchange agent certificates representing pre-reverse stock split shares in exchange for certificates representing post-reverse stock split shares in accordance with the procedures to be set forth in a letter of transmittal to be sent by Replidyne.

No new certificates will be issued to a Replidyne stockholder until such Replidyne stockholder has surrendered such stockholder s outstanding certificate(s) together with the properly completed and executed letter of transmittal to the exchange agent. **Replidyne stockholders should not destroy any stock certificate and should not submit any certificates until requested to do so.**

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Accounting Consequences

The par value per share of Replidyne common stock would remain unchanged at $0.001 per share after the reverse stock split. As a result, on the effective date of the reverse stock split, the stated capital on Replidyne balance sheet attributable to the Replidyne common stock will be reduced proportionally, based on the exchange ratio of the reverse stock split, from its present amount, and the additional paid-in capital account shall be credited with the amount by which the stated capital is reduced. The per share common stock net income or loss and net book value will be increased because there will be fewer shares of Replidyne common stock outstanding. Such reverse stock split will be reflected retroactively in Replidyne s financial statements. Replidyne does not anticipate that any other accounting consequences would arise as a result of the reverse stock split.

Material U.S. Federal Income Tax Consequences of the Reverse Stock Split

The following is a summary of important tax considerations of the proposed reverse stock split. This summary is based upon current provisions of the Internal Revenue Code of 1986, or the Code, existing Treasury Regulations, and current administrative rulings and court decisions, all of which are subject to change and to differing interpretations, possibly with retroactive effect. Any change could alter the tax consequences to Replidyne or Replidyne stockholders, as described in this summary. This summary is not binding on the IRS, and there can be no assurance that the IRS (or a court, in the event of an IRS challenge) will agree with the conclusions stated herein. No ruling has been or will be requested from the IRS in connection with the reverse stock split. The discussion below does not address the following: the tax consequences of the reverse stock split under U.S. federal non-income tax laws or under state, local, or foreign tax laws; the tax consequences of transactions effectuated before, after, or at the same time as the reverse stock split, whether or not they are in connection with the reverse stock split, including, without limitation, transactions in which Replidyne shares are acquired or disposed of and in particular the acquisition of common stock of Replidyne in exchange for capital stock of CSI in the merger; the tax consequences to holders of options issued by Replidyne that are exercised, adjusted or converted, as the case may be, in connection with the reverse stock split; or the tax consequences of the receipt of Replidyne shares other than in exchange for Replidyne shares in the reverse stock split.

No attempt has been made to comment on all U.S. federal income tax consequences of the reverse stock split that may be relevant to particular holders of Replidyne stock that are subject to special treatment under U.S. federal income tax laws, including, without limitation:

- dealers, brokers and traders in securities;
- foreign persons or entities;
- tax-exempt entities;
- financial institutions, regulated investment companies, real estate investment trusts or insurance companies;
- partnerships or limited liability companies that are not treated as corporations for U.S. federal income tax purposes, subchapter S corporations and other pass-through entities and investors in such entities;
- holders who are subject to the alternative minimum tax provisions of the Code;

holders who acquired their shares in connection with stock option or stock purchase plans or in other compensatory transactions;

holders who hold shares that constitute small business stock within the meaning of Section 1202 of the Code;

holders with a functional currency other than the U.S. dollar;

holders who hold their shares as part of an integrated investment such as a hedge or as part of a hedging, straddle or other risk reduction strategy;

holders who do not hold their shares as capital assets within the meaning of Section 1221 of the Code (generally, property held for investment will be a capital asset); and

holders who will receive shares of Replidyne common stock in exchange for CSI capital stock in the merger.

Accordingly, holders of Replidyne stock are advised and expected to consult their own tax advisors regarding the U.S. federal income tax consequences of the reverse stock split in light of their personal

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circumstances and the consequences of the reverse stock split under U.S. federal non-income tax laws and state, local, and foreign tax laws.

The reverse stock split is expected to qualify for one or more non-recognition provisions of the Code. Assuming the reverse stock split so qualifies, the following consequences will result:

- no gain or loss will be recognized by Replidyne as a result of the reverse stock split;
- a Replidyne stockholder who receives only Replidyne stock in the reverse stock split generally will not recognize any gain or loss on the reverse stock split, and the aggregate tax basis of the post-reverse split shares received will be equal to the aggregate tax basis of the pre-reverse split shares exchanged therefor;
- a Replidyne stockholder who receives both Replidyne stock and cash in lieu of fractional in lieu of fractional shares of Replidyne stock in the reverse stock split generally will recognize any gain inherent in the Replidyne stock surrendered up to the amount of cash received, but will not recognize any loss. The aggregate tax basis of the post-reverse split shares received will be equal to the aggregate tax basis of the pre-reverse split shares exchanged therefor, increased by the amount of any gain recognized as a result of the reverse stock split;
- the holding period of Replidyne stock received in the reverse split will include the holding period of the pre-reverse split shares exchanged;
- a Replidyne stockholder who receives only cash in exchange for Replidyne stock in the reverse stock split generally will recognize gain or loss equal to the difference between such stockholder s tax basis in the shares of Replidyne stock exchanged and the amount of cash received in exchange for those shares; and
- any gain or loss recognized by a Replidyne stockholder as a result of the reverse stock split will be a capital gain or loss and will be long term capital gain or loss if the stockholder s holding period for the shares of Replidyne stock exchanged is more than one year.

Replidyne stockholders that own at least one percent (by vote or value) of the total outstanding stock of Replidyne prior to the reverse stock split or Replidyne stock with a tax basis of $1 million or more may be required to attach a statement to their tax returns for the year in which the reverse stock split is completed that contains the information listed in Treasury Regulations Section 1.368-3(b). Such statement must include the stockholder s tax basis in the stockholder s Replidyne stock and the fair market value of such stock.

For purposes of the above discussion of the bases and holding periods for shares of Replidyne stock, and except as provided therein, stockholders who acquired different blocks of Replidyne stock at different times for different prices must calculate their basis, gains and losses, and holding periods separately for each identifiable block of such stock exchanged, converted, canceled or received in the reverse stock split.

Certain noncorporate Replidyne stockholders may be subject to backup withholding, at a rate of 28%, on cash received pursuant to the reverse stock split. Backup withholding will not apply, however, to a Replidyne stockholder who (i) furnishes a correct taxpayer identification number and certifies that the Replidyne stockholder is not subject to backup withholding on IRS Form W-9 or a substantially similar form, (ii) provides a certification of foreign status on an appropriate Form W-8 or successor form, or (iii) is otherwise exempt from backup withholding. If a Replidyne stockholder does not provide a correct taxpayer identification number on IRS Form W-9 or a substantially similar form, the Replidyne stockholder may be subject to penalties imposed by the IRS. Amounts withheld, if any, are generally not an additional tax and may be refunded or credited against the Replidyne stockholder s U.S. federal income tax liability, provided that the Replidyne stockholder timely furnishes the required information to the IRS.

No Appraisal Rights

Under the DGCL, Replidyne stockholders are not entitled to dissenter s appraisal rights with respect to the proposed amendment to the Replidyne restated certificate of incorporation to effect the reverse stock split and Replidyne will not independently provide Replidyne stockholders with any such right.

Vote Required; Recommendation of Replidyne Board of Directors

The affirmative vote of the holders of a majority of the shares of Replidyne common stock having voting power outstanding on the record date for the Replidyne special meeting is required to approve the proposal to amend its restated certificate of incorporation to effect the reverse stock split.

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A failure to submit a proxy card or vote at the special meeting, or an abstention, vote withheld or broker non-vote will have the same effect as a vote against Replidyne Proposal No. 2.

REPLIDYNE S BOARD OF DIRECTORS RECOMMENDS THAT REPLIDYNE STOCKHOLDERS VOTE FOR REPLIDYNE PROPOSAL NO. 2 TO APPROVE THE PROPOSAL TO AMEND ITS RESTATED CERTIFICATE OF INCORPORATION TO EFFECT A REVERSE STOCK SPLIT OF THE ISSUED AND OUTSTANDING SHARES OF ITS COMMON STOCK.

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REPLIDYNE PROPOSAL NO. 3

NAME CHANGE

At the Replidyne special meeting, holders of Replidyne common stock will be asked to approve the amendment of the restated certificate of incorporation of Replidyne to change the name of the corporation from Replidyne, Inc. to Cardiovascular Systems, Inc. by filing an amendment to Replidyne s restated certificate of incorporation immediately prior to the effective time of the merger. The primary reason for the corporate name change is that management believes this will allow for brand recognition of CSI s products following the consummation of the merger. Replidyne management believes that the current name will no longer accurately reflect the business of the combined company and the mission of the combined company subsequent to the consummation of the merger. The text of the form of proposed amendment to Replidyne s restated certificate of incorporation to implement the name change, along with the other proposed amendments to Replidyne s restated certificate of incorporation described in this proxy statement/prospectus, is attached to this proxy statement/prospectus as *Annex E.*

Vote Required; Recommendation of Replidyne Board of Directors

The affirmative vote of holders of a majority of the Replidyne common stock having voting power outstanding on the record date for the Replidyne special meeting is required to approve the proposal to amend its restated certificate of incorporation to change the name Replidyne, Inc. to Cardiovascular Systems, Inc.

A failure to submit a proxy card or vote at the special meeting, or an abstention, vote withheld or broker non-vote will have the same effect as a vote against Replidyne Proposal No. 3.

REPLIDYNE S BOARD OF DIRECTORS RECOMMENDS THAT REPLIDYNE STOCKHOLDERS VOTE FOR REPLIDYNE PROPOSAL NO. 3 TO APPROVE THE NAME CHANGE.

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REPLIDYNE PROPOSAL NO. 4

APPROVAL OF ASSUMPTION OF THE CARDIOVASCULAR SYSTEMS, INC. 2007 EQUITY INCENTIVE PLAN

Below is a summary of the Cardiovascular Systems, Inc. 2007 Equity Incentive Plan, as amended, which is referred to as the 2007 Plan. Replidyne stockholders will be asked to approve the assumption of the 2007 Plan at Replidyne s special meeting of stockholders. A copy of the 2007 Plan (as amended to reflect the proposed increase in the number of shares reserved under the plan) is attached to this proxy statement/prospectus as *Annex G*, and this summary is qualified in its entirety by reference to the full text of the plan.

Effect of Stockholder Vote on Replidyne s Existing Plans

If the stockholders of Replidyne approve the assumption of the 2007 Plan and the merger is consummated, no further grants will be made under the existing Replidyne equity incentive plan. If the stockholders of Replidyne do not approve the assumption of the 2007 Plan and the merger is consummated, Replidyne intends to use the remaining availability under Replidyne s existing equity plan for additional equity incentive awards following the consummation of the merger.

Reasons for Increase in Authorized Shares

The Replidyne board of directors believes that the 2007 Plan will help the combined company retain and motivate eligible employees and will help further align the interests of eligible employees with those of the stockholders. In addition, the adoption of the 2007 Plan by Replidyne would aid in the integration of CSI s existing equity incentive programs with the future equity incentive programs of the combined company.

Overview of Cardiovascular Systems, Inc. 2007 Equity Incentive Plan

CSI s board of directors adopted the 2007 Plan in October 2007 and approved certain amendments to the 2007 Plan in November 2007, and its stockholders approved the 2007 Plan in December 2007. The 2007 Plan became effective on the date of board approval. Incentive stock options may be granted pursuant to the 2007 Plan until October 2017 and other awards may be granted under the plan until the 2007 Plan is discontinued or terminated by the administrator.

Section 162(m) of the Internal Revenue Code of 1986, as amended, or the Code, generally denies a corporate tax deduction for annual compensation exceeding $1.0 million paid to the chief executive officer or to certain other executive officers of a publicly-held company. However, certain types of compensation, including performance-based compensation, are excluded from this limit. Generally speaking, for compensation resulting from stock options and other awards to qualify as performance-based within the meaning of Code Section 162(m), the following conditions must be met: (i) the grant of such options and awards must be made by a compensation committee of the board of directors that consists solely of two or more outside directors as defined by Code Section 162(m), (ii) the compensation resulting from an option or stock appreciation right must be based solely on an increase in the value of the company s common stock after the date of grant, (iii) the vesting or payment of other types of awards must be conditioned on the achievement of one or more objective performance criteria, the material terms of which are approved by the stockholders, (iv) the stockholders approve the class of employees eligible to receive options and awards, and (v) the equity incentive plan must state the maximum number of shares for which such options and awards may be granted during a specified period or the maximum amount of compensation payable to any individual pursuant to an award if the performance criteria are met, and the stockholders must approve such limits. Replidyne s

and CSI s boards of directors believe that it is in the best interests of the combined company and its stockholders to preserve the ability of the combined company to deduct in full the compensation resulting from options and awards granted in the future under the 2007 Plan. Therefore, the 2007 Plan provides for performance-based vesting or payment of those awards that are intended to comply with the requirements of Code Section 162(m).

Equity Awards. The 2007 Plan permits the granting of incentive stock options, nonqualified options, restricted stock awards, restricted stock units, performance share awards, performance unit awards and stock appreciation rights to employees, officers, consultants and directors.

Share Reserve. The aggregate number of shares of CSI common stock issuable pursuant to stock awards under the 2007 Plan prior to July 1, 2008 was 3,000,000 shares. The number of shares of CSI common stock

reserved for issuance will automatically increase on the first day of each fiscal year, beginning on July 1, 2008, and ending on July 1, 2017, by the lesser of (i) 1,500,000 shares, (ii) 5% of the outstanding shares of common stock on such date or (iii) a lesser amount determined by the board of directors. As of July 1, 2008, the number of shares reserved under the 2007 Plan was increased by 379,397 shares. As of September 30, 2008, CSI had 2,158,364 options outstanding under its 2007 Plan at a weighted average exercise price of $7.92 per share and 949,098 shares of restricted stock outstanding subject to a risk of forfeiture. The 2007 Plan, as amended, would increase the number of authorized shares issuable under the 2007 Plan to 3,879,397 shares, and CSI is submitting the approval of this amendment at the CSI stockholder meeting.

Under the 2007 Plan, no person may be granted equity awards intended to qualify as performance-based compensation covering more than 100,000 shares of CSI common stock during any calendar year pursuant to stock options, stock appreciation rights, restricted stock awards or restricted stock unit awards.

If any awards granted under the 2007 Plan expire or terminate prior to exercise or otherwise lapse, or if any awards are settled in cash, the shares subject to such portion of the award are available for subsequent grants of awards. Further, shares of stock used to pay the exercise price under any award or used to satisfy any tax withholding obligation attributable to any award, whether withheld by CSI or tendered by the participant, will continue to be reserved and available for awards granted under the 2007 Plan.

The total number of shares and the exercise price per share of common stock that may be issued pursuant to outstanding awards under the 2007 Plan are subject to adjustment by the board of directors upon the occurrence of stock dividends, stock splits or other recapitalizations, or because of mergers, consolidations, reorganizations or similar transactions in which CSI receive no consideration. CSI s board of directors may also provide for the protection of plan participants in the event of a merger, liquidation, reorganization, divestiture (including a spin-off) or similar transaction.

Administration. The 2007 Plan may be administered by CSI s board of directors or a committee appointed by the board. Any committee appointed by the board to administer the 2007 Plan shall consist of at least two non-employee directors (as defined in Rule 16b-3, or any successor provision, of the General Rules and Regulations under the Securities Exchange Act of 1934). The plan administrator has broad powers to administer and interpret the 2007 Plan, including the authority to (i) establish rules for the administration of the 2007 Plan, (ii) select the participants in the 2007 Plan, (iii) determine the types of awards to be granted and the number of shares covered by such awards, and (iv) set the terms and conditions of such awards. All determinations and interpretations of the plan administrator are binding on all interested parties.

CSI s board of directors may terminate or amend the 2007 Plan, except that the terms of award agreements then outstanding may not be adversely affected without the consent of the participant. CSI s board of directors may not amend the 2007 Plan to materially increase the total number of shares of CSI common stock available for issuance under the 2007 Plan, materially increase the benefits accruing to any individual, decrease the price at which options may be granted, or materially modify the requirements for eligibility to participate in the 2007 Plan without the approval of CSI stockholders if such approval is required to comply with the Code or other applicable laws or regulations.

Stock Options. Options granted under the 2007 Plan may be either incentive stock options within the meaning of Code Section 422 or nonqualified stock options that do not qualify for special tax treatment under Code Section 422. No incentive stock option may be granted with a per share exercise price less than the fair market value of a share of the underlying common stock on the date the incentive stock option is granted. Unless otherwise determined by the plan administrator, the per share exercise price for nonqualified stock options granted under the 2007 Plan also will not be less than the fair market value of a share of CSI common stock on the date the nonqualified stock option is

granted.

The period during which an option may be exercised and whether the option will be exercisable immediately, in stages, or otherwise is set by the administrator. An incentive stock option generally may not be exercisable more than ten years from the date of grant.

Participants generally must pay for shares upon exercise of options with cash, certified check or CSI common stock valued at the stock s then fair market value. Each incentive option granted under the 2007 Plan is

nontransferable during the lifetime of the participant. A nonqualified stock option may, if permitted by the plan administrator, be transferred to certain family members, family limited partnerships and family trusts.

The plan administrator may, in its discretion, modify or impose additional restrictions on the term or exercisability of an option. The plan administrator may also determine the effect that a participant s termination of employment with CSI or a subsidiary may have on the exercisability of such option. The grants of stock options under the 2007 Plan are subject to the plan administrator s discretion.

Tax Limitations on Stock Options. Nonqualified stock options granted under the 2007 Plan are not intended to and do not qualify for favorable tax treatment available to incentive stock options under Code Section 422. Generally, no income is taxable to the participant (and CSI is not entitled to any deduction) upon the grant of a nonqualified stock option. When a nonqualified stock option is exercised, the participant generally must recognize compensation taxable as ordinary income equal to the difference between the option price and the fair market value of the shares on the date of exercise. CSI normally will receive a deduction equal to the amount of compensation the participant is required to recognize as ordinary income and must comply with applicable tax withholding requirements.

Incentive stock options granted pursuant to the 2007 Plan are intended to qualify for favorable tax treatment to the participant under Code Section 422. Under Code Section 422, a participant realizes no taxable income when the incentive stock option is granted. If the participant has been an employee of CSI or any subsidiary at all times from the date of grant until three months before the date of exercise, the participant will realize no taxable income when the option is exercised. If the participant does not dispose of shares acquired upon exercise for a period of two years from the granting of the incentive stock option and one year after receipt of the shares, the participant may sell the shares and report any gain as capital gain. CSI will not be entitled to a tax deduction in connection with either the grant or exercise of an incentive stock option, but may be required to comply with applicable withholding requirements. If the participant should dispose of the shares prior to the expiration of the two-year or one-year periods described above, the participant will be deemed to have received compensation taxable as ordinary income in the year of the early sale in an amount equal to the lesser of (i) the difference between the fair market value of CSI common stock on the date of exercise and the option price of the shares, or (ii) the difference between the sale price of the shares and the option price of shares. In the event of such an early sale, CSI will be entitled to a tax deduction equal to the amount recognized by the participant as ordinary income. The foregoing discussion ignores the impact of the alternative minimum tax, which may particularly be applicable to the year in which an incentive stock option is exercised.

Stock Appreciation Rights. A stock appreciation right may be granted independent of or in tandem with a previously or contemporaneously granted stock option, as determined by the plan administrator. Generally, upon the exercise of a stock appreciation right, the participant will receive cash, shares of common stock or some combination of cash and shares having a value equal to the excess of (i) the fair market value of a specified number of shares of CSI common stock, over (ii) a specified exercise price. If the stock appreciation right is granted in tandem with a stock option, the exercise of the stock appreciation right will generally cancel a corresponding portion of the option, and, conversely, the exercise of the stock option will cancel a corresponding portion of the stock appreciation right. The plan administrator will determine the term of the stock appreciation right and how it will become exercisable. A stock appreciation right may not be transferred by a participant except by will or the laws of descent and distribution.

Restricted Stock Awards and Restricted Stock Unit Awards. The plan administrator is also authorized to grant awards of restricted stock and restricted stock units. Each restricted stock award granted under the 2007 Plan shall be for a number of shares as determined by the plan administrator, and the plan administrator, in its discretion, may also establish continued employment, achievement of performance criteria, vesting or other conditions that must be satisfied for the restrictions on the transferability of the shares and the risks of forfeiture to lapse. Each restricted stock unit represents the right to receive cash or shares of CSI common stock, or any combination thereof, at a future date, subject to continued employment, achievement of performance criteria, vesting or other conditions as determined by

the plan administrator.

If a restricted stock award or restricted stock unit award is intended to qualify as performance-based compensation under Code Section 162(m), the risks of forfeiture shall lapse based on the achievement of one or more performance objectives established in writing by the plan administrator in accordance with Code

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Section 162(m) and the applicable regulations. Such performance objectives shall consist of any one, or a combination of, (i) revenue, (ii) net income, (iii) earnings per share, (iv) return on equity, (v) return on assets, (vi) increase in revenue, (vii) increase in share price or earnings, (viii) return on investment, or (ix) increase in market share, in all cases including, if selected by the plan administrator, threshold, target and maximum levels.

Performance Share Awards and Performance Units Awards. The plan administrator is also authorized to grant performance share and performance unit awards. Performance share awards generally provide the participant with the opportunity to receive shares of CSI common stock and performance units generally provide recipients with the opportunity to receive cash awards, but only if certain performance criteria are achieved over specified performance periods. A performance share award or performance unit award may not be transferred by a participant except by will or the laws of descent and distribution.

Vote Required; Recommendation of Replidyne Board of Directors

The approval of Replidyne s assumption of the 2007 Plan will require the affirmative vote of the holders of a majority of the shares of Replidyne common stock casting votes in person or by proxy at the Replidyne special meeting.

A failure to submit a proxy card on vote at the special meeting, or an abstention, vote withheld or broker non-vote will have no impact on the outcome of Replidyne Proposal No. 4.

The approval of Replidyne s assumption of the 2007 Plan is conditioned upon the adoption of the merger proposal. Closing of the merger is not, however, conditioned on the approval of Replidyne s assumption of the 2007 Plan.

REPLIDYNE S BOARD OF DIRECTORS RECOMMENDS THAT REPLIDYNE STOCKHOLDERS VOTE FOR REPLIDYNE PROPOSAL NO. 4 TO APPROVE THE ASSUMPTION OF THE CARDIOVASCULAR SYSTEMS, INC. 2007 EQUITY INCENTIVE PLAN.

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REPLIDYNE PROPOSAL NO. 5

APPROVAL OF AMENDMENT TO THE REPLIDYNE 2006 EMPLOYEE STOCK PURCHASE PLAN

Overview

The Replidyne board of directors has approved a proposal to amend its 2006 Employee Stock Purchase Plan, or ESPP, to (i) increase the maximum number of shares of Replidyne common stock authorized for issuance under the ESPP by an additional 1,615,000 shares and (ii) amend the evergreen provisions of the ESPP to provide that on July 1st of each year, beginning with July 1, 2009, the share reserve under the ESPP automatically will be increased by a number of shares equal to the lesser of (A) one percent (1.0%) of the total number of shares of Replidyne common stock outstanding on such date, or (B) 1,800,000 shares (subject to adjustment for the reverse stock split anticipated before the closing of the merger), unless Replidyne s board of directors designates a smaller number of shares. Replidyne s board has recommended that this proposal be presented to its stockholders for approval.

Currently, a total of 305,872 shares of Replidyne common stock are authorized for issuance under the ESPP. Of these shares, 139,584 shares have previously been purchased and 166,288 shares remain available for purchase in the current and future offering periods. If stockholders approve this amendment, the maximum number of shares that may be issued under the ESPP will increase to 1,920,872 shares, subject to further adjustment for the reverse stock split anticipated before the closing of the merger.

Reasons for the Proposed Amendments

The Replidyne board of directors believes that the ESPP will help the combined company retain and motivate eligible employees and will help further align the interests of eligible employees with those of the stockholders. The Replidyne board of directors approved the proposed amendments to the ESPP to help ensure that a sufficient reserve of common stock remains available for issuance under the ESPP to allow the combined company to continue the plan in the future and to conform the date on which additional shares will be reserved under the ESPP to the beginning of the fiscal year of the combined company.

Overview of Replidyne 2006 Employee Stock Purchase Plan

The principal terms of the ESPP are summarized below. The following summary is qualified in its entirety by the full text of the ESPP (as proposed to be amended), which has been filed as *Annex H* to this proxy statement/prospectus.

Purpose. The purpose of the ESPP is to provide a means by which Replidyne employees may be given an opportunity to purchase stock of Replidyne. The ESPP is intended to provide a means to retain the services of Replidyne employees, to secure and retain the services of new employees, and to provide incentives for such persons to exert maximum efforts for Replidyne success.

Number of Shares under the ESPP. The ESPP provides for the issuance of up to 1,920,872 shares of Replidyne common stock (including the 1,615,000 shares of common stock reserved subject to approval of the stockholders in this proposal), subject to further adjustment for the reverse stock split anticipated before the closing of the merger. As amended, the number of shares reserved for issuance under the ESPP automatically will be increased on July 1st of each year, beginning with July 1, 2009, by a number of shares equal to the lesser of (i) one percent (1.0%) of the total number of shares of Replidyne common stock outstanding on such date, or (ii) 1,800,000 shares (subject to adjustment for the reverse stock split anticipated before the closing of the merger), unless Replidyne s board of directors

designates a smaller number of shares. Prior to the amendment to these evergreen provisions, the number of shares reserved for issuance under the ESPP was to be increased on April 1st of each year, subject to the approval of such increase by Replidyne s board of directors by no later than March 31st of each year, by the lesser of (i) one percent (1.0%) of the total number of shares of Replidyne common stock outstanding on such date, or (ii) 101,957 shares, provided that Replidyne s board of directors could designate a smaller number of shares to be added to the share reserve as of a particular April 1.

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Administration. The Replidyne board of directors administers the ESPP unless and until the board delegates administration to a committee. Whether or not the board delegates administration, the board has full power to interpret the ESPP, and its decisions are final and binding upon all participants.

Term. According to the terms of the ESPP, the ESPP terminates on May 31, 2016, unless all shares of common stock available for issuance under the ESPP are distributed pursuant to the terms of the ESPP before May 31, 2016, in which case the ESPP will terminate as of the date of the last purchase made under the ESPP. The board of directors may also terminate the ESPP at any time.

Eligibility. Any employee of Replidyne or any of its participating subsidiaries will be eligible to participate in the ESPP, provided the employee is not customarily employed for 20 hours or less per week or five months or less in a calendar year. However, no employee will be eligible to participate in the ESPP if, immediately after the grant of an option to purchase stock under the ESPP, that employee would own 5% or more of either the voting power or the value of Replidyne stock or of one of its subsidiaries. No employee s rights to purchase common stock pursuant to the ESPP may accrue at a rate that exceeds $25,000 in market value of Replidyne common stock per calendar year.

Offering. The Replidyne board of directors may from time to time grant employees the option to purchase shares under the ESPP, which is referred to as an offering, on a certain date or range of dates, which is referred to as the offering date, or the offering dates. The provisions of separate offerings need not be identical. No period during which one single offering is effective may exceed 27 months.

Participation. Under the ESPP, a participant may authorize payroll deductions pursuant to an offering, which may not exceed 20% of his or her base wages or salary during the offering period. The Replidyne board of directors may specify a maximum number of shares that may be purchased by any employee in an offering as well as a maximum aggregate number of shares that may be purchased by all employees in such offering. An employee s right to participate in the ESPP will terminate when the employee s employment with Replidyne terminates.

Each participant will automatically be granted an option to purchase shares of Replidyne common stock for each offering. The option generally will expire at the end of the offering or upon termination of employment, whichever is earlier.

Purchases. Under the ESPP, shares will be purchased at a price equal to 85% of the lesser of (i) the fair market value of a share of Replidyne common stock on the offering date, or (ii) the fair market value of a share of Replidyne common stock on the purchase date.

On each purchase date for a particular offering, each participant s accumulated payroll deductions and other additional payments specifically provided for in the offering (without any increase for interest) will be applied to the purchase of whole shares of Replidyne s common stock, up to the maximum number of shares permitted pursuant to the terms of the ESPP and the applicable offering, at the purchase price specified in the offering, No fractional shares will be issued upon the exercise of purchase rights under the ESPP.

Adjustments Upon Changes in Stock. If through merger, consolidation, reorganization, recapitalization, stock dividend, dividend in property other than cash, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or other transaction not involving the receipt of consideration by Replidyne, any change is made in Replidyne common stock, the ESPP and any outstanding ESPP options to purchase shares of Replidyne common stock will be appropriately adjusted.

Adjustments Upon Change of Control. Upon a change of control, the Replidyne board of directors may provide that the successor corporation will assume or substitute for outstanding purchase rights. Alternatively, if a successor corporation does not assume or substitute for outstanding purchase rights, accumulated contributions shall be used to purchase Replidyne common stock for the participants immediately before the change of control and purchase rights under any ongoing offerings shall terminate immediately after such purchase.

Participant Elections. During an offering, a participant may cease making contributions and withdraw from the offering by delivering to Replidyne a notice of withdrawal in such form as Replidyne may provide. Such withdrawal may be elected at any time prior to the end of the offering, except as otherwise provided in the offering.

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Upon such withdrawal from the offering, Replidyne shall distribute to such participant all of his or her contributions that have not already been used to purchase Replidyne common stock under the offering.

Amendment and Termination. The Replidyne board of directors at any time, and from time to time, may amend the ESPP or the terms of one or more offerings. However, except for changes as provided for in the above sections entitled Adjustments Upon Changes in Stock and Adjustments Upon Change in Control, no amendment shall be effective unless approved by the Replidyne stockholders within the time and to the extent such stockholder approval is necessary for the ESPP to satisfy the requirements of Section 423 of the Internal Revenue Code of 1986, as amended, or the Code, or other applicable laws and regulations.

Specific Benefits

The benefits that will be received by or allocated to eligible employees under the ESPP cannot be determined at this time because the amount of contributions set aside to purchase shares of Replidyne s common stock under the ESPP (subject to the limitations discussed above) is entirely within the discretion of each participant.

Material U.S. Federal Income Tax Consequences

If stockholders approve the amendment to the ESPP as described above, the ESPP, and the right of participants to make purchases thereunder, should qualify for treatment under the provisions of Sections 421 and 423 of the Code. Under these provisions, no income will be taxable to a participant for United States federal income tax purposes until the shares purchased under the ESPP are sold or otherwise disposed of.

Upon the sale or other disposition of the shares, the participant will generally be subject to tax, and the amount of the tax will depend upon the holding period. If the shares are sold or otherwise disposed of more than one year after the purchase date and two years or more from the applicable offering date, or if the participant dies prior to such sale or other disposition, then the participant generally will recognize ordinary income measured as the lesser of: (i) the excess of the fair market value of the shares at the time of such sale or disposition over the purchase price, or (ii) an amount equal to 15% of the fair market value of the shares on the last trading day of their purchase period.

Any additional gain should be treated as long-term capital gain. If the sales price is less than the purchase price, then the participant shall not recognize any ordinary income and such excess shall be treated as a long-term capital loss.

If the shares are sold or otherwise disposed of before the expiration of the one-year or two-year holding periods described above, the participant will recognize ordinary income generally measured as the excess of the fair market value of the shares on the date the shares are purchased over the purchase price. Any additional gain or loss on such sale or disposition will be long-term or short-term capital gain or loss, depending on the holding period.

Replidyne is entitled to a deduction only to the extent ordinary income is recognized by participants upon a sale or disposition of shares prior to the expiration of the holding periods described above. In all other cases, no deduction is allowed to Replidyne.

The foregoing discussion is not intended to cover all tax consequences of participation in the ESPP. The tax consequences outlined above apply only with respect to an employee whose income is subject to United States federal income tax during the period beginning with the grant of an option and ending with the disposition of the common stock acquired through the exercise of the option. Different or additional rules may apply to individuals who are subject to income tax in a foreign jurisdiction and/or are subject to state/local income tax in the United States.

Vote Required; Recommendation of Replidyne Board of Directors

The approval of the proposed amendment to the ESPP will require the affirmative vote of the holders of a majority of the shares of Replidyne common stock casting votes in person or by proxy at the Replidyne special meeting.

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A failure to submit a proxy card on vote at the special meeting, or an abstention, vote withheld or broker non-vote will have no impact on the outcome of Replidyne Proposal No. 5.

The adoption of Replidyne Proposal No. 5 is conditioned upon the adoption of the merger proposal. Closing of the merger is not, however, conditioned on the adoption of the Replidyne Proposal No. 5.

REPLIDYNE S BOARD OF DIRECTORS RECOMMENDS THAT REPLIDYNE STOCKHOLDERS VOTE FOR REPLIDYNE PROPOSAL NO. 5 TO AMEND THE 2006 EMPLOYEE STOCK PURCHASE PLAN TO INCREASE THE MAXIMUM NUMBER OF SHARES OF REPLIDYNE COMMON STOCK AUTHORIZED FOR ISSUANCE UNDER THE ESPP BY 1,615,000 SHARES TO 1,920,872 SHARES AND AMEND THE EVERGREEN PROVISIONS THEREOF AS DESCRIBED HEREIN.

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REPLIDYNE PROPOSAL NO. 6

APPROVAL OF POSSIBLE ADJOURNMENT OF THE SPECIAL MEETING

Overview

If Replidyne fails to receive a sufficient number of votes to approve Replidyne Proposal No. 1, 2, 3, 4 or 5 Replidyne may propose to adjourn the Replidyne special meeting, if a quorum is present, for a period of not more than 30 days for the purpose of soliciting additional proxies to approve Replidyne Proposal No. 1, 2, 3, 4 or 5. Replidyne currently does not intend to propose adjournment at the special meeting if there are sufficient votes to approve Replidyne Proposal Nos. 1, 2, 3, 4 and 5.

Vote Required; Recommendation of Replidyne Board of Directors

The affirmative vote of the holders of a majority of shares of Replidyne common stock casting votes in person or by proxy at the Replidyne special meeting is required to approve the adjournment of the Replidyne special meeting for the purpose of soliciting additional proxies to approve Replidyne Proposal No. 1, 2, 3, 4 or 5.

A failure to submit a proxy card or vote at the special meeting, or an abstention, vote withheld or broker non-vote will have no effect on the outcome of Replidyne Proposal No. 6.

REPLIDYNE S BOARD OF DIRECTORS RECOMMENDS THAT REPLIDYNE STOCKHOLDERS VOTE FOR PROPOSAL NO. 6 TO ADJOURN THE SPECIAL MEETING, IF NECESSARY, IF A QUORUM IS PRESENT, TO SOLICIT ADDITIONAL PROXIES IF THERE ARE NOT SUFFICIENT VOTES IN FAVOR OF REPLIDYNE PROPOSAL NO. 1, 2, 3, 4 OR 5.

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THE SPECIAL MEETING OF CSI STOCKHOLDERS

Date, Time and Place

The special meeting of CSI stockholders will be held on February 24, 2009 at Cardiovascular Systems, Inc., 651 Campus Drive, St. Paul, Minnesota commencing at 9:00 a.m., local time. We are sending this proxy statement/prospectus to you in connection with the solicitation of proxies by the CSI board of directors for use at the CSI special meeting and any adjournments or postponements of the special meeting. This proxy statement/prospectus is first being furnished to CSI stockholders on or about January 29, 2009.

Purposes of the CSI Special Meeting

1. To consider and vote upon a proposal to approve and adopt the Agreement and Plan of Merger and Reorganization, dated November 3, 2008, by and among Replidyne, Responder Merger Sub, Inc., and CSI and the merger contemplated therein, as described in this proxy statement/prospectus.

2. To authorize an increase in the number of shares of CSI common stock reserved under CSI s 2007 Equity Incentive Plan from 3,379,397 to 3,879,397.

3. To consider and vote upon an adjournment of the special meeting, if necessary, if a quorum is present, to solicit additional proxies if there are not sufficient votes in favor of CSI Proposal No. 1 or 2.

4. To transact such other business as may properly come before the special meeting or any adjournment or postponement thereof.

The board of directors of CSI has fixed January 26, 2009 as the record date for the determination of stockholders entitled to notice of, and to vote at, the special meeting and any adjournment or postponement thereof. Only holders of record of shares of CSI common stock and preferred stock at the close of business on the record date are entitled to notice of, and to vote at, the special meeting. At the close of business on the record date, CSI had 7,792,905 shares of common stock, 4,737,561 shares of Series A convertible preferred stock, 2,188,425 shares of Series A-1 convertible preferred stock and 2,162,150 shares of Series B convertible preferred stock outstanding and entitled to vote.

Recommendation of the CSI Board of Directors

THE CSI BOARD OF DIRECTORS HAS DETERMINED AND BELIEVES THAT THE AGREEMENT AND PLAN OF MERGER AND REORGANIZATION AND THE MERGER CONTEMPLATED THEREIN ARE ADVISABLE TO, AND IN THE BEST INTERESTS OF, CSI AND ITS STOCKHOLDERS AND HAS APPROVED SUCH PROPOSAL. THE CSI BOARD OF DIRECTORS RECOMMENDS THAT CSI STOCKHOLDERS VOTE FOR CSI PROPOSAL NO. 1 TO APPROVE AND ADOPT THE AGREEMENT AND PLAN OF MERGER AND REORGANIZATION AND THE MERGER CONTEMPLATED THEREIN.

THE CSI BOARD OF DIRECTORS HAS DETERMINED AND BELIEVES THAT THE APPROVAL OF AN INCREASE IN THE RESERVED SHARES UNDER THE 2007 EQUITY INCENTIVE PLAN TO 3,879,397 SHARES IS ADVISABLE TO, AND IN THE BEST INTERESTS OF, CSI AND ITS STOCKHOLDERS AND HAS APPROVED SUCH PROPOSAL. THE CSI BOARD OF DIRECTORS RECOMMENDS THAT CSI STOCKHOLDERS VOTE FOR CSI PROPOSAL NO. 2 TO APPROVE THE INCREASE IN THE RESERVED SHARES UNDER THE 2007 EQUITY INCENTIVE PLAN.

THE CSI BOARD OF DIRECTORS HAS DETERMINED AND BELIEVES THAT ADJOURNING THE SPECIAL MEETING, IF NECESSARY, IF A QUORUM IS PRESENT, TO SOLICIT ADDITIONAL PROXIES IF THERE ARE NOT SUFFICIENT VOTES IN FAVOR OF CSI PROPOSAL NO. 1 OR 2 IS ADVISABLE TO, AND IN THE BEST INTERESTS OF, CSI AND HAS APPROVED SUCH ADJOURNMENT, IF NECESSARY. CSI S BOARD OF DIRECTORS RECOMMENDS THAT CSI STOCKHOLDERS VOTE FOR CSI PROPOSAL NO. 3 TO ADJOURN THE SPECIAL MEETING, IF NECESSARY, IF A QUORUM IS PRESENT, TO SOLICIT ADDITIONAL PROXIES IF THERE ARE NOT SUFFICIENT VOTES IN FAVOR OF CSI PROPOSAL NO. 1 OR 2.

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Record Date and Voting Power

Only holders of record of CSI common stock and preferred stock at the close of business on the record date, January 26, 2009, are entitled to notice of, and to vote at, the CSI special meeting. There were approximately 640 holders of record of CSI common stock and approximately 270 holders of record of CSI preferred stock at the close of business on the record date. At the close of business on the record date, 7,792,905 shares of CSI common stock, 4,737,561 shares of Series A convertible preferred stock, 2,188,425 shares of Series A-1 convertible preferred stock and 2,162,150 shares of Series B convertible preferred stock were issued and outstanding. Each share of CSI common stock entitles the holder thereof to one vote on each matter submitted for stockholder approval. Each holder of the CSI preferred stock is entitled to such number of votes per share on each Proposal to be voted upon as shall equal the number of shares of common stock into which each share of the preferred stock is then convertible, and in the event each share of the preferred stock is convertible into a number of shares of common stock including a fraction, each holder shall be entitled to vote the sum of fractions of a share to which the holder is entitled, rounded down to the nearest whole number. As of the record date, each share of Series A convertible preferred stock was convertible into 1.01 shares of CSI common stock, each share of Series A-1 convertible preferred stock was convertible into 1.03 shares of CSI common stock, and each share of Series B convertible preferred stock was convertible into 1.01 shares of CSI common stock. See CSI Security Ownership by Certain Beneficial Owners and Management for information regarding persons known to the management of CSI to be the beneficial owners of more than 5% of the outstanding shares of CSI common stock.

Voting and Revocation of Proxies

The proxy accompanying this proxy statement/prospectus is solicited on behalf of CSI s board of directors for use at the CSI special meeting.

If you are a stockholder of record of CSI as of the record date referred to above, you may vote in person at the special meeting or by using the enclosed proxy card. Whether or not you plan to attend the special meeting, CSI urges you to vote by proxy to ensure your vote is counted. You may still attend the special meeting and vote in person if you have already voted by proxy.

If your shares are registered directly in your name, you may vote:

By Mail. Complete, date and sign the enclosed proxy card and mail it in the enclosed postage-paid envelope to the attention of Bonnie Eichers of Fredrikson & Byron P.A., 200 South Sixth Street, Suite 4000, Minneapolis, MN 55402. Your proxy will be voted according to your instructions. If you do not specify how you want your shares voted, they will be voted as recommended by CSI s board of directors.

By Fax. Complete, date and sign the enclosed proxy card and fax it to 1-612-492-7077 to the attention of Bonnie Eichers of Fredrikson & Byron, P.A. Your proxy will be voted according to your instructions. If you do not specify how you want your shares voted, they will be voted as recommended by CSI s board of directors.

In Person at the Meeting. If you attend the meeting, you may deliver your completed proxy card in person or you may vote by completing a ballot, which will be available at the meeting.

All properly executed proxies that are not revoked will be voted at the special meeting and at any adjournments or postponements of the special meeting in accordance with the instructions contained in the proxy. If a holder of CSI common stock or preferred stock executes and returns a proxy and does not specify otherwise, the shares represented

by that proxy will be voted FOR each CSI Proposal set forth at the special meeting.

Any CSI stockholder of record voting by proxy, other than those stockholders who have executed a voting agreement and irrevocable proxy, has the right to revoke the proxy at any time before the polls close at the special meeting by sending a written notice stating that it would like to revoke its proxy to the Secretary of CSI, by providing a duly executed proxy card bearing a later date than the proxy being revoked or by attending the special meeting and voting in person. Attendance alone at the special meeting will not revoke a proxy.

Quorum and Required Vote

The presence, in person or by proxy, at the special meeting of the holders of a majority of the voting power of CSI s outstanding common stock and preferred stock is necessary to constitute a quorum at the meeting. If CSI

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stockholders do not vote by proxy or in person at the special meeting, the shares of common stock and preferred stock of such stockholders will not be counted as present for the purpose of determining a quorum. Abstentions will be counted towards a quorum.

The affirmative vote of (i) the holders of a majority of the voting power of CSI common stock and preferred stock outstanding on the record date, voting as a single class on an as-converted to common stock basis, and (ii) the holders of a majority of the shares of CSI preferred stock outstanding on the record date, voting as a single class on an as-converted to common stock basis and including the shares of CSI preferred stock held by affiliates of Easton Capital Investment Group and Maverick Capital, Ltd., is required for approval of CSI Proposal No. 1. The affirmative vote of the holders of a majority of the voting power of CSI common stock and preferred stock voting as a single class on an as-converted to common stock basis casting votes in person or by proxy at the CSI special meeting is required for approval of CSI Proposal Nos. 2 and 3.

For CSI Proposal No. 1, a failure to submit a proxy card or vote at the special meeting, or an abstention, would have the same effect as voting against such proposal. For CSI Proposal Nos. 2 and 3, a failure to submit a proxy card or vote at the special meeting, or an abstention or vote withheld will have no effect on the outcome of such proposals.

In order to induce Replidyne to enter into the merger agreement, several CSI stockholders entered into voting agreements and irrevocable proxies with Replidyne pursuant to which, among other things, each of these stockholders agreed, solely in his capacity as a stockholder, to vote shares representing approximately 20% of the outstanding capital stock of CSI in favor of the merger and the other actions contemplated by the merger agreement.

Solicitation of Proxies

In addition to solicitation by mail, the directors, officers, employees and agents of CSI may solicit proxies from CSI stockholders by telephone, other electronic means or in person. Directors, officers, employees and agents of CSI will not receive any additional compensation for their services, but CSI will reimburse them for their out-of-pocket expenses. CSI also will make arrangements with banks, brokers, nominees, custodians and fiduciaries who are record holders of CSI common stock for the forwarding of solicitation materials to the beneficial owners of CSI common stock. CSI will reimburse these banks, brokers, nominees, custodians and fiduciaries for the reasonable out-of-pocket expenses they incur in connection with the forwarding of solicitation materials and in obtaining voting instructions from these owners.

Other Matters

As of the date of this proxy statement/prospectus, the CSI board of directors does not know of any business to be presented at the CSI special meeting other than as set forth in the notice accompanying this proxy statement/prospectus. If any other matters should come before the special meeting, it is intended that the shares represented by proxies will be voted with respect to such matters in accordance with the judgment of the persons voting the proxies.

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CSI PROPOSAL NO. 1

APPROVAL OF THE MERGER AGREEMENT AND THE MERGER

CSI stockholders should refer to Replidyne Proposal No. 1 Approval of Issuance of Shares of Replidyne Common Stock in the Merger for information relevant to the evaluation of CSI Proposal No. 1.

Vote Required; Recommendation of CSI Board of Directors

The affirmative vote of (i) the holders of a majority of the voting power of CSI common stock and preferred stock outstanding on the record date, voting as a single class on an as-converted to common stock basis, and (ii) the holders of a majority of the shares of CSI preferred stock outstanding on the record date, voting as a single class on an as-converted to common stock basis and including the shares of CSI preferred stock held by affiliates of Easton Capital Investment Group and Maverick Capital, Ltd., casting votes in person or by proxy at the CSI special meeting is required to approve and adopt the Agreement and Plan of Merger and Reorganization, dated November 3, 2008, by and among Replidyne, Responder Merger Sub, Inc. and CSI and the merger contemplated therein.

A failure to submit a proxy card or vote at the special meeting, or an abstention or vote withheld will have the same effect as voting against CSI Proposal No. 1.

CSI S BOARD OF DIRECTORS RECOMMENDS THAT CSI STOCKHOLDERS VOTE FOR CSI PROPOSAL NO. 1 TO APPROVE AND ADOPT THE AGREEMENT AND PLAN OF MERGER AND REORGANIZATION, DATED NOVEMBER 3, 2008, BY AND AMONG REPLIDYNE, RESPONDER MERGER SUB, INC. AND CSI AND THE MERGER CONTEMPLATED THEREIN.

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CSI PROPOSAL NO. 2

APPROVAL OF INCREASE IN RESERVED SHARES UNDER THE 2007 EQUITY INCENTIVE PLAN

Proposed Amendment

The CSI board of directors has amended CSI s 2007 Equity Incentive Plan, or the 2007 Plan, subject to stockholder approval, to increase the shares of CSI common stock reserved under the 2007 Plan for equity awards from 3,379,397 to 3,879,397.

CSI stockholders should refer to Replidyne Proposal No. 4 Approval of Assumption of the Cardiovascular Systems, Inc. 2007 Equity Incentive Plan for additional information relevant to the evaluation of CSI Proposal No. 2.

Reasons for the Amendment

CSI believes the 2007 Plan is an important factor in attracting and retaining skilled personnel. As of January 26, 2009, there were 2,158,364 shares of CSI common stock subject to outstanding options and 955,336 shares of CSI common stock subject to outstanding restricted stock awards granted pursuant to the 2007 Plan. As of that date, exclusive of the 500,000 shares to be added pursuant to the amendment described herein, CSI had 265,697 shares reserved and available under the 2007 Plan for the future awards. The CSI board of directors believes that granting fairly priced equity awards to employees, officers, consultants and directors is an effective means to promote the future growth and development of the company. Such awards, among other things, increase these individuals proprietary interest in CSI s success and enable CSI to attract and retain qualified personnel. The CSI board of directors also believes that the 2007 Plan ties the employees goals and interests to those of the company and its stockholders.

The CSI board of directors believes that it is in the best interest of CSI and its stockholders to approve the amendment to the 2007 Plan. Based on an estimated usage rate, CSI currently anticipates that, without the proposed addition of 500,000 shares to the 2007 Plan, there may not be sufficient shares available for grants under the 2007 Plan through the end of fiscal year 2009. In order to continue to have an adequate number of shares available for awards to recruit, hire, and retain personnel, the CSI board of directors believes that an additional 500,000 shares are required, for which stockholder approval is sought.

Vote Required; Recommendation of CSI Board of Directors

The affirmative vote of the holders of a majority of the voting power of CSI common stock and preferred stock, voting as a single class on an as-converted to common stock basis, casting votes in person or by proxy at the CSI special meeting is required to approve the increase in reserved shares under the 2007 Plan.

A failure to submit a proxy card or vote at the special meeting, or an abstention or vote withheld will have no effect on the outcome of CSI Proposal No. 2.

CSI S BOARD OF DIRECTORS RECOMMENDS THAT CSI STOCKHOLDERS VOTE FOR PROPOSAL NO. 2 TO INCREASE THE NUMBER OF RESERVED SHARES UNDER THE 2007 PLAN BY 500,000 SHARES TO 3,879,397 SHARES.

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CSI PROPOSAL NO. 3

APPROVAL OF POSSIBLE ADJOURNMENT OF THE SPECIAL MEETING

Overview

If CSI fails to receive a sufficient number of votes to approve CSI Proposal No. 1 or 2, CSI may propose to adjourn the CSI special meeting, if a quorum is present, for a period of not more than 30 days for the purpose of soliciting additional proxies to approve CSI Proposal No. 1 or 2. CSI currently does not intend to propose adjournment at the special meeting if there are sufficient votes to approve CSI Proposal Nos. 1 and 2.

Vote Required; Recommendation of CSI Board of Directors

The affirmative vote of the holders of a majority of the voting power of CSI common stock and preferred stock, voting as a single class on an as-converted to common stock basis, casting votes in person or by proxy at the CSI special meeting is required to approve the adjournment of the CSI special meeting for the purpose of soliciting additional proxies to approve CSI Proposal No. 1 or 2.

A failure to submit a proxy card or vote at the special meeting, or an abstention or vote withheld will have no effect on the outcome of CSI Proposal No. 3.

CSI S BOARD OF DIRECTORS RECOMMENDS THAT CSI STOCKHOLDERS VOTE FOR PROPOSAL NO. 3 TO ADJOURN THE SPECIAL MEETING, IF NECESSARY, IF A QUORUM IS PRESENT, TO SOLICIT ADDITIONAL PROXIES IF THERE ARE NOT SUFFICIENT VOTES IN FAVOR OF CSI PROPOSAL NO. 1 OR 2.

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INFORMATION ABOUT REPLIDYNE S BUSINESS

Overview

Replidyne was incorporated in Delaware in December 2000 and began as a biopharmaceutical company focused on discovering, developing, in-licensing and commercializing innovative anti-infective products. In December 2005, Replidyne submitted a new drug application, or NDA, for its lead product candidate, faropenem medoxomil, based on 11 Phase III clinical trials for the following adult indications: acute bacterial sinusitis; community-acquired pneumonia; acute exacerbation of chronic bronchitis; and uncomplicated skin and skin structure infections. In October 2006, the U.S. Food and Drug Administration, or FDA, issued a non-approvable letter with respect to Replidyne s NDA citing the need for further clinical trials for all indications, including trials using a superiority design for acute bacterial sinusitis and acute exacerbation of chronic bronchitis, more extensive microbiologic confirmation and consideration of alternate dosing regimens. In December 2007, Replidyne began to explore potential strategic alternatives, established processes for identifying and evaluating those alternatives and, over the following months, committed to restructuring plans that reduced spending while maintaining research and clinical development capabilities for ongoing product candidate and research development. Replidyne had been developing its product candidate REP3123, an investigational narrow-spectrum antibacterial agent for the treatment of *Clostridium difficile* (*C. difficile*) bacteria and *C. difficile* infection and its other novel anti-infective programs based on its bacterial DNA replication inhibition technology. In April 2008, Replidyne suspended enrollment in the last of its clinical trials on faropenem medoxomil in order to conserve its cash assets and further support initiatives related to the pursuit of strategic transactions. As a result of its inability to secure a partner for the faropenem medoxomil program, Replidyne announced in June 2008 that it would return the license for faropenem medoxomil to its licensor, Asubio Pharma Co., Ltd. In August 2008, Replidyne suspended the development of REP3123 and its other anti-infective programs based on its bacterial DNA replication inhibition technology. These and subsequent related actions have reduced the Replidyne workforce to a level of three employees, all of whom are involved primarily in financial and administrative roles, as of December 31, 2008. Replidyne is pursuing the sale of REP3123 and its related technology and the sale of the anti-infective programs based on its bacterial DNA replication inhibition technology in a transaction or transactions separate from the merger with CSI. Replidyne no longer has employees engaged in development and commercialization activities.

Following an extensive process of evaluating strategic alternatives for Replidyne and identifying and reviewing potential candidates for a strategic transaction, on November 3, 2008, Replidyne and CSI entered into a definitive merger agreement under which Replidyne would acquire CSI in a stock transaction. If the merger is completed, the business of the combined company will become the business of CSI as described on page 120 under the caption Information About CSI s Business. If the merger with CSI is not completed, Replidyne will reconsider its strategic alternatives and could pursue one of the following courses of action, which Replidyne currently believes to be the most likely alternatives if the merger with CSI is not completed:

Pursue another strategic transaction like the merger. Replidyne may resume its process of evaluating other companies with which to merge and, if a candidate is identified, focus its attention on completing such a transaction.

Dissolve and liquidate its assets. If Replidyne does not believe it can find a suitable strategic alliance, Replidyne may dissolve and liquidate its assets. Replidyne would be required to pay all of its debts and contractual obligations and to set aside certain reserves for potential future claims, and there can be no assurances as to the amount or timing of available cash remaining to distribute to stockholders after paying the Replidyne debts and other obligations and setting aside funds for reserves.

Sales and Marketing

Replidyne currently has no marketing, sales or distribution capabilities and does not have any current plans to develop these capabilities.

Intellectual Property

Replidyne acquired worldwide rights to the methionyl tRNA synthetase inhibitor program from GlaxoSmithKline, or GSK, in June 2003. Replidyne s agreement with GSK included the assignment of patents and patent applications to Replidyne relating to small molecule methionyl tRNA synthetase inhibitors and the

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targets initially used to identify the inhibitors. Replidyne has filed additional patent applications directed to small molecule methionyl tRNA synthetase, uses, production methods and the like. Replidyne has two issued U.S. patents that cover REP8839 and additional patent applications directed to REP8839 and combinations of REP8839 and mupirocin. As of December 31, 2008, Replidyne has 15 issued U.S. patents, 10 pending U.S. patent applications, nine issued foreign patent and 18 pending foreign patent applications related generally to the methionyl tRNA synthetase programs including the REP8839 program. These patents expire from 2017 to 2025.

Replidyne filed four pending U.S. patent applications, one provisional patent application, and four pending PCT patent applications directed to composition of matter and methods of use related to its REP3123 program that expire in 2027.

Replidyne filed patent applications directed to compounds that inhibit DNA replication that have been identified through Replidyne s in-house screening efforts. Replidyne also owns a portfolio of patents related to the DNA replication targets and drug screening methods to identify inhibitors of DNA replication. As of December 31, 2008, Replidyne had one issued U.S. patent, four pending U.S. patent applications, three issued foreign patents and 12 pending foreign patent applications, including three PCT patent applications related to Replidyne s bacterial DNA replication program. These patents expire from 2021 to 2028.

Competition

Replidyne is not currently developing any product candidates and is therefore not subject to any competition.

Manufacturing

Replidyne does not own facilities for the manufacture of materials for clinical or commercial use and is not currently manufacturing, or having any third parties manufacture, any materials.

Insurance

Replidyne maintains liability insurance for its completed clinical trials.

Employees

As of December 31, 2008, Replidyne had three full-time employees, all of whom are involved primarily in finance and other administrative functions. Replidyne considers its relationship with its employees to be good.

Facilities

Replidyne s facilities currently consist of approximately 52,000 square feet of laboratory and office facilities located at its headquarters in Louisville, Colorado, with average annual lease payments totaling approximately $1.3 million. The lease expires in September 2011. Subject to the approval of the landlord under its lease, Replidyne has entered into subleases with respect to approximately 16,500 square feet of its headquarters location. These subleases extend through the expiration of Replidyne s lease on the premises.

Legal Proceedings

Replidyne is not currently a party to any legal proceedings.

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INFORMATION ABOUT CSI S BUSINESS

Corporate Information

CSI was formed in 1989 as Shturman Cardiology Systems, Inc. and incorporated in Minnesota. From 1989 to 1997, CSI engaged in research and development on several different product concepts that were later abandoned. Since 1997, CSI has devoted substantially all of its resources to the development of the Diamondback 360°. In 2003, CSI changed its name to Cardiovascular Systems, Inc.

CSI s principal executive office is located at 651 Campus Drive, St. Paul, Minnesota 55112. CSI s telephone number is (651) 259-2800, and its website is www.csi360.com. The information contained in or connected to CSI s website is not incorporated by reference into, and should not be considered part of, this proxy statement/prospectus.

CSI has applied for federal registration of certain marks, including Diamondback 360° and ViperWire. All other trademarks, trade names and service marks appearing in this proxy statement/prospectus are the property of their respective owners.

Business Overview

CSI is a medical device company focused on developing and commercializing interventional treatment systems for vascular disease. CSI s initial product, the Diamondback 360° Orbital Atherectomy System, is a minimally invasive catheter system for the treatment of peripheral arterial disease, or PAD. PAD affects approximately eight to 12 million people in the United States, as cited by the authors of the PARTNERS study published in the Journal of the American Medical Association in 2001. PAD is caused by the accumulation of plaque in peripheral arteries, most commonly occurring in the pelvis and legs. However, as reported in an article published in Podiatry Today in 2006, only approximately 2.5 million of those eight to 12 million people are treated. PAD is a progressive disease, and if left untreated can lead to limb amputation or death. In August 2007, the U.S. Food and Drug Administration, or FDA, granted CSI 510(k) clearance for use of the Diamondback 360° as a therapy in patients with PAD. CSI commenced a limited commercial introduction of the Diamondback 360° in the United States in September 2007. This limited commercial introduction intentionally limited the size of CSI s sales force and the number of customers each member of the sales force served in order to focus on obtaining quality and timely product feedback on initial product usages. During the quarter ended March 31, 2008, CSI began its full commercial launch.

The Diamondback 360° s single-use catheter incorporates a flexible drive shaft with an offset crown coated with diamond grit. Physicians position the crown with the aid of fluoroscopy at the site of an arterial plaque lesion and remove the plaque by causing the crown to orbit against it, creating a smooth lumen, or channel, in the vessel. The Diamondback 360° is designed to differentiate between plaque and compliant arterial tissue, a concept that CSI refers to as differential sanding. The particles of plaque resulting from differential sanding are generally smaller than red blood cells and are carried away by the blood stream. The small size of the particles avoids the need for plaque collection reservoirs and the delay involved in removing the collection reservoir when it fills up during the procedure. Physicians are able to keep the Diamondback 360° in the artery until the desired vessels have been treated, potentially reducing the overall procedure time. As the physician increases the rotational speed of the drive shaft, the crown not only rotates faster but also, due to centrifugal force, begins to orbit with an increasing circumference. The Diamondback 360° can create a lumen that is approximately 100% larger than the actual diameter of the device, for a device-to-lumen ratio of 1.0 to 2.0. By giving physicians the ability to create different lumen diameters with a change in rotational speed, the Diamondback 360° can reduce the need to use multiple catheters of different sizes to treat a single lesion.

CSI has conducted three clinical trials involving 207 patients to demonstrate the safety and efficacy of the Diamondback 360° in treating PAD. In particular, CSI s pivotal OASIS clinical trial was a prospective 20-center study that involved 124 patients with 201 lesions and met FDA targets. CSI was the first, and so far the only, company to conduct a prospective multi-center clinical trial with a prior investigational device exemption, or IDE, in support of a 510(k) clearance for an atherectomy device. CSI believes that the Diamondback 360° provides a platform that can be leveraged across multiple market segments. In the future, CSI expects to launch additional products to treat lesions in larger vessels, provided that CSI obtains appropriate 510(k) clearance from the FDA. CSI also plans to seek premarket approval (PMA) from the FDA to use the Diamondback 360° to treat patients with coronary artery disease.

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Market Overview

Peripheral Artery Disease

PAD is a circulatory problem in which plaque deposits build up on the walls of arteries, reducing blood flow to the limbs. The most common early symptoms of PAD are pain, cramping or tiredness in the leg or hip muscles while walking. Symptoms may progress to include numbness, tingling or weakness in the leg and, in severe cases, burning or aching pain in the leg, foot or toes while resting. As PAD progresses, additional signs and symptoms occur, including cooling or color changes in the skin of the legs or feet, and sores on the legs or feet that do not heal. If untreated, PAD may lead to critical limb ischemia, a condition in which the amount of oxygenated blood being delivered to the limb is insufficient to keep the tissue alive. Critical limb ischemia often leads to large non-healing ulcers, infections, gangrene and, eventually, limb amputation or death.

PAD affects approximately eight to 12 million people in the United States, as cited by the authors of the PARTNERS study published in the Journal of the American Medical Association in 2001. According to 2007 statistics from the American Heart Association, PAD becomes more common with age and affects approximately 12% to 20% of the population over 65 years old. An aging population, coupled with increasing incidence of diabetes and obesity, is likely to increase the prevalence of PAD. In many older PAD patients, particularly those with diabetes, PAD is characterized by hard, calcified plaque deposits that have not been successfully treated with existing non-invasive treatment techniques. PAD may involve arteries either above or below the knee. Arteries above the knee are generally long, straight and relatively wide, while arteries below the knee are shorter and branch into arteries that are progressively smaller in diameter.

Despite the severity of PAD, it remains relatively underdiagnosed. According to an article published in Podiatry Today in 2006, only approximately 2.5 million of the eight to 12 million people in the United States with PAD are diagnosed. Although CSI believes the rate of diagnosis of PAD is increasing, underdiagnosis continues due to patients failing to display symptoms or physicians misinterpreting symptoms as normal aging. Recent emphasis on PAD education from medical associations, insurance companies and other groups, coupled with publications in medical journals, is increasing physician and patient awareness of PAD risk factors, symptoms and treatment options. The PARTNERS study advocated increased PAD screening by primary care physicians.

Physicians treat a significant portion of the 2.5 million people in the United States who are diagnosed with PAD using medical management, which includes lifestyle changes, such as diet and exercise and drug treatment. For instance, within a reference group of over 1,000 patients from the PARTNERS study, 54% of the patients with a prior diagnosis of PAD were receiving antiplatelet medication treatment. While medications, diet and exercise may improve blood flow, they do not treat the underlying obstruction and many patients have difficulty maintaining lifestyle changes. Additionally, many prescribed medications are contraindicated, or inadvisable, for patients with heart disease, which often exists in PAD patients. As a result of these challenges, many medically managed patients develop more severe symptoms that require procedural intervention.

Conventional Interventional Treatments for PAD and Their Limitations

According to the Millennium Research Group, in 2006 there were approximately 1.3 million procedural interventions for the treatment of PAD in the United States, including 227,400 surgical bypass procedures, and 1,080,000 endovascular-based interventions, such as angioplasty and stenting.

Surgical Procedures. Bypass surgery and amputation are the most common surgical interventions that are used to treat PAD. In bypass surgery, the surgeon reroutes blood around a lesion using a vessel from another part of the body or a tube made of synthetic fabric. Bypass surgery has a high risk of procedure-related complications from blood loss, post-procedural infection or reaction to general anesthesia. Due to these complications, patients may have to remain hospitalized for several days and are exposed to mortality risk. According to clinical research published by EuroIntervention in 2005, bypass surgery has a five year survival rate of 60%. Amputation of all or a portion of a limb may be necessary as critical limb ischemia progresses to an advanced state, which results in approximately 160,000 to 180,000 amputations per year in the United States, according to an article published in Podiatry Today in July 2007.

Catheter-Based Interventions. Minimally invasive catheter-based interventions include angioplasty, stenting and atherectomy procedures. Angioplasty involves inserting a catheter with a balloon tip into the site of arterial blockage and then inflating the balloon to compress plaque and expand the artery wall. Stenting

involves implanting and expanding a cylindrical metal tube into the diseased artery to hold the arterial wall open. Both angioplasty and stenting can improve blood flow in plaque-lined arteries by opening lumens and are relatively fast and inexpensive compared to surgical procedures. However, these techniques are not as effective in long or calcified lesions or in lesions located below the knee, nor do they remove any plaque from the artery. Moreover, most stents are not FDA-approved for use in arteries in the lower extremities. Additional concerns include the potential to damage the artery when the balloon is expanded in angioplasty and the potential for stent fracture during normal leg movement. Both angioplasty and stenting have also been associated with high rates of restenosis, or re-narrowing of the arteries, in the months following the procedure.

A third category of catheter-based interventions is atherectomy, which involves removing plaque from the arterial wall by using cutting technologies or energy sources, such as lasers, or by sanding with a diamond grit coated crown. Atherectomy techniques that preceded the introduction of the Diamondback 360° include cutting atherectomy, laser atherectomy and rotational atherectomy. Cutting atherectomy devices are guided into an artery along a catheter to the target lesion, where the device is manipulated to remove plaque by cutting the tissue when the device is advanced. However, there is a risk that when plaque is cut away from a vessel wall, the removed plaque will flow into other parts of the body, where it will block the blood flow by obstructing the lumen, known as embolization. Laser atherectomy devices remove plaque through vaporization. Rotational atherectomy devices remove plaque by abrading the lesion with a spinning, abrasive burr, but lack the Diamondback 360° s ability to create larger lumen diameters by increasing rotational speed. These earlier catheter-based treatments also require the extensive use of fluoroscopy, which is an imaging technique to capture real-time images of an artery, but results in potentially harmful radiological exposure for the physician and patient.

The atherectomy technologies that preceded the introduction of the Diamondback 360° have significant drawbacks, including one or more of the following:

potential safety concerns, as these methods of plaque removal do not always discriminate between compliant arterial tissue and plaque, thus potentially damaging the arterial wall;

difficulty treating calcified lesions, diffuse disease and lesions located below the knee;

an inability to create lumens larger than the catheter itself in a single insertion (resulting in device-to-lumen ratios of 1.00 to 1.00 or worse), necessitating the use of multiple catheters, which increases the time, complexity and expense of the procedure;

the creation of rough, uneven lumens with deep grooves, which may impact blood flow dynamics following the procedure;

the potential requirement for greater physician skill, specialized technique or multiple operators to deliver the catheter and remove plaque;

the potential requirement for reservoirs or aspiration to capture and remove plaque, which often necessitates larger catheters and adds time, complexity and expense to the procedure;

the potential need for ancillary distal embolization protection devices to prevent large particles of dislodged plaque from causing distal embolisms or blockages downstream;

the potential requirement for large, expensive capital equipment used in conjunction with the procedure; and

the potential requirement for extensive use of fluoroscopy and increased emitted radiation exposure for physicians and patients during the procedure.

CSI believes that there is a significant market opportunity for a technology that opens lumens, similar to the lumen sizes achieved with angioplasty and stenting, in a simple, fast, cost-effective procedure that avoids the risks and potential restenosis associated with those procedures and addresses the historical limitations of atherectomy technologies.

CSI s Solution

The Diamondback 360° represents a new approach to the treatment of PAD that provides physicians and patients with a procedure that addresses many of the limitations of traditional treatment alternatives. The Diamondback 360° s single-use catheter incorporates a flexible drive shaft with an offset crown coated with

diamond grit. Physicians position the crown at the site of an arterial plaque lesion and remove the plaque by causing the crown to orbit against it, creating a smooth lumen, or channel, in the vessel. The Diamondback 360° is a rotational atherectomy catheter designed to differentiate between plaque and compliant arterial tissue, a concept that CSI refers to as differential sanding. The particles of plaque resulting from differential sanding are generally smaller than red blood cells and are carried away by the blood stream. As the physician increases the rotational speed of the drive shaft, the crown not only rotates faster but also, due to centrifugal force, begins to orbit with an increasing circumference. The Diamondback 360° can create a lumen that is approximately 100% larger than the actual diameter of the device, for a device-to-lumen ratio of 1.0 to 2.0. By giving physicians the ability to create different lumen diameters with a change in rotational speed, the Diamondback 360° can reduce the need to use multiple catheters of different sizes to treat a single lesion, thus reducing hospital inventory costs and procedure times.

CSI believes that the Diamondback 360° offers the following key benefits:

Strong Safety Profile

Differential Sanding Reduces Risk of Adverse Events. The Diamondback 360° is designed to differentiate between plaque and compliant arterial tissue. The diamond grit coated offset crown engages and removes plaque from the artery wall with minimal likelihood of penetrating or damaging the fragile, internal elastic lamina layer of the arterial wall because compliant tissue flexes away from the crown. Furthermore, the Diamondback 360° rarely penetrates even the middle inside layer of the artery and the two elastic layers that border it. The Diamondback 360° s perforation rates were 2.4% during CSI s pivotal OASIS trial. Analysis by an independent pathology laboratory of more than 436 consecutive cross sections of porcine arteries treated with the Diamondback 360° revealed there was minimal to no damage, on average, to the medial layer, which is typically associated with restenosis. In addition, the safety profile of the Diamondback 360° was found to be non-inferior to that of angioplasty, which is often considered the safest of interventional methods. This was demonstrated in CSI s OASIS trial, which had a 4.0% rate of device-related serious adverse events, or SAEs.

Reduces the Risk of Distal Embolization. The Diamondback 360° sands plaque away from artery walls in a manner that produces particles of such a small size generally smaller than red blood cells that they are carried away by the blood stream. The small size of the particles avoids the need for plaque collection reservoirs on the catheter and reduces the need for ancillary distal protection devices, commonly used with directional cutting atherectomy, and also significantly reduces the risk that larger pieces of removed plaque will block blood flow downstream.

Allows Continuous Blood Flow During Procedure. The Diamondback 360° allows for continuous blood flow during the procedure, except when used in chronic total occlusions. Other atherectomy devices may restrict blood flow due to the size of the catheter required or the use of distal protection devices, which could result in complications such as excessive heat and tissue damage.

Proven Efficacy

Efficacy Demonstrated in a 124-Patient Clinical Trial. CSI s pivotal OASIS clinical trial was a prospective 20-center study that involved 124 patients with 201 lesions and performance targets established cooperatively with the FDA before the trial began. Despite 55% of the lesions consisting of calcified plaque and 48% of the lesions having a length greater than three centimeters, the performance of the device in the OASIS trial met the FDA s study endpoints.

Treats Difficult and Calcified Lesions. The Diamondback 360° enables physicians to remove plaque from long, calcified or bifurcated lesions in peripheral arteries both above and below the knee. Existing PAD devices

have demonstrated limited effectiveness in treating calcified lesions.

Orbital Motion Improves Device-to-Lumen Ratio. The orbiting action of the Diamondback 360° can create a lumen of approximately 2.0 times the diameter of the crown. The variable device-to-lumen ratio allows the continuous removal of plaque as the opening of the lumen increases during the operation of the device. Other rotational atherectomy catheters remove plaque by abrading the lesion with a spinning,

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abrasive burr, which acts in a manner similar to a drill and only creates a lumen the same size or slightly smaller than the size of the burr.

Differential Sanding Creates Smooth Lumens. The differential sanding of the Diamondback 360° creates a smooth surface inside the lumen. This feature reduces the need to introduce a balloon after treatment to improve the surface of the artery, which is commonly done after cutting atherectomy. CSI believes that the smooth lumen created by the Diamondback 360° increases the velocity of blood flow and decreases the resistance to blood flow which may decrease potential for restenosis, or renarrowing of the arteries.

Ease of Use

Utilizes Familiar Techniques. Physicians using the Diamondback 360° employ techniques similar to those used in angioplasty, which are familiar to interventional cardiologists, vascular surgeons and interventional radiologists who are trained in endovascular techniques. The Diamondback 360° s simple user interface requires minimal additional training and technique. The system s ability to differentiate between diseased and compliant tissue reduces the risk of complications associated with user error and potentially broadens the user population beyond those currently using atherectomy devices.

Single Insertion to Complete Treatment. The Diamondback 360° s orbital technology and differential sanding process in most cases allows for a single insertion to treat lesions. Because the particles of plaque sanded away are of such small sizes, the Diamondback 360° does not require a collection reservoir that needs to be repeatedly emptied or cleaned during the procedure. Rather, the Diamondback 360° allows for multiple passes of the device over the lesion until plaque is removed and a smooth lumen is created.

Limited Use of Fluoroscopy. The relative simplicity of CSI s process and predictable crown location allows physicians to significantly reduce fluoroscopy use, thus limiting radiation exposure.

Cost and Time Efficient Procedure

Single Crown Can Create Various Lumen Sizes Limiting Hospital Inventory Costs. The Diamondback 360° s orbital mechanism of action allows a single-sized device to create various diameter lumens inside the artery. Adjusting the rotational speed of the crown changes the orbit to create the desired lumen diameter, thereby potentially avoiding the need to use multiple catheters of different sizes. The Diamondback 360° can create a lumen that is 100% larger than the actual diameter of the device, for a device-to-lumen ratio of approximately 1.0 to 2.0.

Less Expensive Capital Equipment. The control unit used in conjunction with the Diamondback 360° has a current retail list price of $19,995, significantly less than the cost of capital equipment used with laser atherectomy, which may cost from $125,000 to more than $150,000.

Single Insertion Reduces Procedural Time. Since the physician does not need to insert and remove multiple catheters or clean a plaque collection reservoir to complete the procedure, there is a potential for decreased procedure time.

CSI s Strategy

CSI s goal is to be the leading provider of minimally invasive solutions for the treatment of vascular disease. The key elements of CSI s strategy include:

Drive Adoption with Key Opinion Leaders Through Direct Sales Organization. CSI expects to continue to drive adoption of the Diamondback 360° through CSI s direct sales force, which targets interventional cardiologists, vascular surgeons and interventional radiologists. Initially, CSI plans to focus primarily on key opinion leaders who are early adopters of new technology and can assist in peer-to-peer selling. CSI commenced a limited commercial introduction in September 2007 and broadened its commercialization efforts to a full commercial launch in the quarter ended March 31, 2008. As of December 31, 2008, CSI had a 118 person direct sales force. As a key element of its strategy, CSI focuses on educating and training physicians on the Diamondback 360° through seminars where industry leaders discuss case studies and treatment techniques using the Diamondback 360°.

Collect Additional Clinical Evidence on Benefits of the Diamondback 360°. CSI is focused on using clinical evidence to demonstrate the advantages of CSI s system and drive physician acceptance. CSI has

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conducted three clinical trials to demonstrate the safety and efficacy of the Diamondback 360° in treating PAD, involving 207 patients, including CSI s pivotal OASIS trial. CSI has requested clinical data from each subsequent use of the system following these clinical trials. These data are tabulated and disseminated internally to CSI s sales, marketing and research and development departments in an effort to better understand the system s performance, identify any potential trends in the data, and drive product improvements. The data are also presented to groups of physicians for their education, comments and feedback. CSI is considering other clinical studies to further demonstrate the advantages of the Diamondback 360° but has not yet undertaken any additional studies.

Expand Product Portfolio within the Market for Treatment of Peripheral Arteries. CSI is currently developing a new product generation to further reduce treatment times and allow treatment of larger vessels.

Leverage Technology Platform into Coronary Market. CSI has initiated preclinical studies investigating the use of the Diamondback 360° in the treatment of coronary artery disease. CSI believes that the key product attributes of the Diamondback 360° will also provide substantial benefits in treating the coronary arteries, subject to FDA approval.

Pursue Strategic Acquisitions and Partnerships. In addition to adding to CSI s product portfolio through internal development efforts, CSI intends to explore the acquisition of other product lines, technologies or companies that may leverage CSI s sales force or complement its strategic objectives. CSI may also evaluate distribution agreements, licensing transactions and other strategic partnerships.

CSI s Product

Components of the Diamondback 360°

The Diamondback 360° consists of a single-use, low-profile catheter that travels over CSI s proprietary ViperWire guidewire. The system is used in conjunction with an external control unit.

Catheter. The catheter consists of:

a control handle, which allows precise movement of the crown and predictable crown location;

a flexible drive shaft with a diamond grit coated offset crown, which tracks and orbits over the guidewire; and

a sheath, which covers the drive shaft and permits delivery of saline or medications to the treatment area.

The crown is available in multiple sizes, including 1.25, 1.50, 1.75, 2.00 and 2.25 mm diameters. The catheter is available in two lengths, 95 cm and 135 cm, to address procedural approach and target lesion location.

ViperWire Guidewire. The ViperWire, which is located within the catheter, maintains device position in the vessel and is the rail on which the catheter operates. The ViperWire is available in three levels of firmness.

Control Unit. The control unit incorporates a touch-screen interface on an easily maneuverable, lightweight pole. Using an external air supply, the control unit regulates air pressure to drive the turbine located in the catheter handle to speeds ranging up to 200,000 revolutions per minute. Saline, delivered by a pumping mechanism on the control unit, bathes the device shaft and crown. The constant flow of saline reduces the risk of heat generation.

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The following diagram depicts the components of the Diamondback 360°:

Technology Overview

The two technologies used in the Diamondback 360° are orbital atherectomy and differential sanding.

Orbital Atherectomy. The system operates on the principles of centrifugal force. As the speed of the crown s rotation increases, it creates centrifugal force, which increases the crown s orbit and presses the diamond grit coated offset crown against the lesion or plaque, removing a small amount of plaque with each orbit. The characteristics of the orbit and the resulting lumen size can be adjusted by modifying three variables:

Speed. An increase in speed creates a larger lumen. CSI s current system allows the user to choose between three rotational speeds. The fastest speed can result in a device-to-lumen ratio of 1.0 to 2.0, for a lumen that is approximately 100% larger than the actual diameter of the device.

Crown Characteristics. The crown can be designed with various weights (as determined by different materials and density) and coated with diamond grit of various width, height and configurations. CSI s current system offers the choice between a hollow, lightweight crown and a solid, heavier crown, which could potentially increase the device-to-lumen ratio.

Drive Shaft Characteristics. The drive shaft can be designed with various shapes and degrees of rigidity. CSI is developing a drive shaft that CSI calls the Sidewinder, which is a heat-set, pre-bent shaft. When the guidewire is inserted into the Sidewinder, the shaft is straightened, allowing for deliverability to the lesion. However, the propensity of the Sidewinder s pre-bent shaft to return to its bent shape creates a larger diameter orbit, which will potentially allow for the creation of a larger lumen. CSI is also developing a version of CSI s shaft that has a diamond grit coated tip for ease of penetrating a chronic total occlusion.

CSI views the Diamondback 360° as a platform that can be used to develop additional products by adjusting one or more of the speed, crown and shaft variables.

Differential Sanding. The Diamondback 360° s design allows the device to differentiate between compliant and diseased arterial tissue. This property is common with sanding material such as the diamond grit used in the Diamondback 360°. The diamond preferentially engages and sands harder material. The Diamondback 360° also treats soft plaque, which is less compliant than a normal vessel wall. Arterial lesions tend to be harder and stiffer than compliant, undiseased tissue, and they often are calcified, and the Diamondback 360° sands the lesion but does not damage more compliant parts of the artery. The mechanism is a function of the centrifugal force generated by the Diamondback 360° as it rotates. As the crown moves outward, the centrifugal force is offset by the counterforce exerted by the arterial wall. If the tissue is compliant, it flexes away, rather than generating an opposing force that would allow the Diamondback 360° to engage and sand the wall. Diseased tissue, particularly heavily calcified lesions, provides resistance and is able to generate an opposing force that allows the Diamondback 360° to engage and sand the plaque. The sanded plaque is broken down into particles generally smaller than circulating red blood

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cells that are washed away downstream with the patient s natural blood flow. Of 36 consecutive experiments that CSI performed in carbon blocks, animal and cadaver models:

93.1% of particles were smaller than a red blood cell, with a 99% confidence interval; and

99.3% of particles were smaller than the lumen of the capillaries (which provide the connection between the arterial and venous system), with a 99% confidence interval.

The small particle size minimizes the risk of vascular bed overload, or a saturation of the peripheral vessels with large particles, which may cause slow or reduced blood flow to the foot. CSI believes that the small size of the particle also allows it to be managed by the body s natural cleansing of the blood, whereby various types of white blood cells eliminate worn-out cells and other debris in the bloodstream.

One of CSI s competitors claims that its rotational atherectomy catheter is also able to differentiate between compliant and diseased tissue.

Applications

The Diamondback 360° can be delivered to the lesion by a single physician, and on average required three minutes to treat a lesion in CSI s OASIS trial.

Below-the-Knee Peripheral Artery Disease. Arteries below the knee have small diameters and may be diffusely diseased, calcified or both, limiting the effectiveness of traditional atherectomy devices. The Diamondback 360° is effective in both diffuse and calcified vessels as demonstrated in the OASIS trial, where 94.5% of lesions treated were below the knee.

Above-the-Knee Peripheral Artery Disease. Plaque in arteries above the knee may also be diffuse and calcific; however, these arteries are longer, straighter and wider than below-the-knee vessels. While effective in difficult-to-treat below-the-knee vessels, and indicated for vessels up to four millimeters in diameter, CSI s product is also being used to treat lesions above the knee, in particular, calcified lesions. CSI intends to seek expanded labeling from the FDA for treatment of vessels larger than four millimeters in diameter before the end of 2009. The Millennium Research Group estimates that there will be approximately 258,600 procedures to treat above-the-knee PAD in 2008 and that there will be approximately 71,220 procedures to treat below-the-knee PAD in 2008.

Coronary Artery Disease. Given the many similarities between peripheral and coronary artery disease, CSI has developed and is completing pre-clinical testing of a modified version of the Diamondback 360° to treat coronary arteries. CSI has conducted numerous bench studies and four pre-clinical animal studies to evaluate the Diamondback 360° in coronary artery disease. In the bench studies, CSI evaluated the system for conformity to specifications and patient safety, and under conditions of expected clinical use no safety issues were observed. In three of the animal studies, the system was used to treat a large number of stented and non-stented arterial lesions. The system was able to safely debulk lesions without evidence or observations of significant distal embolization, and the treated vessels in the animal studies showed only minimal to no damage. The fourth animal study evaluated the safety of the system for the treatment of coronary stenosis. There were no device-related adverse events associated with system treatment during this study, with some evidence of injury observed in 17% of the tissue sections analyzed, although 75% of these injuries were minimal or mild. A coronary application would require CSI to conduct a clinical trial and receive PMA from the FDA. CSI participated in three pre-IDE meetings with the FDA and completed the human feasibility portion of a coronary trial in the summer of 2008 in India, enrolling 50 patients. The FDA has agreed to accept the data from the India trial to support an IDE submission should CSI determine to proceed with an IDE submission based on the results of this trial.

Clinical Trials and Studies for CSI s Products

CSI has conducted three clinical trials to demonstrate the safety and efficacy of the Diamondback 360° in treating PAD, enrolling a total of 207 patients in CSI s PAD I and PAD II pilot trials and CSI s pivotal OASIS trial.

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The common metrics used to evaluate the efficacy of atherectomy devices for PAD include:

Metric	Description
Absolute Plaque Reduction	Absolute plaque reduction is the difference between the pre-treatment percent stenosis, or the narrowing of the vessel, and the post-treatment percent stenosis as measured angiographically.
Target Lesion Revascularization	Target lesion revascularization rate, or TLR rate, is the percentage of patients at follow-up who have another peripheral intervention precipitated by their worsening symptoms, such as an angioplasty, stenting or surgery to reopen the treated lesion site.
Ankle Brachial Index	The Ankle Brachial Index, or ABI, is a measurement that is useful to evaluate the adequacy of circulation in the legs and improvement or worsening of leg circulation over time. The ABI is a ratio between the blood pressure in a patient s ankle and a patient s arm, with a ratio above 0.9 being normal.

The common metrics used to evaluate the safety of atherectomy devices for PAD include:

Metric	Description
Serious Adverse Events	Serious adverse events, or SAEs, include any experience that is fatal or life-threatening, is permanently disabling, requires or prolongs hospitalization, or requires intervention to prevent permanent impairment or damage. SAEs may or may not be related to the device.
Perforations	Perforations occur when the artery is punctured during atherectomy treatment. Perforations may be nonserious or an SAE depending on the treatment required to repair the perforation.

Inclusion criteria for trials often limit size of lesion and severity of disease, as measured by the Rutherford Class, which utilizes a scale of I to VI, with I being mild and VI being most severe, and the Ankle Brachial Index.

PAD I Feasibility Trial

CSI s first trial was a two-site, 17-patient feasibility clinical trial in Europe, which CSI refers to as PAD I, that began in March 2005. Patients enrolled in the trial had lesions that were less than 10 cm in length in arteries between 1.5 mm and 6.0 mm in diameter, with Rutherford Class scores of IV or lower. Patients were evaluated at the time of the procedure and at 30 days following treatment. The purpose of PAD I was to obtain the first human clinical experience and evaluate the safety of the Diamondback 360°. This was determined by estimating the cumulative incidence of patients experiencing one or more SAEs within 30 days post-treatment.

The results of PAD I were presented at the Transcatheter Therapeutics conference, or TCT, in 2005 and published in American Journal of Cardiology. Results confirmed that the Diamondback 360° and orbital atherectomy were safe and established that the Diamondback 360° could be used to treat vessels in the range of 1.5 mm to 4.0 mm, which are found primarily below the knee. Also, PAD I showed that effective debulking, or removal of plaque, could be accomplished and the resulting device-to-lumen ratio was approximately 1.0 to 2.0. The SAE rate in PAD I was 6% (one of 17 patients).

PAD II Feasibility Trial

After being granted the CE Mark in May 2005, CSI began a 66-patient European clinical trial at seven sites, which CSI refers to as PAD II, in August 2005. All patients had stenosis in vessels below the femoral artery of between 1.5 mm and 4.0 mm in diameter, with at least 50% blockage. The primary objectives of this study were to evaluate the acute (30 days or less) risk of experiencing an SAE post procedure and provide evidence of device effectiveness. Effectiveness was confirmed angiographically and based on the percentage of absolute plaque reduction.

The PAD II results demonstrated safe and effective debulking in vessels with diameters ranging from 1.5 mm to 4.0 mm with a mean absolute plaque reduction of 55%. The SAE rate in PAD II was 9% (six of 66 patients), which did not differ significantly from existing non-invasive treatment options.

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OASIS Pivotal Trial

CSI received an IDE to begin CSI s pivotal United States trial, OASIS, in September 2005. OASIS was a 124-patient, 20-center, prospective trial that began enrollment in January 2006.

Patients included in the trial had:

an ABI of less than 0.9;

a Rutherford Class score of V or lower; and

treated arteries of between 1.5 mm and 4.0 mm or less in diameter via angiogram measurement, with a well-defined lesion of at least 50% diameter stenosis and lesions of no greater than 10.0 cm in length.

The primary efficacy study endpoint was absolute plaque reduction of the target lesions from baseline to immediately post procedure. The primary safety endpoint was the cumulative incidence of SAEs at 30 days.

In the OASIS trial, 94.5% of lesions treated were below the knee, an area where lesions have traditionally gone untreated until they require bypass surgery or amputation. Of the lesions treated in OASIS, 55% were comprised of calcified plaque which presents a challenge to proper expansion and apposition of balloons and stents, and 48% were diffuse, or greater then 3 cm in length, which typically requires multiple balloon expansions or stent placements. Competing atherectomy devices are often ineffective with these difficult to treat lesions.

The average time of treatment in the OASIS trial was three minutes per lesion, which compares favorably to the treatment time required by other atherectomy devices. CSI believes physicians using other atherectomy devices require approximately ten to 20 minutes of treatment time to achieve desired results, although treatment times may vary depending upon the nature of the procedure, the condition of the patient and other factors. The following table is a summary of the OASIS trial results:

Item	FDA Target	OASIS Result
Absolute Plaque Reduction	55%	59.4%
SAEs at 30 days	8% mean, with an upper bound of 16%	4.0% mean, device-related 9.7% mean, overall
TLR	20% or less	2.4%
Perforations	N/A	1 serious perforation
ABI at baseline	N/A	0.68 ± 0.2*
ABI at 30 days	N/A	0.9 ± 0.18*
ABI at 6 months	N/A	0.83 ± 0.23*

* Mean ± Standard Deviation

CSI submitted CSI s OASIS data and received 510(k) clearance from the FDA for use of the Diamondback 360°, including the initial version of the control unit, with a hollow crown as a therapy for patients with PAD in August 2007. The FDA s labeling requirements reflected the inclusion criteria for the OASIS trial listed above. CSI received 510(k) clearances in October 2007 for the updated control unit used with the Diamondback 360° and in November 2007 for the Diamondback 360° with a solid crown. In May 2005, CSI received the CE mark, allowing for the

commercial use of the Diamondback 360° within the European Union; however, CSI s current plans are to focus sales in the United States.

Sales and Marketing

CSI markets and sells the Diamondback 360° through a direct sales force in the United States. As of December 31, 2008, CSI had a 118-person direct sales force, including its Vice President of Sales, 19 associate sales managers, 77 district sales managers, 13 regional sales managers, four sales directors, a national training manager, a director of customer operations, and two customer service specialists. Upon receiving 510(k) clearance from the FDA on August 30, 2007, CSI began limited commercialization of the Diamondback 360° in September 2007. CSI commenced CSI s full commercial launch in the quarter ended March 31, 2008.

While CSI sells directly to hospitals, CSI has targeted its initial sales and marketing efforts to thought-leading interventional cardiologists, vascular surgeons and interventional radiologists with experience using similar catheter-based procedures, such as angioplasty and cutting or laser atherectomy. Physician referral programs

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and peer-to-peer education are other key elements of CSI s sales strategy. Patient referrals come from general practitioners, podiatrists, nephrologists and endocrinologists.

CSI targets its marketing efforts to practitioners through physician education, medical conferences, seminars, peer reviewed journals and marketing materials. CSI s sales and marketing program focuses on:

- educating physicians regarding the proper use and application of the Diamondback 360°;
- developing relationships with key opinion leaders; and
- facilitating regional referral marketing programs.

CSI is not marketing its products internationally and does not expect to do so in the near future; however, CSI will continue to evaluate international opportunities.

Research and Development

As of December 31, 2008, CSI had 32 employees in its research and development department, comprised primarily of scientists, engineers and physicians, all of whom report to its Executive Vice President. CSI s research and development efforts are focused in the development of products to penetrate CSI s three key target markets: below-the-knee, above-the-knee and coronary vessels. Research and development expenses for fiscal 2006, fiscal 2007 and fiscal 2008 were $3.2 million, $8.4 million and $16.1 million, respectively, and for the three months ended September 30, 2007 and 2008 were $3.3 million and $5.0 million, respectively.

Manufacturing

CSI uses internally-manufactured and externally-sourced components to manufacture the Diamondback 360°. Most of the externally-sourced components are available from multiple suppliers; however, a few key components, including the diamond grit coated crown, are single sourced. CSI assembles the shaft, crown and handle components on-site, and test, pack, seal and label the finished assembly before sending the packaged product to a contract sterilization facility. The sterilization facility sends samples to an independent laboratory to test for sterility. Upon return from the sterilizer, product is held in inventory prior to shipping to CSI s customers.

The current floor plan at CSI s manufacturing facility allows for finished goods of approximately 8,000 units of the Diamondback 360° and for approximately 50 control units. The manufacturing areas, including the shaft manufacturing and the controlled-environment assembly areas, are equipped to accommodate approximately 30,000 units per shift annually.

CSI is registered with the FDA as a medical device manufacturer. CSI has opted to maintain quality assurance and quality management certifications to enable it to market its products in the member states of the European Union, the European Free Trade Association and countries that have entered into Mutual Recognition Agreements with the European Union. CSI is ISO 13485:2003 certified, and its renewal is due by December 2009. During its time of commercialization, CSI has not had any instances requiring consideration of a recall.

Third-Party Reimbursement and Pricing

Third-party payors, including private insurers, and government insurance programs, such as Medicare and Medicaid, pay for a significant portion of patient care provided in the United States. The single largest payor in the United States is the Medicare program, a federal governmental health insurance program administered by the Centers for Medicare

and Medicaid Services, or CMS. Medicare covers certain medical care expenses for eligible elderly and disabled individuals, including a large percentage of the population with PAD who could be treated with the Diamondback 360°. In addition, private insurers often follow the coverage and reimbursement policies of Medicare. Consequently, Medicare s coverage and reimbursement policies are important to CSI s operations.

CMS has established Medicare reimbursement codes describing atherectomy products and procedures using atherectomy products, and many private insurers follow these policies. CSI believes that physicians and hospitals that treat PAD with the Diamondback 360° will generally be eligible to receive reimbursement from Medicare and private insurers for the cost of the single-use catheter and the physician s services.

The continued availability of insurance coverage and reimbursement for newly approved medical devices is uncertain. The commercial success of CSI s products in both domestic and international markets will be dependent on whether third-party coverage and reimbursement is available for patients that use CSI s products and its

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monitoring services. Medicare, Medicaid, health maintenance organizations and other third-party payors are increasingly attempting to contain healthcare costs by limiting both coverage and the level of reimbursement of new medical devices, and, as a result, they may not continue to provide adequate payment for CSI s products. To position CSI s device for acceptance by third-party payors, CSI may have to agree to a lower net sales price than it might otherwise charge. The continuing efforts of governmental and commercial third-party payors to contain or reduce the costs of healthcare may limit CSI s revenue.

In some foreign markets, pricing and profitability of medical devices are subject to government control. In the United States, CSI expects that there will continue to be federal and state proposals for similar controls. Also, the trends toward managed healthcare in the United States and proposed legislation intended to reduce the cost of government insurance programs could significantly influence the purchase of healthcare services and products and may result in lower prices for CSI s products or the exclusion of its products from reimbursement programs.

Competition

The medical device industry is highly competitive, subject to rapid change and significantly affected by new product introductions and other activities of industry participants. The Diamondback 360° competes with a variety of other products or devices for the treatment of vascular disease, including stents, balloon angioplasty catheters and atherectomy catheters, as well as products used in vascular surgery. Large competitors in the stent and balloon angioplasty market segments include Abbott Laboratories, Boston Scientific, Cook, Johnson & Johnson and Medtronic. CSI also competes against manufacturers of atherectomy catheters including, among others, ev3, Spectranetics, Boston Scientific and Pathway Medical Technologies, as well as other manufacturers that may enter the market due to the increasing demand for treatment of vascular disease. Several other companies provide products used by surgeons in peripheral bypass procedures. Other competitors include pharmaceutical companies that manufacture drugs for the treatment of mild to moderate PAD and companies that provide products used by surgeons in peripheral bypass procedures. CSI is not aware of any competing catheter systems either currently on the market or in development that also use an orbital motion to create lumens larger than the catheter itself.

Because of the size of the peripheral and coronary market opportunities, competitors and potential competitors have historically dedicated significant resources to aggressively promote their products. CSI believes that the Diamondback 360° competes primarily on the basis of:

- safety and efficacy;
- predictable clinical performance;
- ease of use;
- price;
- physician relationships;
- customer service and support; and
- adequate third-party reimbursement.

Patents and Intellectual Property

CSI relies on a combination of patent, copyright and other intellectual property laws, trade secrets, nondisclosure agreements and other measures to protect its proprietary rights. As of December 31, 2008, CSI held 20 issued U.S. patents and have 24 U.S. patent applications pending, as well as 33 issued or granted foreign patents and 20 foreign patent applications, each of which corresponds to aspects of CSI s U.S. patents and applications. CSI s issued U.S. patents expire between 2010 and 2022, and its most important patent, U.S. Patent No. 6,494,890, is due to expire in 2017. CSI s issued patents and patent applications relate primarily to the design and operation of certain interventional atherectomy devices, including the Diamondback 360°. These patents and applications include claims covering key aspects of certain rotational atherectomy devices including the design, manufacture and therapeutic use of certain atherectomy abrasive heads, drive shafts, control systems, handles and couplings. As CSI continues to research and develop its atherectomy technology, CSI intends to file additional U.S. and foreign patent applications related to the design, manufacture and therapeutic uses of atherectomy devices. In addition, CSI holds two registered U.S. trademarks and has three U.S. trademark applications pending.

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CSI also relies on trade secrets, technical know-how and continuing innovation to develop and maintain its competitive position. CSI seeks to protect its proprietary information and other intellectual property by requiring its employees, consultants, contractors, outside scientific collaborators and other advisors to execute non-disclosure and assignment of invention agreements on commencement of their employment or engagement. Agreements with CSI s employees also forbid them from bringing the proprietary rights of third parties to CSI. CSI also requires confidentiality or material transfer agreements from third parties that receive CSI s confidential data or materials.

Government Regulation of Medical Devices

Governmental authorities in the United States at the federal, state and local levels and in other countries extensively regulate, among other things, the research, development, testing, manufacture, labeling, promotion, advertising, distribution, marketing and export and import of medical devices such as the Diamondback 360°.

Failure to obtain approval to market CSI s products under development and to meet the ongoing requirements of these regulatory authorities could prevent CSI from marketing and continuing to market its products.

United States

The Federal Food, Drug, and Cosmetic Act, or FDCA, and the FDA s implementing regulations govern medical device design and development, preclinical and clinical testing, premarket clearance or approval, registration and listing, manufacturing, labeling, storage, advertising and promotion, sales and distribution, export and import, and post-market surveillance. Medical devices and their manufacturers are also subject to inspection by the FDA. The FDCA, supplemented by other federal and state laws, also provides civil and criminal penalties for violations of its provisions. CSI manufactures and markets medical devices that are regulated by the FDA, comparable state agencies and regulatory bodies in other countries.

Unless an exemption applies, each medical device CSI wishes to commercially distribute in the United States will require marketing authorization from the FDA prior to distribution. The two primary types of FDA marketing authorization are premarket notification (also called 510(k) clearance) and premarket approval (also called PMA approval). The type of marketing authorization applicable to a device 510(k) clearance or PMA approval is generally linked to classification of the device. The FDA classifies medical devices into one of three classes (Class I, II or III) based on the degree of risk FDA determines to be associated with a device and the extent of control deemed necessary to ensure the device s safety and effectiveness. Devices requiring fewer controls because they are deemed to pose lower risk are placed in Class I or II. Class I devices are deemed to pose the least risk and are subject only to general controls applicable to all devices, such as requirements for device labeling, premarket notification, and adherence to the FDA s current good manufacturing practice requirements, as reflected in its Quality System Regulation, or QSR. Class II devices are intermediate risk devices that are subject to general controls and may also be subject to special controls such as performance standards, product-specific guidance documents, special labeling requirements, patient registries or postmarket surveillance. Class III devices are those for which insufficient information exists to assure safety and effectiveness solely through general or special controls, and include life-sustaining, life-supporting or implantable devices, and devices not substantially equivalent to a device that is already legally marketed.

Most Class I devices and some Class II devices are exempted by regulation from the 510(k) clearance requirement and can be marketed without prior authorization from FDA. Class I and Class II devices that have not been so exempted are eligible for marketing through the 510(k) clearance pathway. By contrast, devices placed in Class III generally require PMA approval prior to commercial marketing. The PMA approval process is generally more stringent, time-consuming and expensive than the 510(k) clearance process.

510(k) Clearance. To obtain 510(k) clearance for a medical device, an applicant must submit a premarket notification to the FDA demonstrating that the device is substantially equivalent to a predicate device legally marketed in the United States. A device is substantially equivalent if, with respect to the predicate device, it has the same intended use and has either (i) the same technological characteristics or (ii) different technological characteristics and the information submitted demonstrates that the device is as safe and effective as a legally marketed device and does not raise different questions of safety or effectiveness. A showing of substantial equivalence sometimes, but not always, requires clinical data. Generally, the 510(k) clearance process can exceed 90 days and may extend to a year or more.

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After a device has received 510(k) clearance for a specific intended use, any modification that could significantly affect its safety or effectiveness, such as a significant change in the design, materials, method of manufacture or intended use, will require a new 510(k) clearance or PMA approval (if the device as modified is not substantially equivalent to a legally marketed predicate device). The determination as to whether new authorization is needed is initially left to the manufacturer; however, the FDA may review this determination to evaluate the regulatory status of the modified product at any time and may require the manufacturer to cease marketing and recall the modified device until 510(k) clearance or PMA approval is obtained. The manufacturer may also be subject to significant regulatory fines or penalties.

CSI received 510(k) clearance for use of the Diamondback 360° as a therapy in patients with PAD in the United States on August 22, 2007. CSI received additional 510(k) clearances for the control unit used with the Diamondback 360° on October 25, 2007 and for the solid crown version of the Diamondback 360° on November 9, 2007.

Premarket Approval. A PMA application requires the payment of significant user fees and must be supported by valid scientific evidence, which typically requires extensive data, including technical, preclinical, clinical and manufacturing data, to demonstrate to the FDA s satisfaction the safety and efficacy of the device. A PMA application must also include a complete description of the device and its components, a detailed description of the methods, facilities and controls used to manufacture the device, and proposed labeling. After a PMA application is submitted and found to be sufficiently complete, the FDA begins an in-depth review of the submitted information. During this review period, the FDA may request additional information or clarification of information already provided. Also during the review period, an advisory panel of experts from outside the FDA may be convened to review and evaluate the application and provide recommendations to the FDA as to the approvability of the device. In addition, the FDA will conduct a pre-approval inspection of the manufacturing facility to ensure compliance with the FDA s Quality System Regulations, or QSR, which requires manufacturers to follow design, testing, control, documentation and other quality assurance procedures.

FDA review of a PMA application is required by statute to take no longer than 180 days, although the process typically takes significantly longer, and may require several years to complete. The FDA can delay, limit or deny approval of a PMA application for many reasons, including:

the systems may not be safe or effective to the FDA s satisfaction;

the data from preclinical studies and clinical trials may be insufficient to support approval;

the manufacturing process or facilities used may not meet applicable requirements; and

changes in FDA approval policies or adoption of new regulations may require additional data.

If the FDA evaluations of both the PMA application and the manufacturing facilities are favorable, the FDA will either issue an approval letter or an approvable letter, which usually contains a number of conditions that must be met in order to secure final approval of the PMA. When and if those conditions have been fulfilled to the satisfaction of the FDA, the agency will issue a PMA approval letter authorizing commercial marketing of the device for certain indications. If the FDA s evaluation of the PMA or manufacturing facilities is not favorable, the FDA will deny approval of the PMA or issue a not approvable letter. The FDA may also determine that additional clinical trials are necessary, in which case the PMA approval may be delayed for several months or years while the trials are conducted and then the data submitted in an amendment to the PMA. Even if a PMA application is approved, the FDA may approve the device with an indication that is narrower or more limited than originally sought. The agency can also impose restrictions on the sale, distribution or use of the device as a condition of approval, or impose post approval requirements such as continuing evaluation and periodic reporting on the safety, efficacy and reliability of the device

for its intended use.

New PMA applications or PMA supplements may be required for modifications to the manufacturing process, labeling, device specifications, materials or design of a device that is approved through the PMA process. PMA approval supplements often require submission of the same type of information as an initial PMA application, except that the supplement is limited to information needed to support any changes from the device covered by the original PMA application and may not require as extensive clinical data or the convening of an advisory panel.

CSI plans to seek PMA to use the Diamondback 360° as a therapy in treating patients with coronary artery disease.

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Clinical Trials. Clinical trials are almost always required to support a PMA application and are sometimes required for a 510(k) clearance. These trials generally require submission of an application for an IDE to the FDA. The IDE application must be supported by appropriate data, such as animal and laboratory testing results, showing that it is safe to test the device in humans and that the testing protocol is scientifically sound. The IDE application must be approved in advance by the FDA for a specified number of patients, unless the product is deemed a non- significant risk device and eligible for more abbreviated IDE requirements. Generally, clinical trials for a significant risk device may begin once the IDE application is approved by the FDA and the study protocol and informed consent are approved by appropriate institutional review boards at the clinical trial sites.

FDA approval of an IDE allows clinical testing to go forward but does not bind the FDA to accept the results of the trial as sufficient to prove the product s safety and efficacy, even if the trial meets its intended success criteria. With certain exceptions, changes made to an investigational plan after an IDE is approved must be submitted in an IDE supplement and approved by FDA (and by governing institutional review boards when appropriate) prior to implementation.

All clinical trials must be conducted in accordance with regulations and requirements collectively known as good clinical practice. Good clinical practices include the FDA s IDE regulations, which describe the conduct of clinical trials with medical devices, including the recordkeeping, reporting and monitoring responsibilities of sponsors and investigators, and labeling of investigation devices. They also prohibit promotion, test marketing or commercialization of an investigational device and any representation that such a device is safe or effective for the purposes being investigated. Good clinical practices also include the FDA s regulations for institutional review board approval and for protection of human subjects (such as informed consent), as well as disclosure of financial interests by clinical investigators.

Required records and reports are subject to inspection by the FDA. The results of clinical testing may be unfavorable or, even if the intended safety and efficacy success criteria are achieved, may not be considered sufficient for the FDA to grant approval or clearance of a product. The commencement or completion of any clinical trials may be delayed or halted, or be inadequate to support approval of a PMA application or clearance of a premarket notification for numerous reasons, including, but not limited to, the following:

- the FDA or other regulatory authorities do not approve a clinical trial protocol or a clinical trial (or a change to a previously approved protocol or trial that requires approval), or place a clinical trial on hold;
- patients do not enroll in clinical trials or follow up at the rate expected;
- patients do not comply with trial protocols or experience greater than expected adverse side effects;
- institutional review boards and third-party clinical investigators may delay or reject the trial protocol or changes to the trial protocol;
- third-party clinical investigators decline to participate in a trial or do not perform a trial on the anticipated schedule or consistent with the clinical trial protocol, investigator agreements, good clinical practices or other FDA requirements;
- third-party organizations do not perform data collection and analysis in a timely or accurate manner;
- regulatory inspections of the clinical trials or manufacturing facilities, which may, among other things, require corrective action or suspension or termination of the clinical trials;

changes in governmental regulations or administrative actions;

the interim or final results of the clinical trial are inconclusive or unfavorable as to safety or efficacy; and

the FDA concludes that the trial design is inadequate to demonstrate safety and efficacy.

Continuing Regulation. After a device is approved and placed in commercial distribution, numerous regulatory requirements continue to apply. These include:

establishment registration and device listing upon the commencement of manufacturing;

the QSR, which requires manufacturers, including third-party manufacturers, to follow design, testing, control, documentation and other quality assurance procedure during medical device design and manufacturing processes;

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labeling regulations, which prohibit the promotion of products for unapproved or off-label uses and impose other restrictions on labeling and promotional activities;

medical device reporting regulations, which require that manufacturers report to the FDA if a device may have caused or contributed to a death or serious injury or malfunctioned in a way that would likely cause or contribute to a death or serious injury if malfunctions were to recur;

corrections and removal reporting regulations, which require that manufacturers report to the FDA field corrections; and

product recalls or removals if undertaken to reduce a risk to health posed by the device or to remedy a violation of the FDCA caused by the device that may present a risk to health.

In addition, the FDA may require a company to conduct postmarket surveillance studies or order it to establish and maintain a system for tracking its products through the chain of distribution to the patient level.

Failure to comply with applicable regulatory requirements, including those applicable to the conduct of clinical trials, can result in enforcement action by the FDA, which may lead to any of the following sanctions:

warning letters or untitled letters;

fines, injunctions and civil penalties;

product recall or seizure;

unanticipated expenditures;

delays in clearing or approving or refusal to clear or approve products;

withdrawal or suspension of FDA approval;

orders for physician notification or device repair, replacement or refund;

operating restrictions, partial suspension or total shutdown of production or clinical trials; and

criminal prosecution.

CSI and its contract manufacturers, specification developers and suppliers are also required to manufacture CSI s products in compliance with current Good Manufacturing Practice, or GMP, requirements set forth in the QSR.

The QSR requires a quality system for the design, manufacture, packaging, labeling, storage, installation and servicing of marketed devices, and includes extensive requirements with respect to quality management and organization, device design, buildings, equipment, purchase and handling of components, production and process controls, packaging and labeling controls, device evaluation, distribution, installation, complaint handling, servicing and record keeping. The FDA enforces the QSR through periodic announced and unannounced inspections that may include the manufacturing facilities of subcontractors. If the FDA believes that CSI or any of its contract manufacturers or regulated suppliers is not in compliance with these requirements, it can shut down CSI s manufacturing operations, require recall of CSI s products, refuse to clear or approve new marketing applications, institute legal proceedings to

detain or seize products, enjoin future violations or assess civil and criminal penalties against CSI or its officers or other employees. Any such action by the FDA would have a material adverse effect on CSI s business.

Fraud and Abuse

CSI s operations will be directly, or indirectly through its customers, subject to various state and federal fraud and abuse laws, including, without limitation, the FDCA, federal Anti-Kickback Statute and False Claims Act. These laws may impact, among other things, CSI s proposed sales, marketing and education programs. In addition, these laws require CSI to screen individuals and other companies, suppliers and vendors in order to ensure that they are not debarred by the federal government and therefore prohibited from doing business in the healthcare industry.

The federal Anti-Kickback Statute prohibits persons from knowingly and willfully soliciting, offering, receiving or providing remuneration, directly or indirectly, in exchange for or to induce either the referral of an individual, or the furnishing or arranging for a good or service, for which payment may be made under a federal

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healthcare program such as the Medicare and Medicaid programs. Several courts have interpreted the statute s intent requirement to mean that if any one purpose of an arrangement involving remuneration is to induce referrals of federal healthcare covered business, the statute has been violated. The Anti-Kickback Statute is broad and prohibits many arrangements and practices that are lawful in businesses outside of the healthcare industry. Many states have also adopted laws similar to the federal Anti-Kickback Statute, some of which apply to the referral of patients for healthcare items or services reimbursed by any source, not only the Medicare and Medicaid programs.

The federal False Claims Act prohibits persons from knowingly filing or causing to be filed a false claim to, or the knowing use of false statements to obtain payment from, the federal government. Various states have also enacted laws modeled after the federal False Claims Act.

In addition to the laws described above, the Health Insurance Portability and Accountability Act of 1996 created two new federal crimes: healthcare fraud and false statements relating to healthcare matters. The healthcare fraud statute prohibits knowingly and willfully executing a scheme to defraud any healthcare benefit program, including private payors. The false statements statute prohibits knowingly and willfully falsifying, concealing or covering up a material fact or making any materially false, fictitious or fraudulent statement in connection with the delivery of or payment for healthcare benefits, items or services.

Voluntary industry codes, federal guidance documents and a variety of state laws address the tracking and reporting of marketing practices relative to gifts given and other expenditures made to doctors and other healthcare professionals. In addition to impacting CSI s marketing and educational programs, internal business processes will be affected by the numerous legal requirements and regulatory guidance at the state, federal and industry levels.

International Regulation

International sales of medical devices are subject to foreign government regulations, which may vary substantially from country to country. The time required to obtain approval in a foreign country may be longer or shorter than that required for FDA approval and the requirements may differ. For example, the primary regulatory environment in Europe with respect to medical devices is that of the European Union, which includes most of the major countries in Europe. Other countries, such as Switzerland, have voluntarily adopted laws and regulations that mirror those of the European Union with respect to medical devices. The European Union has adopted numerous directives and standards regulating the design, manufacture, clinical trials, labeling and adverse event reporting for medical devices. Devices that comply with the requirements of a relevant directive will be entitled to bear the CE conformity marking, indicating that the device conforms to the essential requirements of the applicable directives and, accordingly, can be commercially distributed throughout European Union, although actual implementation of the these directives may vary on a country-by-country basis. The method of assessing conformity varies depending on the class of the product, but normally involves a combination of submission of a design dossier, self-assessment by the manufacturer, a third-party assessment and, review of the design dossier by a Notified Body. This third-party assessment generally consists of an audit of the manufacturer s quality system and manufacturing site, as well as review of the technical documentation used to support application of the CE mark to one s product and possibly specific testing of the manufacturer s product. An assessment by a Notified Body of one country within the European Union is required in order for a manufacturer to commercially distribute the product throughout the European Union. CSI obtained CE marking approval for sale of the Diamondback 360° in May 2005.

Employees

As of December 31, 2008, CSI had 231 employees, including 47 employees in manufacturing, 118 employees in sales, 11 employees in marketing, four employees in clinicals, 19 employees in general and administrative, and 32 employees in research and development. None of CSI s employees are represented by a labor union or parties to a

collective bargaining agreement, and CSI believes that its employee relations are good.

Properties

CSI s principal executive offices are located in a 47,000 square foot facility located in St. Paul, Minnesota. CSI has leased this facility through November 2012 with an option to renew through November 2017. This facility accommodates CSI s research and development, sales, marketing, manufacturing, finance and administrative activities. CSI believes that its current premises are substantially adequate for CSI s current and anticipated future

needs through the next 12 months and that sufficient facilities are available for any limited expansion CSI would need to make in that time.

Legal Proceedings

Shturman Legal Proceedings

CSI has recently resolved a legal proceeding relating to a dispute against Dr. Leonid Shturman, CSI s founder, and Shturman Medical Systems, Inc., or SMS, a company owned by Dr. Shturman, but Dr. Shturman s counterclaims against CSI remain outstanding. The proceedings related to a Stock Purchase Agreement dated June 30, 1998 between CSI and SMS, and Dr. Shturman s employment agreement with CSI, dated January 7, 2000. Pursuant to the Stock Purchase Agreement, SMS purchased all the stock of CSI s former Russian subsidiary, ZAO Shturman Cardiology Systems, Russia. In exchange, SMS agreed to transfer to CSI all present and future intellectual property and know-how associated with atherectomy products and associated accessory products that were developed by SMS and the Russian subsidiary. Pursuant to the employment agreement, Dr. Shturman was required to assign to CSI certain inventions made by him. In or around November 2006, CSI discovered that Dr. Shturman had sought patent protection in the United Kingdom and with the World Intellectual Property Organization as the sole inventor for technology relating to the use of counterbalance weights with rotational atherectomy devices, or the counterbalance technology, which CSI maintained should have been assigned to it under the Stock Purchase Agreement and the employment agreement.

CSI commenced an arbitration proceeding against SMS on August 16, 2007. Following a trial, on May 5, 2008, an arbitrator ruled that the counterbalance technology was developed pursuant to agreements between the parties and ordered SMS to transfer to CSI its interest in the counterbalance technology.

Also on August 16, 2007, CSI commenced a federal lawsuit in the U.S. District Court in Minnesota against Dr. Shturman for breach of his employment agreement. CSI alleged that the counterbalance technology was disclosed or documented during the term of Dr. Shturman s employment agreement and sought a judgment for breach of the employment agreement and a declaratory judgment that Dr. Shturman must assign his interest in the counterbalance technology to CSI. Dr. Shturman filed counterclaims against CSI and other co-defendants asserting conversion, theft and unjust enrichment for the alleged illegal removal and transport to the United States of two drive shaft winding devices purportedly developed by Shturman Cardiology Systems, Russia, as well as raising certain affirmative defenses.

On September 4 and 5, 2008, CSI settled all of its claims in the federal lawsuit against Dr. Shturman. As part of the settlement, Dr. Shturman agreed that he is not the author or owner of the counterbalance technology. However, Dr. Shturman has the right to argue that the counterbalance technology is separate and distinct from the inventions or know-how contained in any current or future patent applications made by him, and CSI has the right to argue that such patent applications do incorporate the counterbalance technology. In settlement of Dr. Shturman s counterclaim against CSI, CSI agreed to pay Dr. Shturman $50,000 in cash and refer to Dr. Shturman names of parties that may be interested in purchasing up to 22,000 shares of CSI common stock held by him at a fixed price. Due to market and other conditions, CSI was unable to refer any names to Dr. Shturman. Accordingly, a subsequent settlement agreement was reached between the parties whereby Dr. Shturman agreed to dismiss the counterclaim in exchange for CSI paying Dr. Shturman $50,000 and assisting Dr. Shturman with selling 22,000 shares of CSI common stock at a revised fixed price on or before November 14, 2008 and all parties providing mutual releases. All parties executed the settlement agreement and mutual releases; however, after CSI paid Dr. Shturman $50,000 in cash and assisted Dr. Shturman with selling 22,000 shares of CSI common stock at the revised fixed price, Dr. Shturman expressed his desire to keep the funds and void the releases. Dr. Shturman sent a letter to the court on January 14, 2009 requesting that the releases be voided. On January 22, 2009, the court denied Dr. Shturman s request to void the releases.

ev3 Legal Proceedings

On December 28, 2007, ev3 Inc., ev3 Endovascular, Inc. and FoxHollow Technologies, Inc., together referred to as the Plaintiffs, filed a complaint in the Ramsey County District Court for the State of Minnesota against CSI and Sean Collins and Aaron Lew, who are former employees of FoxHollow currently employed by CSI, as well as against unknown former employees of Plaintiffs currently employed by CSI, referred to in the complaint as John Does 1-10. The complaint asserted that Messrs. Lew and Collins and John Does 1-10 violated provisions of their

employment agreements with FoxHollow relating to FoxHollow confidential information. The complaint also asserted that defendants Lew and John Does 1-10 violated provisions of their employment agreements with FoxHollow barring them from soliciting FoxHollow employees for a period of one year following their departures from FoxHollow. The complaint also alleged that Collins and Lew violated a common law duty of loyalty to FoxHollow. The complaint further alleged that CSI, Collins, Lew and John Does 1-10 misappropriated trade secrets of the Plaintiffs, unfairly competed with the Plaintiffs, and conspired to improperly solicit employees of FoxHollow or ev3 and to misappropriate trade secrets or confidential information of FoxHollow or ev3. Finally, the complaint asserted that CSI tortiously interfered with the alleged agreements between FoxHollow and Collins, Lew and John Does 1-10.

The complaint stated that Plaintiffs were seeking an injunction preventing Messrs. Collins and Lew and John Does 1-10 from violating the terms of their agreements with FoxHollow; preventing all defendants from maintaining, using, or disclosing any information belonging to Plaintiffs and requiring them to return any such information to Plaintiffs; preventing CSI from employing Messrs. Collins and Lew and John Does 1-10 for a period of one year; preventing all defendants from contacting certain of Plaintiffs customers (referred to as Key Opinion Leaders and Thought Leaders) for one year; and, preventing CSI and its employees from soliciting or hiring any of Plaintiffs current employees for a period of one year. The complaint also stated that Plaintiffs were seeking recovery of monetary damages in an amount greater than $50,000 and payment of their attorneys fees and costs.

On December 28, 2007, the Plaintiffs filed with the court a motion for a temporary restraining order, which the court granted in part and denied in part in an order dated January 10, 2008. The court denied the request for an injunction requiring CSI to terminate the employment of Messrs. Collins and Lew and of approximately nine former employees of one or more of the Plaintiffs who began employment with CSI in early 2008. The court also denied the request for an injunction barring CSI from contacting physicians who may also be FoxHollow Key Opinion Leaders or Thought Leaders. In the same order, the court enjoined former employees of ev3 or FoxHollow who are now employed with CSI from disclosing trade secrets of ev3 or FoxHollow. The court also directed that any of CSI s employees who were both formerly employed with any of the Plaintiffs and who signed a FoxHollow employment agreement must not disclose the identity of FoxHollow Key Opinion Leaders or Thought Leaders or use this information to aid CSI. The court further ordered that any of these persons must not maintain, use or disclose any confidential information about the FoxHollow Key Opinion Leaders or Thought Leaders that was received while they were employed with FoxHollow. It also directed that if any former employees of the Plaintiffs had already disclosed or used the identity of FoxHollow Key Opinion Leaders or Thought Leaders, they were required to advise the persons to whom they made the disclosure in writing that this information is confidential and may not be used by them or disclosed to anyone. The court also ordered that if any employee of CSI who was formerly employed by FoxHollow or ev3 contacts any physician who is a FoxHollow Key Opinion Leader or Thought Leader, he must be able to trace, document and account, with specificity, how he or she was able to identify such prospect through information, records or documents obtained outside his or her employment with Plaintiffs. The court further directed that any of CSI s employees who were formerly employed by FoxHollow or ev3 and who are subject to a FoxHollow employee nonsolicitation agreement must not be involved in soliciting or recruiting any current employee of the Plaintiffs to leave that employment or to accept employment with CSI. In the memorandum accompanying the January 10, 2008 order, the court noted that Mr. Collins admitted he took certain FoxHollow sales information just prior to the conclusion of his employment with FoxHollow, and noted that Mr. Collins had indicated a willingness to return that information to FoxHollow. Mr. Collins has returned the information.

CSI believes the January 10, 2008 court order and the continuing confidentiality obligations of CSI s officers and employees who were subject to employment agreements with FoxHollow will have no material impact on CSI s sales efforts and the efforts of CSI s management. In accordance with the court s order, CSI has undertaken an effort to document and account, with specificity, how CSI s employees identified CSI s existing physician customers through information, records or documents that did not originate with FoxHollow, and CSI has implemented procedures to document how CSI identifies new physician customers. CSI believes all of its existing physician customers were

identified through appropriate sources, such as publicly-available information, employees preexisting physician relationships and referrals from existing physician customers. In addition, CSI does not believe the court order imposes any materially adverse restriction on identifying and contacting new physician prospects since these physicians are typically well-known in their industry and are easily identified through

appropriate sources. Accordingly, CSI does not anticipate that the court order will materially impact CSI s sales efforts.

On July 2, 2008, Plaintiffs served and filed with the court a second amended complaint. In this amended pleading, Plaintiffs asserted claims against CSI as well as ten of CSI s employees, Sean Collins, David Gardner, Aaron Lew, Michael Micheli, Kevin Moore, Steve Pringle, Jason Proffitt, Thadd Taylor, Rene Treanor, and Paul Tyska, all of whom were formerly employed by one or more of the Plaintiffs. The second amended complaint also continues to refer to John Doe 1-10 defendants, who are not identified by name.

The second amended complaint includes seven counts, which allege as follows:

Count 1 Alleges that individual defendants Collins, Gardner, Lew, Pringle, Proffitt, Taylor, Treanor and the John Doe defendants violated provisions in their employment agreements with their former employer FoxHollow, barring them from misusing FoxHollow confidential information.

Count 2 Alleges that individual defendants Collins, Lew, Micheli, Proffitt, Tyska and John Does violated a provision in their FoxHollow employment agreements barring them, for a period of one year following their departure from FoxHollow, from soliciting or encouraging employees of FoxHollow to join CSI.

Count 3 Alleges that individual defendants Collins, Gardner, Lew, Moore, Pringle, Proffitt, Taylor and Treanor breached a duty of loyalty owed to FoxHollow.

Count 4 Alleges that CSI and individual defendants Collins, Lew, Pringle, Proffitt, Taylor, Treanor and John Does misappropriated trade secrets of one or more of the Plaintiffs.

Count 5 Alleges that all defendants engaged in unfair competition.

Count 6 Alleges (i) that CSI tortiously interfered with the contracts between FoxHollow and individual defendants Collins, Lew, Micheli, Proffitt, Tyska and John Does by allegedly procuring breaches of the non-solicitation encouragement provision in those agreements, and (ii) that individual defendant Lew tortiously interfered with the contracts between individual defendants Proffitt and Taylor and FoxHollow by allegedly procuring breaches of the confidential information provision in those agreements.

Count 7 Alleges that all defendants conspired to gain an unfair competitive and economic advantage for CSI to the detriment of the Plaintiffs.

In the second amended complaint, the Plaintiffs seek, among other forms of relief, an award of damages in an amount greater than $50,000, a variety of forms of injunctive relief, exemplary damages under the Minnesota Trade Secrets Act, and recovery of their attorney fees and litigation costs. Although CSI has requested the information, the Plaintiffs have not yet disclosed what specific amount of damages they claim.

In July 2008, CSI and the individual defendants filed motions to dismiss the action. These motions were based on the argument that the Plaintiffs are required to resolve the claims at issue in arbitration in accordance with arbitration provisions in the employment agreements between at least eight of the individual defendants and FoxHollow. In an order dated October 2, 2008, the court granted this motion with respect to the claims against individual defendants Collins, Gardner, Micheli, Moore, Pringle, Proffitt, Taylor and Treanor. The court determined that the claims against these parties must be decided in arbitration and stayed proceedings in the action against these parties pending the outcome of any arbitration proceeding. The October order also denied the motion to dismiss or stay the proceedings with respect to the claims against CSI and individual defendants Lew and Tyska.

On August 29, 2008, the court issued an Amended Scheduling Order for the action. The Amended Scheduling Order provided, among other deadlines, that trial, if necessary, would take place in May or June 2009. In its October order, the court granted a motion by the Plaintiffs to extend certain deadlines, and as a result of these changes, the court indicated that other deadlines in the earlier Scheduling Order shall be extended and directed that the parties confer and provide new proposed deadlines consistent with the changes specified in the October order.

On October 14, the Plaintiffs in the action filed a motion seeking additional preliminary injunctive relief. This motion seeks an order pending trial that would: (1) expand the scope of the prohibitions set forth in the court s January temporary restraining order so that they apply not only with respect to the customers of Plaintiffs who are characterized as Key Opinion Leaders or Thought Leaders but also to any other of Plaintiffs customers; (2) bar CSI from recruiting, interviewing or hiring any ev3 employee; (3) enjoin CSI from employing 18 persons who were previously employed by one or more of the Plaintiffs in the same geographic territory that he or she covered when

employed by Plaintiffs; (4) require CSI and other defendants to return all of Plaintiffs information in their possession and to certify compliance; and (5) require CSI to implement certain measures aimed at preventing any continued or future acquisition of information belonging to the Plaintiffs. On October 27, 2008, both CSI and the individual defendants filed briefs in opposition to ev3 s motion for additional injunctive relief. A hearing on this motion took place on November 14, 2008. The court took the motion under advisement and has not yet issued a ruling.

In late October 2008, both CSI and individual defendants Lew and Tyska filed Notices of Appeal with the Minnesota Court of Appeals indicating that these parties are appealing the October 2 order, which denied the motions to dismiss previously filed by these parties. In connection with the appeals, CSI and individual defendants Lew and Tyska filed with the Ramsey County District Court motions to stay proceedings in the District Court pending a decision on the appeals. ev3 opposed the stay motions. A hearing on the stay motions was held on November 20, 2008. The court took the motions under advisement and has not yet issued a ruling.

In an order dated November 17, 2008, the Minnesota Court of Appeals consolidated the appeal CSI filed with the appeals filed by co-defendants Lew and Tyska. The appeal briefs have been submitted, and it is anticipated that oral argument on the appeal will be scheduled in 2009.

The Diamondback 360° is, at least in some applications, considered to be a direct competitor with one of Plaintiffs products. CSI s current Chief Executive Officer, Vice President of Sales, Vice President of Marketing and Vice President of Business Development were formerly employed by FoxHollow. These officers remain subject to confidentiality provisions in their employment agreements with FoxHollow, but the employee nonsolicitation provisions in their agreements with FoxHollow have expired. As of December 31, 2008, 39 of the 118 members of CSI s sales department, or 33.1%, were formerly employed by one or more of the Plaintiffs.

CSI is defending this litigation vigorously. However, if CSI is not successful in this litigation, it could be required to pay substantial damages and could be subject to equitable relief that could include a requirement that CSI terminate or otherwise alter the terms or conditions of employment of certain employees, including certain key sales personnel who were formerly employed by FoxHollow. In any event, the defense of this litigation, regardless of the outcome, could result in substantial legal costs and diversion of CSI management s time and efforts from the operation of CSI s business.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR REPLIDYNE

You should read the following discussion and analysis of financial condition and results of operations together with Replidyne s financial statements and the related notes included elsewhere in this proxy statement/prospectus. This discussion and analysis contains forward-looking statements about Replidyne s business and operations, based on current expectations and related to future events and Replidyne s future financial performance, that involve risks and uncertainties. Replidyne s actual results may differ materially from those it currently anticipates as a result of many important factors, including the factors described under Risk Factors and elsewhere in this proxy statement/prospectus.

Overview

Replidyne has previously announced that it was reviewing a range of strategic alternatives. As a result of Replidyne s review of strategic alternatives, on November 3, 2008, Replidyne entered into the merger agreement with CSI.

In June 2008, Replidyne announced its decision to terminate its license agreement with Asubio Pharma, Co., Ltd, or Asubio Pharma, for the development and commercialization of faropenem medoxomil in the U.S. and Canada. As a result of this termination, Replidyne relinquished all of its rights to the development and commercialization of faropenem medoxomil.

In August 2008, in connection with a restructuring of Replidyne s workforce that resulted in Replidyne s employee headcount being reduced to six employees by October 31, 2008, Replidyne suspended the development of REP3123, an investigational narrow-spectrum antibacterial agent for the treatment of *Clostridium difficile* (*C. difficile*) bacteria and *C. difficile* infection and Replidyne s other novel anti-infective programs based on Replidyne s bacterial DNA replication inhibition technology. Replidyne is pursuing the sale of REP3123 and its related technology and the sale of the anti-infective programs based on its bacterial DNA replication inhibition technology in a transaction or transactions separate from the merger. Replidyne had previously devoted substantially all of its clinical development and research and development efforts and a material portion of its financial resources toward the development of faropenem medoxomil, REP3123, its DNA replication inhibition technology and its other product candidates. Replidyne has no product candidates currently in active clinical or preclinical development and has further reduced its employee headcount to three employees, all of whom are involved primarily in financial and administrative roles.

As of September 30, 2008, Replidyne reported net assets of $45.2 million. Replidyne has incurred significant operating losses since inception on December 6, 2000, and, as of September 30, 2008, Replidyne had an accumulated deficit of $147 million. Replidyne has generated no sustainable revenue or revenue from product sales to date. Replidyne has funded operations principally from the sale of its securities and amounts received from Forest Laboratories under Replidyne s former collaboration and commercialization agreement. Although Replidyne reported net income for the year ended December 31, 2007 as a result of the termination of its agreement with Forest Laboratories, Replidyne expects to incur substantial operating losses for the foreseeable future.

Results of Operations

Comparison of the Nine Months Ended September 30, 2007 and 2008

Revenue. Replidyne reported revenue of $58.6 million for the nine months ended September 30, 2007, compared to no revenue during the nine months ended September 30, 2008. Revenue recognized during the nine months ended

September 30, 2007 included $56.2 million of license revenue, representing amortization of $60 million in upfront and milestone payments recognized upon the termination of Replidyne s former collaboration and commercialization agreement with Forest Laboratories in the third quarter of 2007. Revenue recognized during the nine months ended September 30, 2007 also included $2.4 million of contract revenue for activities funded under Replidyne s agreement with Forest Laboratories.

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Research and Development Expense. Research and development expenses were $28.5 million for the nine months ended September 30, 2007, compared to $26.8 million for the nine months ended September 30, 2008. Research and development expenditures were as follows (*in thousands*):

	Nine Months Ended September 30,		Change	
	2007	2008	$	%
Faropenem medoxomil program	$ 17,808	$ 15,871	$ (1,937)	(11)%
Other research and development programs	10,654	10,971	317	3%
	$ 28,462	$ 26,842	$ (1,620)	(6)%

Costs to support the faropenem medoxomil program were $17.8 million for the nine months ended September 30, 2007 compared to $15.9 million during the nine months ended September 30, 2008. Following the termination of Replidyne s license agreement with Asubio Pharma and Replidyne s supply agreement with Asubio Pharma and Nippon Soda in June 2008, Replidyne s activities related to the faropenem medoxomil program were limited to steps required to complete patient monitoring, database analysis and regulatory reporting associated with the Phase III clinical trial for the treatment of acute exacerbation of chronic bronchitis. Patient enrollment in this clinical trial was suspended in April 2008.

As a result of terminating its faropenem medoxomil license and supply agreements, Replidyne incurred charges related to these agreements totaling $4.2 million during the nine months ended September 30, 2008. Additionally, Replidyne recorded a charge of $2.7 million during the nine months ended September 30, 2008 related to its obligation to reimburse MEDA Manufacturing GmbH (MEDA) for costs to decontaminate its facility. These increases were offset by $8.0 million of lower internal and external development costs incurred during the nine months ended September 30, 2008.

Costs to support Replidyne s other research and development programs were $10.7 million for the nine months ended September 30, 2007 compared to $11.0 million for the nine months ended September 30, 2008. Compared to 2007, costs of internal and external preclinical research for Replidyne s REP3123 and DNA replication inhibition programs were $3.6 million higher during 2008. As these programs advanced closer to identification of a product candidate, development costs compared to 2007 increased in 2008. Replidyne announced the suspension of all of its development programs in August 2008. Compared to the first nine months of 2007, increased research and development costs during the first nine months of 2008 were partially offset by a decrease of $3.5 million in costs to support the REP8839 program which was suspended during the fourth quarter of 2007.

During the nine months ended September 30, 2008, Replidyne incurred approximately $3.0 million in restructuring and severance charges which are included in the costs associated with its programs as described above. These charges consisted primarily of severance and related benefits.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were $9.8 million for the nine months ended September 30, 2007 compared to $12.3 million for the nine months ended September 30, 2008. The increase of $2.5 million was primarily due to charges of $2.1 million incurred in 2008 to settle a contract dispute between Replidyne and MEDA. Additionally, during the first nine months of 2008 Replidyne incurred approximately $3.2 million of restructuring and other severance charges. These increases were partially offset by $3.4 million in

decreased salaries, benefits and variable compensation as Replidyne s selling, general and administrative employee headcount was reduced by operational restructurings announced in December 2007 and during the nine months ended September 30, 2008.

Investment Income and Other, net. During the nine months ended September 30, 2007, Replidyne reported investment income and other of $4.3 million compared to $1.5 million for the nine months ended September 30, 2008. The decrease was primarily due to lower overall cash available for investing and lower overall yields on investments in 2008 compared to 2007, which contributed to $2.6 million in lower investment income.

Comparison of Years Ended December 31, 2006 and 2007

Revenue. Replidyne recognized $16.0 million in revenue during 2006 compared to $58.6 million in 2007. The increase was due to the recognition of previously deferred revenue as a result of the termination of Replidyne s

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collaboration and commercialization agreement with Forest Laboratories in 2007. License revenue was $3.8 million in 2006, as compared to $56.2 million of license revenue recognized during 2007, representing the unamortized portion of $60 million in upfront and milestone payments Replidyne received under its collaboration agreement with Forest Laboratories. Revenue recognized during 2006 included $12.2 million of contract revenue for funded activity under Replidyne s former collaboration and commercialization agreement with Forest Laboratories, as compared to $2.4 million of contract revenue recognized in 2007.

Research and Development Expense. Research and development expenses were $38.3 million in 2006 as compared to $43.3 million for 2007. Research and development expenditures made to advance Replidyne s product candidates and other research efforts during 2006 and 2007 were as follows (in thousands):

	Year Ended December 31,		Change	
	2006	2007	$	%
Faropenem medoxomil	$ 23,266	$ 29,231	$ 5,965	26%
REP8839	8,363	4,550	(3,813)	(46)%
Other research and development	6,666	9,532	2,866	43%
	$ 38,295	$ 43,313	$ 5,018	13%

Costs to support Replidyne s faropenem medoxomil program were $6.0 million higher in 2007 than in 2006. The increase primarily reflects expenditures related to increased external clinical trial activity and clinical trial preparations with a clinical research organization of $10.4 million. This increase was partially offset by a $1.4 million decrease in preclinical research and outside services, a $1.2 million decrease in contingent supply agreement fees and a $1.1 million decrease in program acquisition fees. Research and development activities in 2006 were focused on the Phase III placebo-controlled acute exacerbation of chronic bronchitis clinical trial as well as the Phase II clinical trial in pediatric patients with acute bacterial otitis media which results were reported in the first quarter of 2007. Research and development activities in 2007 were focused on the ongoing Phase III clinical trial for the treatment of acute exacerbation of chronic bronchitis as well as planning activities in preparation for potential future Phase III clinical trials for the treatment of acute bacterial sinusitis and community-acquired pneumonia.

Compared to 2006, costs to support Replidyne s REP8839 program decreased by $3.8 million in 2007, primarily reflecting decreased clinical and preclinical development costs of $2.0 million. This program was suspended in December 2007 due to the incremental investment required to optimize the formulation compared to the niche market opportunity represented by the product candidate s initial target indication of impetigo. Additionally, in 2006 Replidyne incurred $1.5 million under its June 2003 purchase agreement with GlaxoSmithKline PLC, or GSK, to complete the purchase of the inhibition of tRNA synthetase technology underlying REP8839 and REP3123.

Compared to 2006, other research and development costs increased by $2.9 million in 2007. Costs of internal research and development personnel and related costs increased by $2.1 million as Replidyne increased the activity levels of its research and development personnel in support of REP3123 and its DNA replication inhibition program. Other costs in support of these programs included external preclinical research, consulting and other services that, compared to 2006, increased by $0.4 million in 2007.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were $12.2 million for 2006, compared to $13.0 million for 2007. In 2007, Replidyne incurred incremental personnel costs of $0.9 million

associated with personnel hired during 2006 to support its commercial, finance and administrative activities, compensation costs of $0.5 million related to Replidyne s organizational restructuring announced in December 2007 and increased costs associated with the adoption of SFAS 123(R), *Share-Based Payment* of $0.7 million. Replidyne also incurred increased legal, accounting and insurance fees resulting from its first full year of compliance with Section 404 of the Sarbanes-Oxley Act. These increases were partially offset by reductions in market research costs of $1.4 million primarily related to the faropenem medoxomil program.

Investment Income, net. Investment income was $6.0 million for 2006, compared to $5.5 million for 2007. The decrease from 2006 to 2007 was primarily due to lower overall cash available for investing in 2007. In 2006,

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Replidyne received cash of $60 million under its former collaboration and commercialization agreement with Forest Laboratories and $44.5 million in net proceeds from its initial public offering.

Interest Expense. In 2006 Replidyne incurred interest expense of approximately $14,000. The equipment loan and security agreement was paid in full in 2006.

Other Expense, net. Other expense was $0.7 million in 2006, compared to $0.1 million for 2007. The decrease was primarily due to $0.4 million lower foreign currency losses associated with Replidyne s foreign currency denominated payables and $0.1 million in losses to adjust derivatives in 2006 to market value.

Comparison of Years Ended December 31, 2005 and 2006

Revenue. Revenue was $0.4 million for the year ended December 31, 2005, as compared to $16.0 million for the year ended December 31, 2006. The increase was due to revenue generated from Replidyne s collaboration and commercialization agreement with Forest Laboratories which began in 2006. Revenue recognized in 2005 consists solely of license revenue generated from a research and development project that was completed in 2005. Revenue recognized during 2006 includes $3.8 million of license revenue, representing a portion of the upfront and milestone payments totaling $60 million, which was being recognized in Replidyne s financial statements as of December 31, 2006 as revenue over the estimated period of performance of approximately 14 years, and $12.2 million of contract revenue for funded activity under Replidyne s collaboration and commercialization agreement with Forest Laboratories.

Research and Development Expense. Research and development expenses were $29.2 million for the year ended December 31, 2005 compared to $38.3 million for the year ended December 31, 2006. Research and development expenditures made to advance Replidyne s product candidates and other research efforts during 2005 and 2006 were as follows (in thousands):

	Year Ended December 31,		Change	
	2005	2006	$	%
Faropenem medoxomil	$ 24,744	$ 23,266	$ (1,478)	(6)%
REP8839	3,589	8,363	4,774	133%
Other research and development	847	6,666	5,819	687%
	$ 29,180	$ 38,295	$ 9,115	31%

Costs incurred for the development of faropenem medoxomil were lower in 2006 than in 2005 primarily reflecting decreased external clinical trial activity of $2.5 million, a $1.6 million decrease in costs of Replidyne s internal research and development personnel and related costs and a $1 million decrease in expense incurred under Replidyne s license agreement with Asubio Pharma. These decreases were partially offset by $2.9 million of supply agreement contingencies that were recognized on October 20, 2006 when the FDA issued a non-approvable letter for the NDA Replidyne filed for faropenem medoxomil. During 2005, in addition to the thorough QT study completed for faropenem medoxomil in connection with Replidyne s NDA submission Replidyne incurred significant external clinical research organization expenses supporting preparation of the NDA for faropenem medoxomil that was filed with the FDA in December 2005. During 2006, Replidyne continued to support its ongoing placebo controlled Phase III trial among patients with acute exacerbation of chronic bronchitis and its Phase II dose ranging clinical trial

among pediatric patients with acute bacterial otitis media.

Costs to support Replidyne s REP8839 program increased by $4.8 million in 2006 compared to 2005 following initiation of its Phase I clinical trials program for this compound in July 2006, which resulted in increased external clinical trial costs of $1.9 million and internal personnel costs of $0.7 million. In 2006 Replidyne also incurred $1.5 million under its June 2003 purchase agreement with GSK due upon filing of Replidyne s IND related to REP8839 with the FDA that was accounted for as research and development expense. Replidyne has no further financial obligations due to GSK under this agreement.

Compared to 2005, other research and development costs increased by $5.8 million in 2006. Costs of internal research and development personnel and related costs increased by $2.2 million as Replidyne increased its research and development personnel in support of its expanded development activities specifically related to REP3123 and

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its DNA replication inhibition program. Other costs in support of these activities included external preclinical research, consulting, services and chemicals, compounds and laboratory costs that increased by $2 million.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were $5.3 million for the year ended December 31, 2005, as compared to $12.2 million for the year ended December 31, 2006. The increase was primarily due to increased personnel and related costs of $4.3 million which resulted from additional staff required to support Replidyne s commercial organization and administrative and finance personnel, costs of recruiting and relocating personnel, costs associated with the initial adoption of SFAS 123(R), *Share-Based Payment*, of $0.8 million, as well as $0.8 million in additional legal, accounting, insurance and other professional costs related to compliance obligations associated with being a public company. Market research expenses also increased by $1.0 million, principally related to market research associated with faropenem medoxomil and REP8839.

Investment Income, net. Investment income was $0.7 million for the year ended December 31, 2005, as compared to $6 million for the year ended December 31, 2006. The increase was primarily due to higher overall cash available for investing following receipt of $60 million under Replidyne s collaboration and commercialization agreement with Forest Laboratories in the first quarter of 2006 and $44.5 million in net proceeds from Replidyne s initial public offering completed in the third quarter of 2006.

Interest Expense. Interest expense was $0.1 million for the year ended December 31, 2005, as compared to approximately $14,000 for the year ended December 31, 2006. The decrease was due to payment in full of Replidyne s equipment loan and security agreement during the first quarter of 2006.

Other Expense, net. Other expense was $0.2 million for the year ended December 31, 2005, as compared to $0.7 million for the year ended December 31, 2006. The increase was primarily due to the recognition of approximately $0.4 million in foreign currency losses associated with Replidyne s foreign currency denominated payables.

Liquidity and Capital Resources

At September 30, 2008, Replidyne had $50.6 million in cash, cash equivalents and short-term investments and reported $45.2 million in net assets. Replidyne has accumulated significant net operating losses since its inception and as of September 30, 2008 Replidyne had an accumulated deficit of $147 million. Replidyne has funded its operations to date principally from private placements of its equity securities and convertible notes of $122 million, amounts received from Forest Laboratories under Replidyne s former collaboration and commercialization agreement of $74.6 million and net proceeds from the initial public offering of Replidyne common stock of $44.5 million.

In May 2007, Replidyne entered into an arrangement with a bank to provide investment banking services. Under the terms of the agreement, Replidyne may incur transaction fees of at least $4 million and up to $6 million based on the value of a completed license or strategic transaction, as defined. Additionally, a fee of $1.0 million was due and paid under this agreement following Replidyne s announcement of the proposed transaction with CSI in November 2008. This fee is creditable against the final fee that would become due if the transaction is consummated. As of September 30, 2008, no amounts had been paid or accrued for under this agreement.

Replidyne has entered into employment agreements with its chief executive officer and certain other executive officers that provide for base salary, eligibility for bonuses and other generally available benefits. The employment agreements provide that Replidyne may terminate the employment of the executive at any time with or without cause. If an executive is terminated without cause or such executive resigns for good reason, as defined, then the executive is entitled to receive a severance package consisting of salary continuation for a period of twelve months (or eighteen months with respect to Replidyne s chief executive officer) from the date of termination among other benefits. If such

termination occurs one month before or thirteen months following a change of control, then the executive is entitled to: (i) salary continuation for a period of twelve months (or eighteen months with respect to Replidyne s chief executive officer and chief scientific officer) from the date of termination; (ii) a bonus equal to the average of the executive s annual bonuses for the two years prior to the change in control termination (or one and a half times the average with respect to the chief executive officer); (iii) acceleration of vesting of all of the executive s outstanding unvested options to purchase Replidyne common stock; and (iv) other benefits. As of

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September 30, 2008, Replidyne has accrued for its estimate of unpaid benefits expected to be incurred under these employment agreements. As of September 30, 2008, the balance of accrued but unpaid benefits was $2.2 million.

Replidyne has also entered into retention bonus agreements with its chief financial officer and senior vice president of corporate development. The agreements provide that each such executive is eligible to receive both: (i) a cash bonus in the amount of $0.1 million, which we refer to as the retention bonus, that was earned and fully accrued for at September 30, 2008, and (ii) a cash bonus in an amount of not less than $0.1 million and not greater than $0.15 million, which final amount will be determined by Replidyne s board of directors in its sole discretion, provided that such executive remains employed by Replidyne through the consummation of a strategic transaction, which we refer to as the transaction bonus. The retention bonuses were paid in October 2008. As of September 30, 2008, the transaction bonuses had not been paid or accrued for.

During 2007, Replidyne established a severance benefit plan that defines termination benefits for all eligible employees, as defined, not under an employment contract, if the employee is terminated without cause. Under this plan, employees whose employment is terminated without cause are provided a severance benefit of between nine and eighteen weeks pay, based on their employee grade level, as defined, plus an additional two weeks pay for each year of service. As of September 30, 2008, Replidyne has accrued for its estimate of unpaid benefits expected to be incurred under this plan with respect to current and former employees. As of September 30, 2008, the balance of accrued but unpaid benefits under the severance plan was $1.8 million.

Replidyne has not commercialized its product candidates or generated any revenue from product sales. Replidyne anticipates that it will continue to incur substantial net losses in the foreseeable future. However, Replidyne believes that its current cash, cash equivalents, short-term investments and net income earned on these balances will be sufficient to satisfy Replidyne s anticipated cash needs for working capital and capital expenditures through at least the next 12 months. This forecast of the period in which Replidyne s financial resources will be adequate to support operations is a forward-looking statement and involves risks, uncertainties and assumptions. Replidyne s actual results and the timing of selected events may differ materially from those anticipated as a result of many factors, including but not limited to those discussed under Risk Factors Risks Relating to Replidyne found above in this proxy statement/prospectus.

Replidyne s future capital uses and requirements depend on a number of factors, including but not limited to the following:

- the costs of consummating the merger with CSI and such other costs that may result from any delay in such consummation;
- the costs to enter into and the terms and timing of any sale of assets or strategic transactions involving Replidyne s development stage programs;
- the costs to enter into and subsequently, the terms and timing of, any merger, sale of assets including the sale of certain or all of Replidyne s development stage programs, additional collaborative, strategic partnership or licensing agreements that Replidyne may establish;
- the costs of prosecuting, defending and enforcing any patent claims and other intellectual property rights; and
- the costs of defending any litigation or arbitration claims related to Replidyne s material agreements.

Contractual Obligations

Replidyne s contractual obligations, including financing costs, at December 31, 2007, included the following (in thousands):

	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	Over 5 Years
Operating lease obligations(1)	$ 2,759	$ 737	$ 1,508	$ 514	$
MEDA Purchase Commitments(2)	$ 770	$ 770	$	$	$
Nippon Soda Delay Compensation(3)	$ 7,795	$ 935	$ 6,860	$	$

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(1) Operating lease obligations represented future minimum rental commitments for non-cancelable operating leases for Replidyne s office and laboratory facilities in Colorado and Connecticut. On October 23, 2008, Replidyne entered into an agreement by which it terminated the lease for its facility in Connecticut and paid a cancellation fee of $72,000 in connection therewith.

(2) Purchase obligations represented annual minimum purchase requirements of adult tablets of faropenem medoxomil with MEDA under Replidyne s supply agreement with MEDA, through the termination of this agreement on May 11, 2007. This amount was paid in the first quarter of 2008.

(3) Delay compensation assumed, for this purpose only, that a full commercial launch of an approved faropenem medoxomil drug would not occur for three years and Replidyne s supply agreement with Nippon Soda Company Ltd., or Nippon Soda, for the exclusive supply of Replidyne s commercial requirements of the active pharmaceutical ingredient in faropenem medoxomil was not terminated. On June 20, 2008, Replidyne notified Asubio Pharma and Nippon Soda of its decision to terminate this supply agreement. In July 2008, Replidyne paid Nippon Soda unpaid delay compensation fees accumulated through the effective date of termination of this supply agreement totaling $1.0 million. In addition, Replidyne reimbursed Nippon Soda for certain engineering costs totaling $0.6 million. Replidyne has no further financial obligations under this agreement.

The table above reflects only payment obligations that were fixed and determinable as of December 31, 2007, based on certain of the assumptions described in the footnotes to the table. The table above does not include information with respect to the following contractual obligations because the amounts of the obligations were not determinable as of December 31, 2007:

contractual obligations for clinical trials;

royalty obligations, which would have been payable based on any future sales of faropenem medoxomil;

amounts due to Asubio Pharma under Replidyne s license agreement, which amounts were uncertain as to timing and dependent on the achievement of milestones or termination of the agreement; and

contingent amounts that may have become due under supply agreements, including minimum purchase commitments not yet established, the extent of delay compensation amounts determined based on the timing of a commercial launch and fees that may have become due on termination.

As of December 31, 2007, Replidyne entered into agreements with clinical research organizations and other vendors related to Replidyne s clinical trials. Certain payments were made based upon the number of patients enrolled. For the years ended December 31, 2006 and 2007, Replidyne incurred external costs of approximately $11.4 million and $20.4 million, respectively, associated with conducting its clinical trials. As of December 31, 2007, due to the variability associated with these agreements, Replidyne was unable to estimate the future patient enrollment costs it would incur and therefore excluded these costs from the table above.

As discussed in the notes to the unaudited condensed financial statements for the three- and nine- month period ended September 30, 2007 and 2008, during 2008, Replidyne:

terminated the lease for its facility in Connecticut;

terminated its clinical trials;

terminated the supply agreement with Asubio Pharma Co. Ltd. and Nippon Soda Company Ltd.;

terminated the supply agreement with MEDA Manufacturing GmbH; and

terminated all programs related to the development of faropenem medoxomil.

Critical Accounting Policies and Estimates

This discussion and analysis of Replidyne s financial condition and results of operations is based on its financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these financial statements requires Replidyne to make estimates and judgments that affect the reported amounts of assets, liabilities, contingent assets and liabilities, revenues, expenses and related disclosures. Actual results may differ from these estimates. Replidyne s significant accounting policies are described in Note 2 to Replidyne s financial statements included elsewhere in this proxy statement/prospectus.

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Replidyne believes the following accounting policies affect Replidyne s more significant judgments and estimates used in the preparation of its financial statements.

Revenue Recognition. Replidyne has generated revenue through research, license, collaboration and commercialization agreements. These arrangements can contain multiple elements, including non-refundable upfront fees, payments for reimbursement of research and commercialization costs, non-refundable payments associated with achieving specific milestones, and royalties based on specified percentages of net product sales.

In determining when to recognize revenue related to upfront and milestone payments under these arrangements, Replidyne applies the revenue recognition criteria as outlined in the Emerging Issues Task Force (EITF) Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables* (EITF 00-21). In applying these criteria, Replidyne considers a variety of factors to determine the appropriate method of revenue recognition, including whether the elements of the arrangement are separable, whether payments received are subject to refund or forfeiture, whether there are determinable fair values and whether there is a unique earnings process associated with each element of an arrangement.

When a payment is specifically tied to a separate earnings process and the amount to be received is fixed and determinable, revenue is recognized when the performance obligation associated with the payment is completed. Performance obligations typically consist of significant and substantive milestones. Revenues from milestone payments may be considered separable from funding for research, development or commercial activities because of the uncertainty surrounding the achievement of the milestones. Accordingly, these payments could be recognized as revenue when the performance milestone is achieved as described in EITF 00-21. In circumstances where Replidyne cannot identify a separate earnings process related to an upfront or milestone payment, Replidyne records deferred revenue and recognizes revenue ratably over the period of expected benefit, which is generally the unexpired contract term.

Revenues derived from reimbursement of expenses for research, development and commercial activities under Replidyne s collaboration and commercialization agreements are recorded in compliance with EITF Issue No. 99-19, *Reporting Revenue Gross as Principal Versus Net as an Agent* (EITF 99-19). In accordance with the criteria established by EITF 99-19, in transactions where Replidyne acts as principal, with discretion to choose suppliers, bear credit risk and perform a substantive part of the services, revenue is recorded at the gross amount of the reimbursement. Costs associated with these reimbursements are reflected as a component of operating expenses in Replidyne s statements of operations.

Under Replidyne s former agreement with Forest Laboratories entered into in February 2006, Replidyne recorded the initial $50 million upfront payment received in February 2006 as deferred revenue and was recognizing this amount into revenue ratably over the expected term of the agreement. In addition, Replidyne received a development milestone payment of $10 million in March 2006. Due to this milestone being achieved within one month of entering into the collaboration and commercialization agreement with Forest Laboratories, Replidyne could not identify a separate earnings process related to this milestone payment and was recognizing revenue related to this payment over the expected term of the agreement. In February 2007, Replidyne and Forest Laboratories announced that the agreement would terminate, and as a result, Replidyne reacquired all U.S. adult and pediatric rights previously granted to Forest Laboratories. As no further obligations existed beyond May 7, 2007, the effective date of the termination, Replidyne recognized the remaining unamortized deferred revenue balance as revenue in the second quarter of 2007.

Replidyne has also received amounts from Forest Laboratories as reimbursement for certain research and development. Replidyne believes that, as it relates to these activities, Replidyne acted as the principal, performing a substantive part of the services directly, having the discretion to choose suppliers and bearing all credit risk associated with the performance of these activities. Replidyne therefore has recorded these amounts as revenue in accordance

with its revenue recognition policy. See Note 2 to Replidyne s financial statements included elsewhere in this proxy statement/prospectus for more information about Replidyne s revenue recognition policies.

Clinical Trial and Other Accrued Expenses. As part of the process of preparing Replidyne s financial statements, Replidyne is required to estimate accrued expenses. This process involves identifying services that third parties have performed on Replidyne s behalf and estimating the level of service performed and the associated cost incurred on these services as of each balance sheet date in Replidyne s financial statements. Replidyne was party to agreements which include provisions that require payments to the counterparty under certain circumstances.

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Replidyne develops estimates of liabilities using its judgment based upon the facts and circumstances known and accounts for these estimates in accordance with accounting principles involving accrued expenses generally accepted in the U.S. In regards to Replidyne s clinical trials, Replidyne recorded expenses based on estimates of the services received and efforts expended pursuant to contracts with clinical research organizations (CROs) and other third party vendors associated with Replidyne s clinical trials. Replidyne contracted with third parties to perform a range of clinical trial activities in the ongoing development of its product candidates. The terms of these agreements vary and may result in uneven payments. Payments under these contracts depended on factors such as the achievement of certain defined milestones, the successful enrollment of patients and other events. The objective of Replidyne s clinical trial accrual policy is to match the recording of expenses in Replidyne s financial statements of the actual services received and efforts expended. In doing so, Replidyne relied on information from CROs and its clinical operations group regarding the status of Replidyne s clinical trials to calculate Replidyne s accrual for clinical expenses at the end of each reporting period. Replidyne s estimates and assumptions could differ significantly from the amounts that Replidyne actually may incur.

Share-Based Compensation. Effective January 1, 2006, Replidyne adopted Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment* (SFAS 123(R)), which requires compensation costs related to share-based transactions, including employee stock options, to be recognized in the financial statements based on fair value. SFAS 123(R) revises SFAS 123, as amended, *Accounting for Stock-Based Compensation*, and supersedes Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*. Replidyne adopted SFAS 123(R) using the prospective method. Under this method, compensation cost is recognized for all share-based awards granted or modified on or after January 1, 2006.

Replidyne selected the Black-Scholes option pricing model as the most appropriate valuation method for option grants with service and/or performance conditions. The Black-Scholes model requires inputs for risk-free interest rate, dividend yield, volatility and expected lives of the options. Since Replidyne has a limited history of stock activity, expected volatility is based on historical data from several public companies similar in size and value to Replidyne. Replidyne will continue to use a weighted average approach using historical volatility and other similar public entity volatility information until its historical volatility is relevant to measure expected volatility for future option grants. Replidyne estimates the forfeiture rate based on historical data. Based on an analysis of historical forfeitures, Replidyne applied an annual forfeiture rate of 4.48% during 2007. During the nine months ended September 30, 2008, Replidyne applied a weighted average expected annual forfeiture rate of 23.07% as compared to the expected forfeiture rate of 4.36% during 2007. The increase in the forfeiture rate during 2008 is primarily attributable to increased forfeitures as a result of Replidyne s recent organizational restructurings and future expectations. The forfeiture rate is re-evaluated on a quarterly basis. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of the grant. The expected lives for options granted represents the period of time that options granted are expected to be outstanding and is derived from historical exercise behavior.

During 2007, Replidyne estimated the fair value of option grants as of the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions. Expected volatility was estimated to be 75%. The weighted average risk free interest rate was 4.46% and the dividend yield was 0.00%. The weighted average expected lives for each individual vesting tranche under the graded vesting attribution method discussed below was estimated to be 3.05 years.

Replidyne had a choice of two attribution methods for allocating compensation costs under SFAS No. 123(R): the straight-line method, which allocates expense on a straight-line basis over the requisite service period of the last separately vesting portion of an award, or the graded vesting attribution method, which allocates expense on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards. Replidyne chose the graded vesting attribution method and accordingly, amortized

the fair value of each option over each option s vesting period (requisite service period).

Deferred Tax Asset Valuation Allowance. In establishing a valuation allowance on Replidyne s deferred tax assets Replidyne is required to make significant estimates and judgments about its future operating results. Replidyne s ability to realize deferred tax assets depends on its future taxable income as well as limitations on utilization primarily of net operating losses and tax credits. Replidyne is required to reduce its deferred tax assets by a valuation allowance if it is more likely than not that some portion or all of Replidyne s deferred tax asset will not

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be realized. Although Replidyne reported net income for the year ended December 31, 2007 as a result of the termination of its agreement with Forest Laboratories, Replidyne expects to incur substantial operating losses for the next several years. Accordingly, Replidyne has recorded a full valuation allowance on its net deferred tax assets since inception due to uncertainties related to Replidyne s ability to realize deferred tax assets in the foreseeable future. See Note 11 to Replidyne s financial statements included elsewhere in this proxy statement/prospectus.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in applying generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 applies whenever an entity is measuring fair value under other accounting pronouncements that require or permit fair value measurement. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007; however, the FASB provided a one year deferral for implementation of the standard for non-financial assets and liabilities. Replidyne adopted SFAS 157 effective January 1, 2008 for all financial assets and liabilities. The adoption did not have a material impact on Replidyne s financial statements. Replidyne does not expect that the remaining provisions of SFAS 157, when adopted, will have a material impact on its financial statements.

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QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK FOR REPLIDYNE

Replidyne s exposure to market risk is primarily limited to its cash, cash equivalents and short-term investments. Replidyne has attempted to minimize risk by investing in quality financial instruments, primarily money market funds, federal agency notes, commercial paper, bank and corporate debt securities, with no security having an effective duration in excess of two years. The primary objective of Replidyne s investment activities is to preserve its capital for the purpose of funding its operations while at the same time maximizing the income Replidyne receives from its investments without significantly increasing risk. To achieve these objectives, Replidyne s investment policy allows it to maintain a portfolio of cash equivalents and short-term investments in a variety of marketable securities, including U.S. government, money market funds and under certain circumstances, derivative financial instruments. Replidyne s cash and cash equivalents as of September 30, 2008 included a liquid money market account. The securities in Replidyne s investment portfolio are classified as available-for-sale and Replidyne believes, due to their short-term nature, subject to minimal interest rate risk.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR CSI

You should read the following discussion and analysis of financial condition and results of operations together with CSI s consolidated financial statements and the related notes included elsewhere in this proxy statement/prospectus. This discussion and analysis contains forward-looking statements about CSI s business and operations, based on current expectations and related to future events and CSI s future financial performance, that involve risks and uncertainties. CSI s actual results may differ materially from those it currently anticipates as a result of many important factors, including the factors described under Risk Factors and elsewhere in this proxy statement/prospectus.

Overview

CSI is a medical device company focused on developing and commercializing interventional treatment systems for vascular disease. CSI s initial product, the Diamondback 360° Orbital Atherectomy System, is a minimally invasive catheter system for the treatment of peripheral arterial disease, or PAD.

CSI was incorporated in Minnesota in 1989. From 1989 to 1997, CSI engaged in research and development on several different product concepts that were later abandoned. Since 1997, CSI has devoted substantially all of its resources to the development of the Diamondback 360°.

From 2003 to 2005, CSI conducted numerous bench and animal tests in preparation for application submissions to the FDA. CSI initially focused testing on providing a solution for coronary in-stent restenosis but later changed the focus to PAD. In 2006, CSI obtained an investigational device exemption from the FDA to conduct CSI s pivotal OASIS clinical trial, which was completed in January 2007. The OASIS clinical trial was a prospective 20-center study that involved 124 patients with 201 lesions.

In August 2007, the FDA granted CSI 510(k) clearance for the use of the Diamondback 360° as a therapy in patients with PAD. CSI commenced a limited commercial introduction of the Diamondback 360° in the United States in September 2007. This limited commercial introduction intentionally limited the size of CSI s sales force and the number of customers each member of the sales force served in order to focus on obtaining quality and timely product feedback on initial product usages.

CSI markets the Diamondback 360° in the United States through a direct sales force and commenced a full commercial launch in the quarter ended March 31, 2008. CSI plans to expend significant capital to increase the size of its sales and marketing efforts to expand its customer base as CSI implements full commercialization of the Diamondback 360°. CSI manufactures the Diamondback 360° internally at its facilities.

As of September 30, 2008, CSI had an accumulated deficit of $132.0 million. CSI expects its losses to continue as CSI continues its commercialization activities, develops additional product enhancements and makes further regulatory submissions. To date, CSI has financed its operations primarily through the private placement of equity securities.

CSI s consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Since inception, CSI has experienced substantial operating losses and negative cash flows from operations. CSI had cash and cash equivalents of $14.7 million at September 30, 2008. During the year ended June 30, 2008 and three months ended September 30, 2008, net cash used in operations amounted to $31.9 million and $12.0 million, respectively. In February 2008, CSI

was notified that recent conditions in the global credit markets have caused insufficient demand for auction rate securities, resulting in failed auctions for $23.0 million of CSI s auction rate securities held at June 30, 2008 and September 30, 2008. These securities are currently not liquid, as CSI has an inability to sell the securities due to continued failed auctions. As a result, CSI recorded an other-than-temporary impairment loss of $1.3 million relating to these securities in CSI s statement of operations for the year ended June 30, 2008. On March 28, 2008, CSI obtained a margin loan from UBS Financial Services, Inc., the entity through which CSI originally purchased its auction rate securities, for up to $12.0 million, which was secured by the $23.0 million par value of CSI s auction rate securities. The outstanding balance on this loan at June 30, 2008 was $11.9 million. On August 21, 2008, CSI replaced this loan with a margin loan from UBS Bank USA, which increased maximum borrowings available to $23.0 million. This maximum borrowing amount is not set forth in the written agreement for the loan and may be adjusted from time to time by UBS Bank in its sole discretion. The margin loan has a floating

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interest rate equal to 30-day LIBOR, plus 1.0%. The loan is due on demand and UBS Bank will require CSI to repay it in full from the proceeds received from a public equity offering where net proceeds exceed $50.0 million. In addition, if at any time any of CSI s auction rate securities may be sold, exchanged, redeemed, transferred or otherwise conveyed for no less than their par value, then CSI must immediately effect such a transfer and the proceeds must be used to pay down outstanding borrowings under this loan. The margin requirements are determined by UBS Bank but are not included in the written loan agreement and are therefore subject to change. From August 21, 2008, the date this loan was initially funded, through the date of this proxy statement/prospectus, the margin requirements included maximum borrowings, including interest, of $23.0 million. If these margin requirements are not maintained, UBS Bank may require CSI to make a loan payment in an amount necessary to comply with the applicable margin requirements or demand repayment of the entire outstanding balance. CSI has maintained the margin requirements under the loans from both UBS entities. The outstanding balance on this loan at September 30, 2008 was $22.9 million.

In addition, on September 12, 2008, CSI entered into a loan and security agreement with Silicon Valley Bank with maximum available borrowings of $13.5 million. The agreement includes a $3.0 million term loan, a $5.0 million accounts receivable line of credit, and two term loans for an aggregate of $5.5 million that are guaranteed by certain of CSI s affiliates. See Liquidity and Capital Resources for further information regarding this loan.

CSI s ability to continue as a going concern ultimately depends on its ability to either complete the merger with Replidyne or raise additional debt or equity capital prior to or during the quarter ending September 30, 2009. If the merger is not consummated or CSI is unable to raise additional debt or equity financing on terms acceptable to it, there will continue to be substantial doubt about CSI s ability to continue as a going concern.

During fiscal year 2009, CSI plans to continue to expand its sales and marketing efforts, conduct research and development of product improvements and increase CSI s manufacturing capacity to support anticipated future growth.

Financial Overview

Revenues. CSI expects to derive substantially all of its revenues for the foreseeable future from the sale of the Diamondback 360°. The system consists of a disposable, single-use, low-profile catheter that travels over CSI s proprietary ViperWire guidewire and an external control unit that powers the system. Initial hospital orders usually include ten single-use catheters and guidewires, along with a control unit. Reorders for single-use catheters and guidewires occur as hospitals utilize the single-use catheters.

CSI applies Emerging Issues Task Force Bulletin (EITF) No. 00-21, *Revenue Arrangements with Multiple Deliverables,* the primary impact of which is to treat the Diamondback 360° as a single unit of accounting for initial customer orders until such time as CSI has sufficient sales history to satisfy the criteria for separate units of accounting. As such, revenues are deferred until the title and risk of loss of all Diamondback 360° components pass to the customer. Many initial shipments to customers included a loaner control unit, which CSI provided, until the new control unit received clearance from the FDA and was subsequently available for sale. The loaner control units were company-owned property and CSI maintained legal title to these units. The loaner control units were held in inventory at the time they were loaned to the various accounts under CSI s limited commercial launch. The net inventory value of the loaner control units was $20,246 at June 30, 2007. At June 30, 2008, the loaner control units were fully reserved, as CSI had received FDA clearance on the new control unit and began shipping CSI s new control unit during the quarter ended December 31, 2007. However, CSI could not meet the production demands of the new control units and, as a result, CSI continued to ship loaner control units during the quarter ended December 31, 2007. As of June 30, 2008, CSI had deferred revenue of $116,000, reflecting all disposable component shipments to customers pending receipt of a customer purchase order and shipment of a new control unit. CSI is currently meeting production demands for the new control units and all deferred revenue was recognized during the quarter ended

September 30, 2008.

Cost of Goods Sold. CSI assembles the single-use catheter with components purchased from third-party suppliers, as well as with components manufactured in-house. The control unit and guidewires are purchased from third-party suppliers. CSI s cost of goods sold consists primarily of direct labor, manufacturing overhead, purchased raw materials and manufactured components. With the anticipated benefits of future cost reduction initiatives and increased volume and related economies of scale, CSI anticipates that gross margin percentages on single-use

catheters that it assembles will be higher than those achieved on the control unit and guidewires that CSI purchases from third parties.

Selling, General and Administrative Expenses. Selling, general and administrative expenses include compensation for executive, sales, marketing, finance, information technology, human resources and administrative personnel, including stock-based compensation. Other significant expenses include travel and marketing costs, professional fees, and patent expenses.

Research and Development. Research and development expenses include costs associated with the design, development, testing, enhancement and regulatory approval of CSI s products. Research and development expenses include employee compensation including stock-based compensation, supplies and materials, consulting expenses, travel and facilities overhead. CSI also incurs significant expenses to operate its clinical trials, including trial design, third-party fees, clinical site reimbursement, data management and travel expenses. All research and development expenses are expensed as incurred.

Interest Income. Interest income is attributed to interest earned on deposits in investments that consist of money market funds, U.S. government securities, commercial paper and auction rate securities.

Interest Expense. Interest expense results from outstanding debt balances and the change in value of convertible preferred stock warrants and the issuance of convertible promissory notes in 2006. Convertible preferred stock warrants are classified as a liability under Financial Accounting Standards Board (FASB) Statement of Accounting Standards (SFAS) No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity* and are subject to remeasurement at each balance sheet date with any change in value recognized as a component of interest expense. Immediately prior to the effective time of the merger with Replidyne, the convertible preferred stock warrants will convert into common stock warrants, thereby eliminating the preferred stock warrant liability.

Accretion of Redeemable Convertible Preferred Stock. Accretion of redeemable convertible preferred stock reflects the change in the current estimated fair market value of the preferred stock on a quarterly basis, as determined by management and the board of directors. Accretion is recorded as an increase to redeemable convertible preferred stock in the consolidated balance sheet and an increase to the loss attributable to common shareholders in the consolidated statement of operations. The redeemable convertible preferred stock will be converted into common stock immediately prior to the effective time of the merger with Replidyne. As such, the preferred stockholders will forfeit their liquidation preferences and CSI will no longer record accretion.

Net Operating Loss Carryforwards. CSI has established valuation allowances to fully offset its deferred tax assets due to the uncertainty about its ability to generate the future taxable income necessary to realize these deferred assets, particularly in light of its historical losses. The future use of net operating loss carryforwards is dependent on CSI attaining profitable operations and will be limited in any one year under Internal Revenue Code Section 382 due to significant ownership changes (as defined in Section 382) resulting from CSI s equity financings. At June 30, 2008, CSI had net operating loss carryforwards for federal and state income tax reporting purposes of approximately $69.0 million, which will expire at various dates through fiscal 2028.

Critical Accounting Policies and Significant Judgments and Estimates

CSI s management s discussion and analysis of its financial condition and results of operations are based on its consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of CSI s consolidated financial statements requires CSI to make estimates, assumptions and judgments that affect amounts reported in those statements. CSI s estimates, assumptions

and judgments, including those related to revenue recognition, excess and obsolete inventory, stock-based compensation, preferred stock and preferred stock warrants are updated as appropriate, which, in most cases, is at least quarterly. CSI uses authoritative pronouncements, its technical accounting knowledge, cumulative business experience, judgment and other factors in the selection and application of CSI s accounting policies. While CSI believes that the estimates, assumptions and judgments that CSI uses in preparing its consolidated financial statements are appropriate, these estimates, assumptions and judgments are subject to factors and uncertainties regarding their outcome. Therefore, actual results may materially differ from these estimates.

CSI s significant accounting policies are described in Note 1 to its consolidated financial statements included elsewhere in this proxy statement/prospectus. Some of those significant accounting policies require CSI to make

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subjective or complex judgments or estimates. An accounting estimate is considered to be critical if it meets both of the following criteria: (1) the estimate requires assumptions about matters that are highly uncertain at the time the accounting estimate is made, and (2) different estimates that reasonably could have been used, or changes in the estimate that are reasonably likely to occur from period to period, would have a material impact on the presentation of CSI s financial condition, results of operations, or cash flows. CSI believes that the following are its critical accounting policies and estimates:

Revenue Recognition. CSI recognizes revenue in accordance with SEC Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition* and EITF No. 00-21, *Revenue Arrangements with Multiple Deliverables*. Revenue is recognized when all of the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) shipment of all components has occurred or delivery of all components has occurred if the terms specify that title and risk of loss pass when products reach their destination; (3) the sales price is fixed or determinable; and (4) collectability is reasonably assured. CSI has no additional post-shipment or other contractual obligations or performance requirements and does not provide any credits or other pricing adjustments affecting revenue recognition once these criteria have been met. The customer has no right of return on any component once the above criteria have been met. Payment terms are generally set at 30 days.

CSI derives its revenue through the sale of the Diamondback 360°, which includes single-use catheters, guidewires and control units used in the atherectomy procedure. Initial orders from all new customers require the customer to purchase the entire Diamondback 360° system, which includes multiple single-use catheters and guidewires and one control unit. Due to delays in the final FDA clearance of the new control unit and early production constraints of the new control unit, CSI was not able to deliver all components of the initial order. For these initial orders, CSI shipped and billed only for the single-use catheters and guidewires. In addition, CSI sent an older version of its control unit as a loaner unit with the customer s expectation that CSI would deliver and bill for a new control unit once it became available. As CSI had not delivered each of the individual components to all customers, CSI had deferred the revenue for the entire amount billed for single-use catheters and guidewires shipped to the customers that had not received the new control unit. Those billings totaled $116,000 at June 30, 2008, which amount had been deferred pending receipt of a customer purchase order and shipment of a new control unit. After the initial order, customers are not required to purchase any additional disposable products from CSI. Once CSI had delivered the new control unit to a customer, CSI recognized revenue that was previously deferred and revenue for subsequent reorders of single-use catheters, guidewires and additional new control units when the criteria of SAB No. 104 were met. CSI is currently meeting production demands for the new control units and all deferred revenue was recognized during the quarter ended September 30, 2008.

Investments. CSI classifies all investments as available-for-sale. Investments are recorded at fair value and unrealized gains and losses are recorded as a separate component of shareholders deficiency until realized. Realized gains and losses are accounted for on the specific identification method. CSI has historically placed its investments primarily in auction rate securities, U.S. government securities, and commercial paper. These investments, a portion of which had original maturities beyond one year, were classified as short-term based on their liquid nature. The securities that had stated maturities beyond one year had certain economic characteristics of short-term investments due to a rate-setting mechanism and the ability to sell them through a Dutch auction process that occurred at pre-determined intervals, primarily every 28 days. For the year ended June 30, 2008 and three months September 30, 2008, the amount of gross realized gains and losses related to sales of investments were insignificant.

In February 2008, CSI was informed that there was insufficient demand for auction rate securities, resulting in failed auctions for $23.0 million of CSI s auction rate securities held at June 30, 2008 and September 30, 2008. Currently, these affected securities are not liquid and will not become liquid until a future auction for these investments is successful, they are redeemed by the issuer, they mature, or they are repurchased by UBS. As a result, at June 30, 2008 and September 30, 2008, CSI has classified the fair value of the auction rate securities as a long-term asset.

Starting in February 2008, interest rates on all auction rate securities were reset to temporary predetermined penalty or maximum rates. These maximum rates are generally limited to a maximum amount payable over a 12 month period equal to a rate based on the trailing 12-month average of 90-day treasury bills, plus 120 basis points. These maximum allowable rates range from 2.7% to 4.0% of par value per year. CSI has collected all interest due on its auction rate securities and has no reason to believe that it will not collect all interest due in the future. CSI does not expect to receive the principal associated with its auction rate securities until the earlier of a

successful auction, their redemption by the issuer or their maturity. On March 28, 2008, CSI obtained a margin loan from UBS Financial Services, Inc., the entity through which CSI originally purchased CSI s auction rate securities, for up to $12.0 million, which was secured by the $23.0 million par value of CSI s auction rate securities. The outstanding balance on this loan at June 30, 2008 was $11.9 million. On August 21, 2008, CSI replaced this loan with a margin loan from UBS Bank USA, which increased maximum borrowings available to $23.0 million. This maximum borrowing amount is not set forth in the written agreement for the loan and may be adjusted from time to time by UBS Bank in its sole discretion. The margin loan has a floating interest rate equal to 30-day LIBOR, plus 1.0%. The loan is due on demand and UBS Bank will require CSI to repay it in full from the proceeds received from a public equity offering where net proceeds exceed $50.0 million. In addition, if at any time any of CSI s auction rate securities may be sold, exchanged, redeemed, transferred or otherwise conveyed for no less than their par value, then CSI must immediately effect such a transfer and the proceeds must be used to pay down outstanding borrowings under this loan. The margin requirements are determined by UBS Bank but are not included in the written loan agreement and are therefore subject to change. From August 21, 2008, the date this loan was initially funded, through the date of this proxy statement/prospectus, the margin requirements included maximum borrowings, including interest, of $23.0 million. If these margin requirements are not maintained, UBS Bank may require CSI to make a loan payment in an amount necessary to comply with the applicable margin requirements or demand repayment of the entire outstanding balance. CSI has maintained the margin requirements under the loans from both UBS entities. The outstanding balance on this loan at September 30, 2008 was $22.9 million.

In accordance with EITF 03-01 and FSP FAS 115-1 and 124-1, The Meaning of Other Than-Temporary Impairment and Its Application to Certain Investments, CSI reviews several factors to determine whether a loss is other-than-temporary. These factors include but are not limited to: (1) the length of time a security is in an unrealized loss position, (2) the extent to which fair value is less than cost, (3) the financial condition and near term prospects of the issuer, and (4) the company s intent and ability to hold the security for a period of time sufficient to allow for any unanticipated recovery in fair value.

CSI recorded an other-than-temporary impairment loss of $1.3 million relating to its auction rate securities in CSI s statement of operations for the year ended June 30, 2008 and recorded an unrealized loss of $0.3 million relating to its auction rate securities in CSI s other comprehensive income (loss) for the three months ended September 30, 2008. CSI determined the fair value of its auction rate securities and quantified the other-than-temporary impairment loss and the unrealized loss with the assistance of ValueKnowledge LLC, an independent third party valuation firm, which utilized various valuation methods and considered, among other factors, estimates of present value of the auction rate securities based upon expected cash flows, the likelihood and potential timing of issuers of the auction rate securities exercising their redemption rights at par value, the likelihood of a return of liquidity to the market for these securities and the potential to sell the securities in secondary markets.

At June 30, 2008, CSI concluded that no weight should be given to the value indicated by the secondary markets for student loan-backed auction rate securities similar to those CSI holds because these markets have very low transaction volumes and consist primarily of private transactions with minimal disclosure, transactions may not be representative of the actions of typically-motivated buyers and sellers and CSI does not currently intend to sell in the secondary markets. However, CSI did consider the secondary markets for certain mortgage-backed securities to estimate the market yields attributable to CSI s auction rate securities, but determined that these secondary markets do not provide a sufficient basis of comparison for the auction rate securities that CSI holds and, accordingly, attributed no weight to the values of these mortgage-backed securities indicated by the secondary markets.

At June 30, 2008, CSI attributed a weight of 66.7% to estimates of present value of the auction rate securities based upon expected cash flows and a weight of 33.3% to the likelihood and potential timing of issuers of the auction rate securities exercising their redemption rights at par value or willingness of third parties to provide financing in the market against the par value of those securities. The attribution of these weights required the exercise of valuation

judgment. A measure of liquidity is available from borrowing, which led to the 33.3% weight attributed to the likelihood and potential timing of issuers of the auction rate securities exercising their redemption rights at par value or the willingness of third parties to provide financing in the market against the par value of those securities. However, borrowing does not eliminate exposure to the risk of holding the securities, so the weight of 66.7% attributed to the present value of the auction rate securities based upon expected cash flows reflects the expectation that the securities are likely to be held for an uncertain period. CSI focused on these methodologies

because no certainty exists regarding how the auction rate securities will be eventually converted to cash and these methodologies represent the most likely possible outcomes. To derive estimates of the present value of the auction rate securities based upon expected cash flows, CSI used the securities expected annual interest payments, ranging from 2.7% to 4.0% of par value, representing estimated maximum annual rates under the governing documents of the auction rate securities; annual market interest rates, ranging from 4.5% to 5.8%, based on observed traded, state sponsored, taxable certificates rated AAA or lower and issued between June 15 and June 30, 2008; and a range of expected terms to liquidity.

At June 30, 2008, CSI s weighting of the valuation methods indicates an implied term to liquidity of approximately 3.5 years. The implied term to liquidity of approximately 3.5 years is a result of considering a range in possible timing of the various scenarios that would allow a holder of the auction rate securities to convert the auction rate securities to cash ranging from zero to ten years, with the highest probability assigned to the range of zero to five years. Several sources were consulted but no individual source of information was relied upon to arrive at CSI s estimate of the range of possible timing to convert the auction rate securities to cash or the implied term to liquidity of approximately 3.5 years. The primary reason for the fair value being less than cost related to a lack of liquidity of the securities, rather than the financial condition and near term prospects of the issuer.

At September 30, 2008, CSI concluded that no weight should be given to the value indicated by the secondary markets for student loan backed auction rate securities similar to those CSI holds because these markets have very low transaction volumes and consist primarily of private transactions with minimal disclosure and transactions may not be representative of the actions of typically-motivated buyers and sellers and CSI does not currently intend to sell in the secondary markets. However, CSI did consider the secondary markets for certain mortgage-backed securities to estimate the market yields attributable to CSI s auction rate securities, but determined that these secondary markets do not provide a sufficient basis of comparison for the auction rate securities that CSI holds and, accordingly, attributed no weight to the values of these mortgage-backed securities indicated by the secondary markets.

At September 30, 2008, CSI concluded that no weight should be given to the likelihood and potential timing of issuers of the auction rate securities exercising their redemption rights at par value based on low issuer call activity, so CSI attributed a weight of 100.0% to estimates of present value of the auction rate securities based upon expected cash flows. The attribution of weights to the valuation factors required the exercise of valuation judgment. The selection of a weight of 100.0% attributed to the present value of the auction rate securities based upon expected cash flows reflects the expectation, in absence of the Auction Rate Securities Rights Prospectus discussed below, that no certainty exists regarding how the auction rate securities will be eventually converted to cash and this methodology represents the possible outcome. To derive estimates of the present value of the auction rate securities based upon expected cash flows, CSI used the securities expected annual interest payments, ranging from 2.1% to 5.4% of par value, representing estimated maximum annual rates under the governing documents of the auction rate securities; annual market interest rates, ranging from 3.9% to 5.4%, based on observed traded, state sponsored, taxable certificates rated AAA or lower and issued between September 29 and September 30, 2008; certain mortgage-backed securities and indices; and a range of expected terms to liquidity.

CSI s weighting of the valuation methods as of September 30, 2008 indicates an implied term to liquidity of approximately five years in absence of the Auction Rate Securities Rights Prospectus discussed below. The implied term to liquidity of approximately five years is a result of considering a range in possible timing of the various scenarios that would allow a holder of the auction rate securities to convert the auction rate securities to cash ranging from zero to ten years, with the highest probability assigned to five years. UBS issued a comprehensive settlement, which was confirmed by an Auction Rate Securities Rights Prospectus issued by UBS on October 7, 2008, in which there is a possibility of redemption by UBS at par value for the auction rate securities held by CSI between June 30, 2010 and July 2, 2012. Under the comprehensive settlement, UBS has committed to purchase a total of $8.3 billion of auction rate securities at par value from most private clients during the two-year period beginning January 1, 2009.

Private clients and charities holding less than $1.0 million in household assets at UBS were able to avail themselves of this relief beginning October 31, 2008. From mid-September 2008, UBS began to provide loans at no cost to its clients for the par value of their auction rate security holdings. In addition, UBS has also committed to provide liquidity solutions to institutional investors and has agreed to purchase all or any of a remaining $10.3 billion in auction rate securities at par value from its institutional clients beginning June 10, 2010. These auction rate security rights are not transferable, tradable or marginable. CSI has not considered the liquidity

potentially generated by UBS s comprehensive settlement or the UBS loan in CSI s valuation of the 19 auction rate certificates held by CSI because the settlement rights were not enforceable at September 30, 2008. The repurchase arrangement and lending arrangement may represent separate contracts, securities or other assets that have not been considered in the valuation of the auction rate securities.

CSI s auction rate securities include AAA rated auction rate securities issued primarily by state agencies and backed by student loans substantially guaranteed by the Federal Family Education Loan Program. These auction rate securities continue to be AAA rated auction rate securities subsequent to the failed auctions that began in February 2008.

In addition to the valuation procedures described above, CSI considered (i) its current inability to hold these securities for a period of time sufficient to allow for an unanticipated recovery in fair value based on the company s current liquidity, history of operating losses, and management s estimates of required cash for continued product development and sales and marketing expenses, and (ii) failed auctions and the anticipation of continued failed auctions for all of CSI s auction rate securities.

Based on the factors described above, CSI recorded the entire amount of impairment loss identified for the year ended June 30, 2008 of $1.3 million as other-than-temporary and recorded the decrease in fair value of $0.3 million as an unrealized loss for the three months ended September 30, 2008. CSI did not identify or record any additional realized or unrealized gains or losses for the year ended June 30, 2008 or the three months ended September 30, 2008. CSI will continue to monitor and evaluate the value of its investments each reporting period for further possible impairment or unrealized loss. Although it does not currently intend to do so, CSI may consider selling its auction rate securities in the secondary markets in the future, which may require a sale at a substantial discount to the stated principal value of these securities.

Excess and Obsolete Inventory. CSI has inventories that are principally comprised of capitalized direct labor and manufacturing overhead, raw materials and components, and finished goods. Due to the technological nature of CSI s products, there is a risk of obsolescence to changes in CSI s technology and the market, which is impacted by exogenous technological developments and events. Accordingly, CSI writes down its inventories as CSI becomes aware of any situation where the carrying amount exceeds the estimated realizable value based on assumptions about future demands and market conditions. The evaluation includes analyses of inventory levels, expected product lives, product at risk of expiration, sales levels by product and projections of future sales demand.

Stock-Based Compensation. Effective July 1, 2006, CSI adopted SFAS No. 123(R), *Share-Based Payment*, as interpreted by SAB No. 107, using the prospective application method, to account for stock-based compensation expense associated with the issuance of stock options to employees and directors on or after July 1, 2006. The unvested compensation costs at July 1, 2006, which relate to grants of options that occurred prior to the date of adoption of SFAS No. 123(R), will continue to be accounted for under Accounting Principles Board (APB) No. 25, *Accounting for Stock Issued to Employees*. SFAS No. 123(R) requires CSI to recognize stock-based compensation expense in an amount equal to the fair value of share-based payments computed at the date of grant. The fair value of all employee and director stock options is expensed in the consolidated statements of operations over the related vesting period of the options. CSI calculated the fair value on the date of grant using a Black-Scholes option pricing model.

To determine the inputs for the Black-Scholes option pricing model, CSI is required to develop several assumptions, which are highly subjective. These assumptions include:

CSI common stock volatility;

the length of CSI s options lives, which is based on future exercises and cancellations;

the number of shares of common stock pursuant to which options which will ultimately be forfeited;

the risk-free rate of return; and

future dividends.

CSI uses comparable public company data to determine volatility, as CSI common stock has not yet been publicly traded. CSI uses a weighted average calculation to estimate the time its options will be outstanding as prescribed by Staff Accounting Bulletin No. 107, *Share-Based Payment*. CSI estimates the number of options that are expected to be forfeited based on CSI s historical experience. The risk-free rate is based on the U.S. Treasury

yield curve in effect at the time of grant for the estimated life of the option. CSI uses its judgment and expectations in setting future dividend rates, which is currently expected to be zero.

The absence of an active market for CSI common stock also requires CSI s management and board of directors to estimate the fair value of CSI common stock for purposes of granting options and for determining stock-based compensation expense. In response to these requirements, CSI s management and board of directors estimate the fair market value of common stock at each date at which options are granted based upon stock valuations and other qualitative factors. CSI has conducted stock valuations using two different valuation methods: the option pricing method and the probability weighted expected return method, or PWERM. The option pricing method assumes a liquidation of a company and treats common and preferred stock as call options on the enterprise value. The option pricing method is often used when the possible outcomes for a liquidity event are deemed to have equal likelihood and when valuing securities with a high degree of uncertainty regarding potential future values. CSI used the option pricing method for valuations of its common stock as of July 19, 2006, December 31, 2006, June 29, 2007 and September 30, 2007, as CSI deemed all liquidity events to have equal likelihood at those dates. All of these valuations were conducted retrospectively. CSI began using the PWERM in contemporaneous valuations of its common stock as of December 31, 2007, March 31, 2008, June 30, 2008, and September 30, 2008, as of which time CSI had commenced significant efforts in connection with its initial public offering process and the probability of a public offering or other specific liquidation event, including the merger with Replidyne, had increased. Accordingly, management and the board of directors determined that the PWERM would be more appropriate than the option pricing method. For the PWERM, CSI estimated the likely return to stockholders based upon CSI becoming a public company through the merger with Replidyne or an initial public offering, being acquired or remaining a private company, and employed comparable public company, merger and acquisition transaction, and discounted cash flow analysis. These values were adjusted and weighted based on probability of occurrence. As of September 30, 2008, CSI assumed a 70% probability of completing the merger with Replidyne, a 10% probability of completing an initial public offering, a 15% probability of being acquired, and a 5% probability of remaining a private company.

Both the option pricing method and the PWERM have taken into consideration the following factors:

Financing Activity: Between July 19, 2006 and October 3, 2006, CSI sold $27.0 million in Series A convertible preferred stock at $5.71 per share; between May 16, 2007 and September 19, 2007, CSI sold $18.6 million in Series A-1 convertible preferred stock at $8.50 per share; and between November 13, 2007 and December 17, 2007, CSI sold $20.0 million in Series B convertible preferred stock at $9.25 per share. New and existing investors participated in the convertible preferred stock offerings, while certain existing investors declined the opportunity to participate. As of each valuation date, management and the board of directors considered the differences between the valuation of the common stock and the most recent price of CSI preferred stock and determined that such differences were reasonable and accurately reflected the anticipated time until a liquidity event.

Preferred Stock Rights and Preferences: The holders of preferred stock are entitled to receive cash dividends at the rate of 8% of the original purchase price, which dividends accrue, whether or not earned or declared, and whether or not CSI has legally available funds. Holders of preferred stock have the right to require CSI to redeem in cash 30% of the original amount on the fifth year anniversary of the purchase agreement for the applicable series of preferred stock, 30% after the sixth year and 40% after the seventh year. The price CSI would pay for the redeemed shares would be the greater of (i) the price per share paid for the preferred stock, plus all accrued and unpaid dividends, or (ii) the fair market value of the preferred stock at the time of redemption as determined by a professional appraiser. The holders of the preferred stock have the right to convert, at their option, their shares into common stock on a share for share basis. The holders of preferred stock also have the right to designate, and have designated, two individuals to CSI s board of directors. Finally, in the event of CSI s liquidation or winding up, the holders of preferred stock are entitled to receive an amount

equal to (i) the price paid for the preferred shares, plus (ii) all dividends accrued and unpaid before any payments are made to holders of stock junior to the preferred stock. CSI s remaining net assets, if any, would be distributed to the holders of preferred and common stock based on their ownership amounts assuming the conversion of the preferred stock, except the total amount to be distributed to the

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preferred stock is subject to certain return on investment limitations. The aggregate liquidation preferences of CSI preferred stock at the dates listed below are as follows:

Date	Aggregate Liquidation Preference
September 30, 2006	$ 25.4 million
December 31, 2006	$ 27.9 million
March 31, 2007	$ 28.4 million
June 30, 2007	$ 37.3 million
September 30, 2007	$ 48.3 million
December 31, 2007	$ 69.3 million
March 31, 2008	$ 70.6 million
June 30, 2008	$ 72.0 million
September 30, 2008	$ 73.3 million

Growth of Executive Management Team: Management and the board of directors considered the development and growth of CSI s executive management team, including the hiring of CSI s Vice President of Sales and Vice President of Business Development to build its sales organization, CSI s Vice President of Marketing to build its sales and marketing function, and CSI s Chief Executive Officer.

OASIS Clinical Trial: The progress of CSI s OASIS clinical trial, which began enrollment in January 2006 and was completed in January 2007.

FDA Process: In May 2007, CSI applied for 510(k) clearance from the FDA for the Diamondback 360° system. CSI received 510(k) clearance for use of the Diamondback 360° with a hollow crown as a therapy for patients with PAD in August 2007, and CSI received 510(k) clearances in October 2007 for the updated control unit used with the Diamondback 360° and in November 2007 for the Diamondback 360° with a solid crown.

Commercial Launch: Upon receiving FDA 510(k) clearance, CSI began shipping product to customers under CSI s limited commercial launch plan. During the quarter ended March 31, 2008, CSI began a full commercial launch of the Diamondback 360°.

Merger and Acquisition Process: During the period from July 2007 through September 2007, CSI engaged investment bankers to explore potential merger and acquisition opportunities. CSI began its discussions with Replidyne in August 2008.

Offering Process: Beginning in the quarter ended June 30, 2007, CSI began discussions with investment bankers concerning its initial public offering process, and the organizational meeting for its initial public offering occurred in October 2007. CSI filed a registration statement on January 22, 2008 and filed several amendments. As a result of the volatile equity markets, as of September 30, 2008 it was probable that CSI would not complete the initial public offering process during the quarter ending December 31, 2008. Therefore, previously capitalized offering costs of approximately $1.7 million were expensed during the quarter ended September 30, 2008. On November 4, 2008, CSI withdrew the registration statement in conjunction with the announcement of the execution of the merger agreement with Replidyne.

Revenues: CSI recognized $22.2 million and $11.6 million in revenues for the year ended June 30, 2008 and three months ended September 30, 2008, respectively.

CSI s management and board of directors also considered the valuations of comparable public companies, CSI s cash and working capital amounts, and additional objective and subjective factors relating to CSI s business. For each valuation, CSI s management and board of directors considered all of the factors that they considered to be relevant at the time and did not rely exclusively on any particular factors. Certain factors described with respect to each valuation represented progress in the development of CSI s business, which reduced risk and improved the probability that CSI would achieve its business plan. In addition, the order in which CSI has described these factors in this proxy statement/prospectus does not represent the relative importance or weight given to any of the factors.

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The following highlights key milestones that contributed to the valuation of CSI common stock in each of its valuations:

Valuation as of July 19, 2006

This valuation estimated that the fair market value of CSI common stock as of July 19, 2006 was $2.43 per share, taking into consideration the sale of Series A convertible preferred stock at $5.71 per share and the hiring of CSI s Vice President of Sales and Vice President of Business Development to begin the process of building a sales organization in the period from July 2006 through September 2006.

Valuation as of December 31, 2006

This valuation estimated that the fair market value of CSI common stock as of December 31, 2006 was $2.79 per share, taking into consideration the sale of Series A convertible preferred stock at $5.71 per share, changes in the value of comparable public companies, the substantial completion of enrollment for the OASIS clinical trial, and the hiring of CSI s Vice President of Marketing to continue building CSI s sales and marketing function.

Valuation as of June 29, 2007

This valuation estimated that the fair market value of CSI common stock as of June 29, 2007 was $5.95 per share, taking into consideration the sale of Series A-1 convertible preferred stock at $8.50 per share, the completion of the OASIS clinical trial, the hiring of CSI s Chief Executive Officer, CSI s application for FDA 510(k) clearance for the Diamondback 360°, and the commencement of discussions with investment bankers regarding the initial public offering process.

Valuation as of September 30, 2007

This valuation estimated that the fair market value of CSI common stock as of September 30, 2007 was $7.36 per share, taking into consideration the sale of Series A-1 convertible preferred stock at $8.50 per share, expectation of the sale of Series B convertible preferred stock at $9.25 per share, receipt of FDA 510(k) clearance for the Diamondback 360°, continued discussions with investment bankers regarding the initial public offering process, the engagement of investment bankers to explore potential merger and acquisition opportunities, and the limited commercial launch of the Diamondback 360°.

Valuation as of December 31, 2007

This valuation estimated that the fair market value of CSI common stock as of December 31, 2007 was $8.44 per share, taking into consideration the sale of Series B convertible preferred stock at $9.25 per share, receipt of FDA 510(k) clearances for the updated control unit for the Diamondback 360° and for the Diamondback 360° with a solid crown, revenues of $4.6 million in revenue for the quarter ended December 31, 2007, and the holding of preparatory meetings as part of the initial public offering process.

Valuation as of March 31, 2008

This valuation estimated that the fair market value of CSI common stock as of March 31, 2008 was $10.27 per share, taking into consideration the sale of Series B convertible preferred stock at $9.25 per share during the quarter ended December 31, 2007, initiation of the full commercial launch of the Diamondback 360°, revenues of $12.3 million for the nine months ended March 31, 2008, and substantial completion of some of the milestones in the initial public offering process.

Valuation as of June 30, 2008

This valuation estimated that the fair market value of CSI common stock as of June 30, 2008 was $10.22 per share, taking into consideration revenues of $22.2 million for the year ended June 30, 2008 and substantial completion of additional milestones in the initial public offering process. This valuation also considered uncertain conditions in the public markets, which resulted in a slightly lower valuation of CSI common stock than the March 31, 2008 valuation.

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Valuation as of September 30, 2008

This valuation estimated that the fair market value of CSI common stock as of September 30, 2008 was $10.25 per share, taking into consideration revenues of $11.6 million for the three months ended September 30, 2008, along with the estimated valuations associated with various liquidation scenarios considered under the PWERM method including the proposed merger with Replidyne.

CSI s management and board of directors set the exercise prices for option grants based upon their best estimate of the fair market value of CSI common stock at the time they made such grants, taking into account all information available at those times. In some cases, management and the board of directors made retrospective assessments of the valuation of CSI common stock at later dates and determined that the fair market value of CSI common stock at the times the grants were made was different than the exercise prices established for those grants. In cases in which the fair market value was higher than the exercise price, CSI recognized stock-based compensation expense for the excess of the fair market value of the common stock over the exercise price.

The following table sets forth the exercise prices of options granted during fiscal year 2008 and three months ended September 30, 2008, and the fair market value of CSI common stock, as determined by CSI s management and board of directors, on the dates of the option grants:

Date of Option Grant	Number of Shares	Exercise Price	Fair Market Value per Share Assigned by Management and Board of Directors
August 7, 2007	402,500	$ 5.11	$ 5.95
October 9, 2007	331,083	$ 5.11	$ 7.36
November 13, 2007	154,917	$ 7.36	$ 7.90
December 12, 2007	775,000	$ 7.86	$ 8.44
December 31, 2007	1,056,234	$ 7.86	$ 8.44
February 14, 2008	172,213	$ 9.04	$ 9.36

CSI also has granted restricted stock awards with vesting terms ranging from 12 to 36 months. The following table sets forth the number of shares of restricted stock awarded and the fair market value of CSI common stock, as determined by CSI s management and board of directors, on the dates of the restricted stock award grants:

Date of Restricted Stock Award Grant	Number of Shares	Fair Market Value per Share Assigned by Management and Board of Directors
December 12, 2007	204,338	$ 8.44