

Cardiovascular Systems Inc  
Form DEF 14A  
October 05, 2010

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
SCHEDULE 14A**

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

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

Check the appropriate box:

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

**CARDIOVASCULAR SYSTEMS, INC.**

**(Name of Registrant as Specified In Its Charter)**

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

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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**CARDIOVASCULAR SYSTEMS, INC.**

651 Campus Drive

St. Paul, Minnesota 55112

Telephone: 877-CSI-0360

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**To Be Held on November 18, 2010**

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders (the Annual Meeting ) of Cardiovascular Systems, Inc. (the Company ) on Thursday, November 18, 2010, at 10:00 a.m. (Central Standard Time) at the Company s offices, located at 651 Campus Drive, St. Paul, Minnesota 55112; for the following purposes:

1. To elect as Class II directors to hold office until the Fiscal 2013 Annual Meeting of Stockholders, the following three nominees recommended by the Board of Directors: Brent G. Blackey, John H. Friedman and Leslie L. Trigg.
2. To ratify the appointment of PricewaterhouseCoopers LLP as the independent registered public accounting firm of the Company for its fiscal year ending June 30, 2011.
3. To conduct any other business properly brought before the meeting.

These items of business are more fully described in the proxy statement accompanying this Notice.

The record date for the Annual Meeting is September 23, 2010. Only stockholders of record at the close of business on that date may vote at the meeting or any adjournment thereof.

By Order of the Board of Directors,

Sincerely,

David L. Martin

President, Chief Executive Officer and Director

St. Paul, Minnesota

October 5, 2010

**You are cordially invited to attend the meeting in person. Whether or not you expect to attend the meeting, please vote your shares. You may vote over the telephone or the Internet as instructed in this proxy statement. If you received a proxy card or voting instruction card by mail, you may submit your proxy card or voting instruction card by completing, signing, dating and mailing your proxy card or voting instruction card in the envelope provided. Any stockholder attending the meeting may vote in person, even if you already returned a proxy card or voting instruction card or voted by proxy over the telephone or the Internet. Please note, however, that if your shares are held of record by a broker, bank or other nominee and you wish to vote at the meeting, you must obtain a proxy issued in your name from that record holder.**

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDER MEETING TO BE HELD ON NOVEMBER 18, 2010:**

**The Proxy Statement and Fiscal 2010 Annual Report to Stockholders are available at <http://www.csi360proxy.com>**

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**CARDIOVASCULAR SYSTEMS, INC.**

651 Campus Drive  
St. Paul, Minnesota 55112  
Telephone: 877-CVI-0360

**PROXY STATEMENT**

**FOR THE ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD ON NOVEMBER 18, 2010**

**INFORMATION CONCERNING SOLICITATION AND VOTING**

The Board of Directors of Cardiovascular Systems, Inc. (the Company) is soliciting your proxy to vote at the Annual Meeting of Stockholders (the Annual Meeting) to be held at the Company's offices, located at 651 Campus Drive, St. Paul, Minnesota 55112, on Thursday, November 18, 2010, at 10:00 a.m. (Central Standard Time), including at any adjournments or postponements of the Annual Meeting. You are invited to attend the Annual Meeting to vote on the proposals described in this proxy statement. However, you do not need to attend the meeting to vote your shares. Instead, you may simply complete, sign and return the enclosed proxy card if you received paper copies of the proxy materials, or follow the instructions below to submit your proxy over the telephone or the Internet.

In accordance with rules and regulations adopted by the U.S. Securities and Exchange Commission (the SEC), we have elected to provide our beneficial owners and stockholders of record access to our proxy materials over the Internet. Beneficial owners are stockholders whose shares are held in the name of a broker, bank or other agent (i.e., in street name). Accordingly, a Notice of Internet Availability of Proxy Materials (the Notice) will be mailed on or about October 5, 2010 to our beneficial owners and stockholders of record who owned our common stock at the close of business on September 23, 2010. Beneficial owners and stockholders of record will have the ability to access the proxy materials on a website referred to in the Notice or request a printed set of the proxy materials be sent to them by following the instructions in the Notice. Beneficial owners who have previously requested to receive paper copies of our proxy materials will receive paper copies of the proxy materials instead of a Notice.

**QUESTIONS AND ANSWERS ABOUT THIS PROXY MATERIAL AND VOTING**

**Why did I receive in the mail a Notice regarding the Internet Availability of Proxy Materials this year instead of a full set of proxy materials?**

We are pleased to take advantage of the SEC rule that allows companies to furnish their proxy materials over the Internet. Accordingly, we have sent to our beneficial owners and stockholders of record a Notice of Internet Availability of Proxy Materials. Instructions on how to access the proxy materials over the Internet or to request a paper copy may be found in the Notice. Our stockholders may request to receive proxy materials in printed form by mail or electronically on an ongoing basis. A stockholder's election to receive proxy materials by mail or electronically by email will remain in effect until the stockholder terminates its election.

**Why did I receive a full set of proxy materials in the mail instead of a Notice regarding the Internet Availability of Proxy Materials?**

We are providing paper copies of the proxy materials instead of a Notice to beneficial owners who have previously requested to receive paper copies of our proxy materials. If you are a beneficial owner who received a paper copy of the proxy materials, and you would like to reduce the environmental impact and the costs incurred by us in mailing proxy materials, you may elect to receive all future proxy materials electronically via email or the Internet by following the applicable procedure below:

*Beneficial Owners* If your shares are held in street name, you can choose to receive our future proxy materials electronically by visiting <http://www.proxyvote.com>. Your choice to receive proxy materials electronically will remain in effect until you instruct us otherwise by following the instructions contained in your Notice and visiting <http://www.proxyvote.com>, sending an electronic mail message to [sendmaterial@proxyvote.com](mailto:sendmaterial@proxyvote.com), or calling 1-800-579-1639.

The SEC has enacted rules that permit us to make available to stockholders electronic versions of the proxy materials even if the stockholder has not previously elected to receive the materials in this manner. We have chosen this option in connection with this year's annual meeting with respect to both our beneficial owners and stockholders of record.



### **Who can vote at the Annual Meeting?**

Only stockholders of record at the close of business on September 23, 2010 will be entitled to vote at the Annual Meeting. On the record date, there were 15,694,291 shares of common stock of the Company outstanding and entitled to vote.

#### *Stockholder of Record: Shares Registered in Your Name*

If on September 23, 2010, your shares were registered directly in your name with the Company's transfer agent, American Stock Transfer & Trust Company, then you are a stockholder of record. As a stockholder of record, you may vote in person at the meeting or vote by proxy. Whether or not you plan to attend the meeting, we urge you to vote your shares by completing, signing, dating and mailing your proxy card in the envelope provided, if you received paper copies of the proxy materials, or vote by proxy over the telephone or the Internet as instructed below to ensure your vote is counted.

#### *Beneficial Owner: Shares Registered in the Name of a Broker or Bank*

If on September 23, 2010, your shares were held, not in your name, but rather in an account at a brokerage firm, bank, dealer, or other similar organization, then you are the beneficial owner of shares held in street name and these proxy materials are being forwarded to you by that organization. The organization holding your account is considered to be the stockholder of record for purposes of voting at the Annual Meeting. As a beneficial owner, you have the right to direct your broker or other agent regarding how to vote the shares in your account. You are also invited to attend the Annual Meeting. However, since you are not the stockholder of record, you may not vote your shares in person at the meeting unless you request and obtain a valid proxy from your broker or other agent.

### **What am I voting on?**

There are two matters scheduled for a vote:

Election as Class II directors to hold office until the Fiscal 2013 Annual Meeting of Stockholders, the following three nominees recommended by the Board of Directors: Brent G. Blackey, John H. Friedman and Leslie L. Trigg; and

Ratification of the selection by the Audit Committee of the Company's Board of Directors of PricewaterhouseCoopers LLP as independent auditors of the Company for its fiscal year ending June 30, 2011.

### **How do I vote?**

You may either vote For all the nominees to the Board of Directors or you may Withhold your vote for any nominee you specify. For the ratification of the Audit Committee's selection of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the fiscal year ending June 30, 2011, you may vote For or Against or abstain from voting. The procedures for voting are as follows:

#### *Stockholder of Record: Shares Registered in Your Name*

If you are a stockholder of record, you may vote in person at the Annual Meeting, vote by proxy using the enclosed proxy card, if you received paper copies of the proxy materials, vote by proxy over the telephone, or vote by proxy over the Internet. Whether or not you plan to attend the meeting, we urge you to vote by proxy to ensure your vote is counted. You may still attend the meeting and vote in person even if you have already voted by proxy.

To vote in person, come to the Annual Meeting and we will give you a ballot when you arrive. If you would like directions to our offices, please call 877-CSI-0360.

If you received paper copies of the proxy materials, to vote using the proxy card, simply complete, sign and date the enclosed proxy card and return it promptly in the envelope provided. If you return your signed proxy card to us before the Annual Meeting, we will vote your shares as you direct.

To vote over the telephone, dial toll-free 1-800-690-6903 using a touch-tone phone and follow the recorded instructions. Please have available the 12-Digit Control Number from the enclosed proxy card, if you received one, or from your Notice. Your vote must be received by 11:59 PM Eastern Time (10:59 PM Central Standard Time) on November 17, 2010, to be counted.

To vote over the Internet, go to <http://www.voteproxy.com> to complete an electronic proxy card. Please have available the 12-Digit Control Number from the enclosed proxy card, if you received one, or from your Notice. Your vote must be received by 11:59 PM Eastern Time (10:59 PM Central Time) on November 17, 2010, to be counted.

**We are providing Internet proxy voting to allow you to vote your shares online, with procedures designed to ensure the authenticity and correctness of your proxy vote instructions. However, please be aware that you must bear any costs associated with your Internet access, such as usage charges from Internet access providers and telephone companies.**

*Beneficial Owner: Shares Registered in the Name of Broker or Bank*

If you are a beneficial owner of shares registered in the name of your broker, bank, or other agent, you may have received a proxy card and voting instructions with these proxy materials from that organization rather than from us. Simply complete and mail the proxy card to ensure that your vote is submitted to your broker or bank. Alternatively, you may vote by telephone or over the Internet as instructed by your broker or bank. To vote in person at the Annual Meeting, you must obtain a valid proxy from your broker, bank, or other agent. Follow the instructions from your broker or bank included with these proxy materials, or contact your broker or bank to request a proxy form.

**How many votes do I have?**

On each matter to be voted upon, you have one vote for each share of common stock you own as of September 23, 2010.

**What if I return a proxy card but do not make specific choices?**

If you return a signed and dated proxy card without marking any voting selections, your shares will be voted For the election of the nominees for director and For the ratification of the selection of PricewaterhouseCoopers LLP as the Company's independent auditors for the fiscal year ending June 30, 2011. If any other matter is properly presented at the meeting, your proxyholder (one of the individuals named on your proxy card) will vote your shares using his or her best judgment.

**Who is paying for this proxy solicitation?**

The Company will pay for the entire cost of soliciting proxies. Our directors and employees may solicit proxies in person, by telephone, or by other means of communication. Directors and employees will not be paid any additional compensation for soliciting proxies. We may also reimburse brokerage firms, banks and other agents for the cost of forwarding proxy materials to beneficial owners.

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

If you receive more than one proxy card, your shares are registered in more than one name or are registered in different accounts. Please complete, sign and return **each** proxy card to ensure that all of your shares are voted.

**Are proxy materials available on the Internet?**

This proxy statement and our Fiscal 2010 Annual Report to Stockholders are available at <http://www.csi360proxy.com>.

**Can I change my vote after submitting my proxy?**

Yes. You can revoke your proxy at any time before the final vote at the meeting. If you are the record holder of your shares, you may revoke your proxy in any one of three ways:



You may submit another properly completed proxy card with a later date.

You may send a timely written notice that you are revoking your proxy to our Secretary at 651 Campus Drive, St. Paul, Minnesota 55112.

You may attend the Annual Meeting and vote in person. Simply attending the meeting will not, by itself, revoke your proxy.

If your shares are held by your broker or bank as a nominee or agent, you should follow the instructions provided by your broker or bank.

**How are votes counted?**

Votes will be counted by the inspector of election appointed for the meeting, who will separately count For and Withhold and, with respect to proposals other than the election of directors, Against votes, abstentions and broker non-votes. Abstentions will be counted towards the vote total for each proposal, and will have the same effect as Against votes. Broker non-votes have no effect and will not be counted towards the vote total for any proposal.

**What are broker non-votes ?**

Broker non-votes occur when a beneficial owner of shares held in street name does not give instructions to the broker or nominee holding the shares as to how to vote on matters deemed non-routine. Generally, if shares are held in street name, the beneficial owner of the shares is entitled to give voting instructions to the broker or nominee holding the shares. If the beneficial owner does not provide voting instructions, the broker or nominee can still vote the shares with respect to matters that are considered to be routine, but not with respect to non-routine matters. Under the rules and interpretations of the New York Stock Exchange, the ratification of the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm is currently considered a routine matter. The election of directors is currently considered a non-routine matter under the rules of the New York Stock Exchange.

**How many votes are needed to approve each proposal?**

For Proposal 1, the election of Class II directors, who are elected by a plurality, the three nominees receiving the most For votes (from the holders of shares present in person or represented by proxy and entitled to vote on the election of directors) will be elected. Only votes For or Withheld will affect the outcome.

To be approved, Proposal 2, ratification of the selection of PricewaterhouseCoopers LLP as our independent auditors for the fiscal year ending June 30, 2011, must receive a For vote from the majority of shares present and entitled to vote either in person or by proxy. If you Abstain from voting, it will have the same effect as an Against vote. Broker non-votes will have no effect.

**What is the quorum requirement?**

A quorum of stockholders is necessary to hold a valid meeting. A quorum will be present if stockholders holding at least a majority of the outstanding shares are present at the meeting in person or represented by proxy. On the record date, there were 15,694,291 shares outstanding and entitled to vote. Thus, the holders of 7,847,146 shares must be present in person or represented by proxy at the meeting to have a quorum.

Your shares will be counted towards the quorum only if you submit a valid proxy (or one is submitted on your behalf by your broker, bank or other nominee) or if you vote in person at the meeting. Abstentions and broker non-votes will be counted towards the quorum requirement. If there is no quorum, the holders of a majority of shares present at the meeting in person or represented by proxy, or the chairman of the meeting, may adjourn the meeting to another date.

**How can I find out the results of the voting at the Annual Meeting?**

Preliminary voting results will be announced at the Annual Meeting. Final voting results will be published in a Current Report on Form 8-K, which we will file within four business days after the meeting.

**When are stockholder proposals due for the Fiscal 2011 Annual Meeting?**

Any appropriate proposal submitted by a stockholder and intended to be presented at the Fiscal 2011 Annual Meeting must be submitted in writing to our Secretary at 651 Campus Drive, St. Paul, Minnesota 55112, and received no later than June 7, 2011, to be includable in the Company's proxy statement and related proxy for the Fiscal 2011 Annual Meeting. A stockholder proposal will need to comply with the SEC regulations under Rule 14a-8 of the Securities Exchange Act of 1934, as amended (the Exchange Act), regarding the inclusion of stockholder proposals in company-sponsored proxy materials. Although our Board of Directors will consider stockholder proposals, we reserve the right to omit from our proxy statement, or to vote against, stockholder proposals that we are not required to include under the Exchange Act, including Rule 14a-8. Additionally, pursuant to the advance notice provisions of the Company's Bylaws, as authorized by applicable state law, in order for stockholders to present director nominations or other business at the Fiscal 2011 Annual Meeting, a stockholder's notice of such nomination or other business must be received by our Secretary at the same address no earlier than the close of business on July 21, 2011, and no later than the close of business on August 20, 2011, and must be in a form that complies with the requirements set forth in the Company's Bylaws. You are advised to review the Company's Bylaws for these requirements. In addition, please refer to page 13 for a description of the new SEC rules relating to director nominees.

**EXPLANATORY NOTE**

We were incorporated as Replidyne, Inc. in Delaware in 2000. On February 25, 2009, Replidyne, Inc. completed its business combination with Cardiovascular Systems, Inc., a Minnesota corporation (CSI-MN), in accordance with the terms of the Agreement and Plan of Merger and Reorganization, dated as of November 3, 2008, by and among Replidyne, Responder Merger Sub, Inc., a wholly-owned subsidiary of Replidyne (Merger Sub), and CSI-MN (the Merger Agreement). Pursuant to the Merger Agreement, Merger Sub merged with and into CSI-MN, with CSI-MN continuing after the merger as the surviving corporation and a wholly-owned subsidiary of Replidyne. At the effective time of the merger, Replidyne changed its name to Cardiovascular Systems, Inc. (CSI) and CSI-MN changed its name to CSI Minnesota, Inc. Following the merger of Merger Sub with CSI-MN, CSI-MN merged with and into CSI, with CSI continuing after the merger as the surviving corporation. These transactions are referred to herein as the merger. Immediately following the effective time of the merger, former CSI-MN stockholders owned approximately 80.2% of the outstanding common stock of CSI, and Replidyne stockholders owned approximately 19.8% of the outstanding common stock of CSI. Unless the context otherwise requires or as otherwise stated herein, all references herein to the Company, CSI, we, us and our refer to CSI-MN prior to the completion of the merger to CSI following the completion of the merger and the name change, and all references to Replidyne refer to Replidyne prior to the completion of the merger and the name change.

**PROPOSAL 1**  
**ELECTION OF DIRECTORS**

The Board of Directors is divided into three classes, with each class serving staggered three-year terms. Vacancies on the Board of Directors may be filled only by persons elected by a majority of the remaining directors. A director elected by the Board of Directors to fill a vacancy in a class, including vacancies created by an increase in the number of directors, shall serve for the remainder of the full term of that class and until the director's successor is elected and qualified.

The term of office of the Class II directors expires at the Annual Meeting. The Governance/Nominating Committee recommended to the Board, and the Board has set the number of Class II directors at three and has nominated Brent G. Blackey, John H. Friedman and Leslie L. Trigg for election at the Annual Meeting. Messrs. Blackey and Friedman have been members of CSI's Board of Directors since 2007 and 2006, respectively. Ms. Trigg was recommended by the Governance/Nominating Committee as a new nominee. If elected at the Annual Meeting, each of these nominees would serve until the Fiscal 2013 Annual Meeting and until his or her successor is elected and has qualified, or, if sooner, until the director's death, resignation or removal.

Directors are elected by a plurality of the votes of the holders of shares present in person or represented by proxy and entitled to vote on the election of directors at the annual meeting at which a quorum is present. The three nominees receiving the most For votes (among votes properly cast in person or by proxy) will be elected. If no contrary indication is made, shares represented by executed proxies will be voted For the election of the three nominees named above or, if any nominee becomes unavailable for election as a result of an unexpected occurrence, For the election of a substitute nominee designated by our Board of Directors. Each nominee has agreed to serve as a director if elected, and we have no reason to believe that any nominee will be unable to serve.

The following is a brief biography for each nominee for Class II director and each person whose term of office as a Class I or Class III director will continue after the Annual Meeting.

<u>Name</u>	<u>Age(1)</u>	<u>Position</u>
<b>Directors:</b>		
<b>Class I Directors:</b>		
Edward Brown <sup>(2)(3)</sup>	47	Director
Augustine Lawlor <sup>(4)</sup>	54	Director
<b>Class II Directors:</b>		
Brent G. Blackey <sup>(4)</sup>	51	Director
John H. Friedman <sup>(3)</sup>	57	Director
Leslie L. Trigg	39	Director Nominee
<b>Class III Directors:</b>		
Geoffrey O. Hartzler, M.D. <sup>(2)(4)</sup>	63	Director
David L. Martin	46	President, Chief Executive Officer and Director
Glen D. Nelson, M.D. <sup>(2)</sup>	73	Chairman

(1) As of the date of this proxy statement.

(2) Member of the Governance/Nominating Committee.

(3) Member of the Compensation Committee.

- (4) Member of the Audit  
Committee.

**NOMINEES FOR ELECTION FOR A THREE-YEAR TERM EXPIRING AT THE FISCAL 2013 ANNUAL MEETING**

***Brent G. Blackey.*** Mr. Blackey has been a member of CSI's Board of Directors since 2007. Since 2004, Mr. Blackey has served as the President and Chief Operating Officer for Holiday Companies. Between 2002 and 2004, Mr. Blackey was a Senior

Partner at the accounting firm of Ernst & Young LLP. Prior to 2002, Mr. Blackey served most recently as a Senior Partner at the accounting firm of Arthur Andersen LLP. Since April 2006, Mr. Blackey has served on the board of directors of Datalink Corporation, a publicly-held company. Mr. Blackey also serves on the Board of Overseers for the University of Minnesota, Carlson School of Management. We believe that Mr. Blackey's accounting background, experience as a principal executive officer and his service as a board member of a public company are strong endorsements for membership on our Board and invaluable to his role as our audit committee financial expert and Chairman of the Audit Committee.

**John H. Friedman.** Mr. Friedman has been a member of CSI's Board of Directors since 2006. Mr. Friedman is the Managing Partner of the Easton Capital Investment Group, a private equity firm. Prior to founding Easton Capital, Mr. Friedman was the founder and Managing General Partner of Security Pacific Capital Investors, a \$200-million private equity fund geared towards expansion financings and recapitalizations, from 1989 to 1992. Prior to founding Security Pacific, Mr. Friedman served in various positions with E.M. Warburg, Pincus & Co., Inc. from 1981 to 1989, the last of which was Managing Director. Mr. Friedman has also served as a Managing Director of Atrium Capital Corp., an investment firm. Mr. Friedman currently serves on the board of directors of Trellis Bioscience, LLC, Xoft, Inc., PlaySpan Inc., Promedior, Inc., Experimed Bioscience, Inc., Ventralfix, Inc. and iTherX Inc., all of which are privately-held companies. Mr. Friedman has previously served in the past five years on the board of directors of Renovis, Inc., Comverse Technology, Inc., YM Biosciences Inc., Conor Medsystems Inc. and Acorda Therapeutics Inc., all of which were publicly-held companies when Mr. Friedman was on their boards. We believe that Mr. Friedman's extensive leadership experience with investment firms and service as a director of several companies make him a valued member of our Board.

**Leslie L. Trigg.** Ms. Trigg held the positions of Chief Business Officer and Sr. Vice President, Sales & Marketing of AccessClosure, Inc. between September 2006 and June 2009. Before joining AccessClosure, Ms. Trigg was the Vice President, Marketing for FoxHollow Technologies, Inc. from March 2003 to August 2006, Business Unit Director at Cytec Corporation from November 2001 to September 2002, and Director, Market Development at Pro-Duct Health, Inc. from July 2000 to November 2001. Ms. Trigg has also held marketing positions for Guidant Corporation. We believe that Ms. Trigg's experience as an executive officer of several public and private companies in the medical device industry would make her a valued member of our Board.

#### **THE BOARD OF DIRECTORS RECOMMENDS**

#### **A VOTE IN FAVOR OF EACH NOMINEE NAMED ABOVE**

#### **DIRECTORS CONTINUING IN OFFICE UNTIL THE FISCAL 2011 ANNUAL MEETING**

**Glen D. Nelson, M.D.** Dr. Nelson has been a member of CSI's Board of Directors since 2003 and CSI's Chairman since August 2007. Since 2002, Dr. Nelson has been Chairman of GDN Holdings, LLC, a private investment company of which he is the sole owner. Dr. Nelson was a member of the board of directors of Medtronic, Inc. from 1980 until 2002. Dr. Nelson joined Medtronic as Executive Vice President in 1986, and he was elected Vice Chairman in 1988, a position held until his retirement in 2002. Before joining Medtronic, Dr. Nelson practiced surgery from 1969 to 1986. Dr. Nelson was Chairman of the Board and Chief Executive Officer of American MedCenters, Inc. from 1984 to 1986. Dr. Nelson also was Chairman, President and Chief Executive Officer of the Park Nicollet Medical Center, a large multi-specialty group practice in Minneapolis, from 1975 to 1986. Dr. Nelson serves as a director for 13 private companies. Dr. Nelson has previously served in the past five years on the board of directors of The Travelers Companies, Inc., DexCom, Inc. and Angiotech Pharmaceuticals, Inc., all of which were publicly-held companies when Dr. Nelson was on their boards. We believe that Dr. Nelson's extensive experience in medicine and the medical device industry and previous positions of leadership and service as a board member of several companies provide invaluable contributions to our Board.

**Geoffrey O. Hartzler, M.D.** Dr. Hartzler has been a member of CSI's Board of Directors since 2002. Dr. Hartzler commenced practice as a cardiologist in 1974, serving from 1980 to 1995 as a Consulting Cardiologist with the Mid America Heart Institute of St. Luke's Hospital in Kansas City, Missouri. Dr. Hartzler has co-founded three medical product companies, including Ventritex Inc. Most recently, he served as Chairman of the Board of IntraLuminal Therapeutics, Inc. from 1997 to 2004 and Vice Chairman from 2004 to 2006. Dr. Hartzler has also served as a consultant or director to over a dozen business entities, some of which are medical device companies. We

believe that Dr. Hartzler's extensive experience in medicine and the medical device industry enable him to provide valuable insight and knowledge to our Board.

**David L. Martin.** Mr. Martin has been CSI's President and Chief Executive Officer since February 2007, and a director since August 2006. Mr. Martin also served as CSI's Interim Chief Financial Officer from January 2008 to April 2008. Prior to joining CSI, Mr. Martin was Chief Operating Officer of FoxHollow Technologies, Inc. from January 2004 to February 2006, Executive Vice President of Sales and Marketing of FoxHollow Technologies, Inc. from January 2003 to January 2004, Vice President of Global Sales and International Operations at CardioVenton Inc. from October 2001 to May 2002, Vice President of

Global Sales for RITA Medical Systems, Inc. from March 2000 to October 2001 and Director of U.S. Sales, Cardiac Surgery for Guidant Corporation from September 1999 to March 2000. Mr. Martin has also held sales and sales management positions for The Procter & Gamble Company and Boston Scientific Corporation. Among other attributes, skills and qualifications, we believe Mr. Martin is uniquely qualified to serve as a director because, as the Company's President and Chief Executive Officer, he is the person most familiar with the Company's business and industry, and most capable of effectively identifying strategic priorities and leading the execution of strategy.

#### **DIRECTORS CONTINUING IN OFFICE UNTIL THE FISCAL 2012 ANNUAL MEETING**

**Edward Brown.** Mr. Brown has been a member of CSI's Board of Directors since February 2009. Mr. Brown was a member of Replidyne's Board of Directors from May 2007 to February 2009. Mr. Brown currently serves as a Senior Advisor to Health Evolution Partners. Mr. Brown was previously a Managing Director at TPG Growth from 2007 to 2009 and a Managing Director and co-founder of HealthCare Investment Partners, a private equity fund focused on healthcare investments from 2004 to 2007. Before HealthCare Investment Partners, Mr. Brown was a Managing Director in the healthcare group of Credit Suisse Group where he led the firm's West Coast healthcare effort and was one of the senior partners responsible for the firm's global life sciences practice. Since June 2007, Mr. Brown has served on the board of directors of Angiotech Pharmaceuticals Inc., a publicly-held company. Mr. Brown previously served on the public company boards of Oculus Innovative Sciences, Inc., from September 2005 to June 2008, and Replidyne, Inc., from May 2007 to February 2009. We believe that Mr. Brown's leadership experience with investment firms and his service as a board member of public companies enable him to bring valuable insight and knowledge to our Board.

**Augustine Lawlor.** Mr. Lawlor has been a member of CSI's Board of Directors since February 2009. He was a member of Replidyne's Board of Directors from March 2002 to February 2009. Mr. Lawlor is the Managing Partner of HealthCare Ventures LLC, where he was a Managing Director from 2000 to 2007. Mr. Lawlor was previously Chief Operating Officer of LeukoSite, Inc. and has also served as a management consultant with KPMG Peat Marwick. Mr. Lawlor is a member of the board of directors of Human Genome Sciences, Inc., a publicly-held company. Mr. Lawlor previously served on the board of directors of Replidyne, Inc., a publicly-held company, from March 2002 to February 2009. We believe that Mr. Lawlor's leadership experience with investment firms and his service as a board member of public companies enable him to bring valuable insight and knowledge to our Board.

#### **INFORMATION REGARDING THE BOARD OF DIRECTORS AND CORPORATE GOVERNANCE INDEPENDENCE OF THE BOARD OF DIRECTORS**

As required under the Nasdaq Stock Market ( Nasdaq ) listing standards, a majority of the members of a listed company's Board of Directors must qualify as independent, as affirmatively determined by the Board of Directors. The Board of Directors consults with the Company's counsel to ensure that the Board of Directors' determinations are consistent with relevant securities and other laws and regulations regarding the definition of independent, including those set forth in pertinent listing standards of the Nasdaq, as in effect from time to time.

Consistent with these considerations, after review of all relevant transactions or relationships between each director, nominee, or any of his or her family members, and the Company, its senior management and its independent registered public accounting firm, the Board of Directors, following the determination of the Governance/Nominating Committee, has affirmatively determined that the following directors and nominees are independent within the meaning of the applicable Nasdaq listing standards: Messrs. Blackey, Brown, Friedman, and Lawlor, Ms. Trigg and Drs. Hartzler, Howe and Nelson. In making this determination, the Board of Directors found that none of these directors or nominees for director had a material or other disqualifying relationship with the Company. Dr. Roger J. Howe is not standing for re-election to the Board and will serve as a director until his term expires at the Annual Meeting. Mr. Martin, the Company's President and Chief Executive Officer, is not an independent director by virtue of his employment with the Company.

#### **BOARD LEADERSHIP STRUCTURE**

We have separate individuals serving as Chairman of the Board and as President and Chief Executive Officer because we believe independent directors and management have different perspectives and roles in strategy development. The President and CEO is responsible for setting the strategic direction of the Company and managing the day-to-day leadership and performance of the Company, while the Chairman provides guidance to the President

and CEO, sets the agenda for meetings of the Board and presides over meetings of the full Board. We believe this structure promotes active participation of the independent directors and strengthens

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the role of the Board in fulfilling its oversight responsibility and fiduciary duties to our stockholders while recognizing the day-to-day management direction of the Company by the President and CEO.

#### **OVERSIGHT OF RISK MANAGEMENT**

The Board has an active role, as a whole and also at the committee level, in overseeing management of the Company's risks. The Board regularly reviews information regarding the Company's credit, liquidity and operations, as well as the risks associated with each, and the Board receives regular reports from members of senior management on areas of material risk to the Company, including operational, financial, legal, regulatory, strategic and reputational risks. The Compensation Committee is responsible for overseeing the management of risks relating to the Company's executive compensation plans and arrangements. The Audit Committee oversees our internal controls and regularly assesses financial and accounting processes and risks. The Governance/Nominating Committee manages risks associated with the independence of the Board and potential conflicts of interest. While each committee is responsible for evaluating certain risks and overseeing the management of such risks, the entire Board of Directors is regularly informed through committee reports about such risks and has overall risk management oversight responsibility.

#### **CODE OF ETHICS AND BUSINESS CONDUCT**

The Company has adopted the Cardiovascular Systems, Inc. Code of Ethics and Business Conduct that applies to all officers, directors and employees, which was last amended on July 16, 2009. We intend to maintain the highest standards of ethical business practices and compliance with all laws and regulations applicable to our business. The Code of Ethics and Business Conduct, as amended, was filed as Exhibit 14.1 to the Company's Annual Report on Form 10-K filed with the SEC on September 28, 2010.

#### **STOCKHOLDER COMMUNICATIONS WITH THE BOARD OF DIRECTORS**

Stockholders may communicate directly with the Board of Directors. All communications should be directed to the Company's Secretary at the address below and should prominently indicate on the outside of the envelope that it is intended for the Board of Directors or for non-management directors, and the Company's Secretary will forward the communications to all specified directors. If no director is specified, the communication will be forwarded to the entire Board. Stockholder communications to the Board should be sent to:

Cardiovascular Systems, Inc. Board of Directors  
Attention: Secretary  
651 Campus Drive  
St. Paul, MN 55112

#### **DIRECTOR ATTENDANCE AT ANNUAL MEETINGS OF STOCKHOLDERS**

Directors' attendance at annual meetings of our stockholders can provide stockholders with an opportunity to communicate with directors about issues affecting the Company. We encourage, but do not require, our directors and nominees for director to attend annual meetings of stockholders. Our Chairman, Dr. Glen D. Nelson, and President and Chief Executive Officer, David L. Martin, were the directors of the Company who attended our last annual meeting of stockholders on March 5, 2010.

#### **MEETINGS OF THE BOARD OF DIRECTORS**

The Board of Directors met eight times during the fiscal year ended June 30, 2010. All directors attended at least 75% of the aggregate of the meetings of the Board of Directors and of the committees on which they served and which were held during the period for which they were directors or committee members. In addition, the directors often communicate informally to discuss the affairs of the Company and, when appropriate, take formal action by written consent, in accordance with the Company's charter and bylaws and Delaware law.

#### **INFORMATION REGARDING COMMITTEES OF THE BOARD OF DIRECTORS**

During the fiscal year ended June 30, 2010, the Board of Directors maintained three standing committees: the Audit Committee, the Compensation Committee and the Governance/Nominating Committee. The following table provides membership and meeting information for fiscal 2010 for each of the committees of the Board of Directors in existence through June 30, 2010:

<u>Name</u>	<b>Audit</b>	<b>Compensation</b>	<b>Governance/ Nominating</b>
Brent G. Blackey	X*		
Edward Brown		X	X*
John H. Friedman		X*	
Geoffrey O. Hartzler, M.D.	X		X
Roger J. Howe, Ph.D.			
Augustine Lawlor	X		
David L. Martin			
Glen D. Nelson, M.D.			X
Gary M. Petrucci		X**	
Total meetings in fiscal 2010	8	4	2

\* Committee  
Chairperson

\*\* Served until the  
term of his  
directorship  
ended on  
March 5, 2010.

Below is a description of each committee of the Board of Directors as such committees are presently constituted. The Board of Directors has determined that each current member of each committee meets the applicable SEC and Nasdaq rules and regulations regarding independence and that each member is free of any relationship that would impair his individual exercise of independent judgment with regard to the Company.

#### **Audit Committee**

The Audit Committee of the Board of Directors was established by the Board of Directors in accordance with Section 3(a)(58)(A) of the Exchange Act to oversee the Company's corporate accounting and financial reporting processes and audits of its financial statements. The Board of Directors has adopted an Audit Committee Charter, which was last amended on April 29, 2009 and is available on our website at <http://www.csi360.com> in the Investors section. The functions of this Audit Committee include, among other things:

servicing as an independent and objective party to monitor the Company's financial reporting process and internal control system;

coordinating, reviewing and appraising the audit efforts of the Company's independent auditors and management and, to the extent the Company has an internal auditing or similar department or persons performing the functions of such department ( internal auditing department or internal auditors ), the internal auditing department; and

communicating directly with the independent auditors, the financial and senior management, the internal auditing department, and the Board of Directors regarding the matters related to the committee's responsibilities and duties.

Our independent registered public accounting firm, outside legal counsel and management periodically meet privately with our Audit Committee.

As of September 15, 2010, our Audit Committee consists of Mr. Blackey, as the chairperson, and Dr. Hartzler and Mr. Lawlor. Each Audit Committee member is a non-employee director of our Board. The Board of Directors reviews the Nasdaq listing standards definition of independence for Audit Committee members on an annual basis and has determined that all current members of the Company's Audit Committee are independent (as independence is

currently defined in Rule 4350(d)(2)(A)(i) and (ii) of the Nasdaq listing standards).

**Audit Committee Financial Expert**

The Board has determined that Mr. Blackey is the audit committee financial expert, as defined in Item 407(d)(5)(ii) of Regulation S-K under the Securities Act of 1933, as amended. As noted above, Mr. Blackey is independent within the meaning of Nasdaq's listing standards. A description of Mr. Blackey's experience is set forth above under Nominees for Election for a Three-Year Term Expiring at the Fiscal 2013 Annual Meeting. The designation of Mr. Blackey as the audit committee financial expert

does not impose on Mr. Blackey any duties, obligations or liability that are greater than the duties, obligations and liability imposed on Mr. Blackey as a member of the Audit Committee and the Board of Directors in the absence of such designation or identification.

#### **Report of the Audit Committee of the Board of Directors**

In accordance with its written charter, the Audit Committee assists the Board of Directors with fulfilling its oversight responsibility regarding the quality and integrity of the accounting, auditing and financial reporting practices of the Company. In discharging its oversight responsibilities regarding the audit process, the Audit Committee:

- (1) reviewed and discussed the audited financial statements with management and the independent auditors;
- (2) discussed with the independent auditors the material required to be discussed by Statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1, AU section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T, with and without management present; and
- (3) received the written disclosures and the letter from the independent auditors required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the audit committee concerning independence, and discussed with the independent accountant the independent accountant's independence.

Based upon the review and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2010, as filed with the Securities and Exchange Commission.

Brent G. Blackey, Chair  
Geoffrey O. Hartzler, M.D.  
Augustine Lawlor

#### **Compensation Committee**

As of September 15, 2010, our Compensation Committee consists of two directors, Mr. Friedman, as the chairperson, and Mr. Brown. Gary M. Petrucci was a member of the Company's Compensation Committee until the term of his directorship ended on March 5, 2010. All members of the Company's Compensation Committee were appointed by the Board of Directors, and consist entirely of directors who are outside directors for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code), non-employee directors for purposes of Rule 16b-3 under the Exchange Act, and independent as independence is currently defined in Rule 4200(a)(15) of the Nasdaq listing standards.

The Board of Directors has adopted a Compensation Committee Charter, which was last amended on February 25, 2009, and is available on our website at <http://www.csi360.com> in the Investors section. The functions of the Compensation Committee include, among other things:

recommending the annual compensation packages, including base salaries, incentive compensation, deferred compensation and stock-based compensation, for our executive officers;

recommending cash incentive compensation plans and deferred compensation plans for our executive officers, including corporate performance objectives;

administering our stock incentive plans, and subject to board approval in the case of executive officers, approving grants of stock, stock options and other equity awards under such plans;

reviewing and making recommendations regarding the terms of employment agreements for our executive officers;

developing, recommending, reviewing and administering compensation plans for members of the Board of Directors;

reviewing and discussing the compensation discussion and analysis with management; and



preparing any compensation committee report required to be included in the annual proxy statement.

All Compensation Committee recommendations regarding compensation to be paid or awarded to our executive officers are subject to approval by a majority of the independent directors serving on the Board of Directors.

Our Chief Executive Officer may not be present during any board or compensation committee voting or deliberations with respect to his compensation. Our Chief Executive Officer may, however, be present during any other voting or deliberations regarding compensation of our other executive officers, but may not vote on such items of business. In fiscal 2010, the Compensation Committee met without the Chief Executive Officer present to review and determine the compensation of the Chief Executive Officer, with input from him and the Compensation Committee's third-party compensation consultant on his annual salary, equity award compensation and cash incentive compensation for the year. For all other executive officers in fiscal 2010, the Compensation Committee met with the Chief Executive Officer to consider and determine executive compensation, based on recommendations by the Chief Executive Officer and the Compensation Committee's third-party compensation consultant.

#### **Compensation Committee Interlocks and Insider Participation**

As indicated above, as of September 15, 2010, the Compensation Committee consists of Messrs. Friedman and Brown. No member of the Compensation Committee has ever been an executive officer or employee of ours. None of our officers currently serves, or has served during the last completed year, on the Compensation Committee or the Board of Directors of any other entity that has one or more officers serving as a member of the Board of Directors or the Compensation Committee.

#### **Governance/Nominating Committee**

As of September 15, 2010, our Governance/Nominating Committee consists of three directors, Mr. Brown, as the chairperson, and Drs. Hartzler and Nelson. All members of the Company's Governance/Nominating Committee are outside directors for purposes of Section 162(m) of the Code and non-employee directors for purposes of Rule 16b-3 under the Exchange Act and independent as independence is currently defined in Rule 4200(a)(15) of the Nasdaq listing standards.

The Board of Directors has adopted a Governance/Nominating Committee Charter, which was last amended on April 29, 2009, and is available on our website at <http://www.csi360.com> in the Investors section. The functions of the Governance/Nominating Committee include, among other things:

- developing, reviewing and revising as appropriate, for adoption by the Board, the Principles of Corporate Governance by which the Company and the Board shall be governed;

- developing, reviewing and revising as appropriate, for adoption by the Board, the codes of ethical conduct and legal compliance by which the Company and its directors, officers, employees and agents will be governed;

- developing and recommending to the Board policies and processes designed to provide for effective and efficient governance, including but not limited to: policies for evaluation of the Board and the chairperson; the director nomination process, including board membership criteria, minimum qualifications for directors, and stockholder nomination of directors; stockholder-director communications; stockholder communication regarding stockholder proposals; director attendance at annual meetings; and succession planning for the Chief Executive Officer, the Board chairperson and other Board leaders;

- annually reviewing the composition of the Board against a matrix of skills and characteristics focused on the governance and business needs and requirements of the Company, and reporting to the Board regarding suggested changes in Board composition which will guide the committee in the selection, recruitment and recommendation of directors;

- meeting as necessary to consider the nomination and screening of Board member candidates and evaluating the performance of the Board and its members; and



overseeing organization, membership and evaluation of Board committees and committee members, and making appropriate recommendations to the Board with respect to such matters.

The Governance/Nominating Committee believes that candidates for director should have certain minimum qualifications, including the ability to read and understand basic financial statements, being over 21 years of age and having the highest personal integrity and ethics. The Governance/Nominating Committee also intends to consider such factors as possessing relevant expertise upon which to be able to offer advice and guidance to management, having sufficient time to devote to the affairs of the Company, demonstrated excellence in his or her field, having the ability to exercise sound business judgment and having the commitment to rigorously represent the long-term interests of the Company's stockholders. Candidates for director nominees are reviewed in the context of the current composition of the Board of Directors, the operating requirements of the Company and the long-term interests of stockholders. In conducting this assessment, the Governance/Nominating Committee considers diversity, age, skills, and such other factors as it deems appropriate given the current needs of the Board of Directors and the Company, to maintain a balance of knowledge, experience and capability. The Governance/Nominating Committee does not have a formal diversity policy and does not follow any ratio or formula with respect to diversity in order to determine the appropriate composition of the Board. In the case of incumbent directors whose terms of office are set to expire, the Governance/Nominating Committee reviews these directors' overall service to the Company during their terms, including the number of meetings attended, level of participation, quality of performance, and any other relationships and transactions that might impair the directors' independence. In the case of new director candidates, the Governance/Nominating Committee also determines whether the nominee is independent for Nasdaq purposes, which determination is based upon applicable Nasdaq listing standards, applicable SEC rules and regulations and the advice of counsel, if necessary. The Governance/Nominating Committee conducts any appropriate and necessary inquiries into the backgrounds and qualifications of possible candidates after considering the function and needs of the Board of Directors. The Governance/Nominating Committee meets to discuss and consider the candidates' qualifications and then selects a nominee by majority vote.

The Governance/Nominating Committee will consider director candidates recommended by stockholders. The Governance/Nominating Committee does not intend to alter the manner in which it evaluates candidates, including the minimum criteria set forth above, based on whether or not the candidate was recommended by a stockholder. To nominate a director for the Fiscal 2011 Annual Meeting, stockholders must submit such nomination in writing to our Secretary at 651 Campus Drive, St. Paul, Minnesota 55112 not later than the close of business on July 21, 2011, nor earlier than the close of business on August 20, 2011; provided, however, that in the event that the date of the Fiscal 2011 Annual Meeting changes more than 30 days from November 18, 2011, the written proposal must be delivered not earlier than the close of business on the 120th day prior to the date of the Fiscal 2011 Annual Meeting and not later than the close of business on the later of the 90th day prior to the date of the Fiscal 2011 Annual Meeting or the 10th day following the day on which public announcement of the date of the Fiscal 2011 Annual Meeting is first made by the Company. You are advised to review the Company's Bylaws for requirements relating to director nominees.

On August 25, 2010, the SEC adopted Exchange Act Rule 14a-11, which will permit stockholders or groups holding 3% of the voting power of U.S. public companies who have held their shares for at least three years to include director nominees in company proxy materials. In addition, the SEC amended Exchange Act Rule 14a-8 to provide that companies may not exclude from their proxy materials stockholder proposals that seek to establish less restrictive proxy access procedures, and adopted a number of related rule amendments intended to facilitate proxy access. The new rules will be effective 60 days after their publication in the Federal Register, and Rule 14a-11 will apply for a company's 2011 annual meeting if the first anniversary of the mailing of the 2010 proxy materials occurs within 120 days of effectiveness; however, the compliance date of Rule 14a-11 for smaller reporting companies has been delayed for a period of three years from the effective date. We were a smaller reporting company for Fiscal 2010 but cannot assure you that we will continue to be one for Fiscal 2011 or future years.

#### **VOTE REQUIRED**

The Board recommends that you vote **FOR** each of the nominees to the Board set forth in this Proposal 1. Under applicable Delaware law, the election of each nominee requires the affirmative vote by a plurality of the voting power of the shares present and entitled to vote on the election of directors at the Annual Meeting at which a quorum



is present.

**PROPOSAL 2****RATIFICATION OF SELECTION OF INDEPENDENT AUDITORS**

The Audit Committee has selected PricewaterhouseCoopers LLP as the Company's independent auditors for the fiscal year ending June 30, 2011, and has further directed that management submit the selection of independent auditors for ratification by the stockholders at the Annual Meeting. PricewaterhouseCoopers LLP also served as the Company's independent auditors for the fiscal year ended June 30, 2010. Representatives of PricewaterhouseCoopers LLP are expected to be present at the Annual Meeting. They will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

Neither the Company's Bylaws nor other governing documents or law require stockholder ratification of the selection of PricewaterhouseCoopers LLP as the Company's independent auditors. However, the Audit Committee of the Board of Directors is submitting the selection of PricewaterhouseCoopers LLP to the stockholders for ratification as a matter of good corporate practice. If the stockholders fail to ratify the selection, the Audit Committee of the Board of Directors will reconsider whether or not to retain that firm. Even if the selection is ratified, the Audit Committee of the Board of Directors in its discretion may direct the appointment of different independent auditors at any time during the year if they determine that such a change would be in the best interests of the Company and its stockholders.

The affirmative vote of the holders of a majority of the shares present in person or represented by proxy and entitled to vote at the Annual Meeting will be required to ratify the selection of PricewaterhouseCoopers LLP. Abstentions will be counted toward the tabulation of votes cast on proposals presented to the stockholders and will have the same effect as negative votes. Broker non-votes are counted towards a quorum, but are not counted for any purpose in determining whether this matter has been approved.

**PRINCIPAL ACCOUNTANT FEES AND SERVICES**

In connection with the audit of the fiscal 2010 financial statements, the Company entered into an engagement agreement with PricewaterhouseCoopers LLP which sets forth the terms by which PricewaterhouseCoopers LLP will perform audit services for the Company.

The following table represents aggregate fees billed to the Company for the fiscal years ended June 30, 2010, and June 30, 2009, by PricewaterhouseCoopers LLP, the Company's principal accountant. All fees described below were approved by the Audit Committee.

	<b>2010</b>	<b>2009</b>
Audit Fees <sup>(1)</sup>	\$ 281,336	\$ 631,270
Audit-Related Fees <sup>(2)</sup>		175,500
Tax Fees <sup>(3)</sup>	81,894	112,373
All Other Fees <sup>(4)</sup>	57,500	11,000
	<b>\$ 420,730</b>	<b>\$ 930,143</b>

(1) Audit Fees were principally for services rendered for the audit and/or review of our consolidated financial statements. Also includes fees for services rendered in connection with the filing of registration statements and other documents with the SEC, the issuance of

accountant consents and comfort letters and assistance in responding to SEC comment letters.

- (2) Audit-Related Fees were for due diligence and consulting related to the merger.
- (3) Tax Fees consist of fees billed in the indicated year for professional services performed by PricewaterhouseCoopers LLP with respect to tax compliance, tax advice and tax planning.
- (4) All Other Fees consist of fees billed in the indicated year for other permissible work performed by PricewaterhouseCoopers LLP that is not included within the above category descriptions.

**PRE-APPROVAL POLICIES AND PROCEDURES**

Pursuant to its written charter, the Audit Committee is required to pre-approve the audit and non-audit services performed by our independent auditors. The Audit Committee may not approve non-audit services prohibited by applicable regulations of the Securities and Exchange Commission if such services are to be provided contemporaneously while serving as independent auditors. The Audit Committee has delegated authority to the Chairman of the Audit Committee to approve the commencement of permissible non-audit related services to be performed by the independent auditors and the fees payable for such services, provided that the full Audit Committee subsequently ratifies and approves all such services. The Audit Committee has determined that the rendering of the services other than audit services by PricewaterhouseCoopers LLP is compatible with maintaining the principal accountant's independence.

**VOTE REQUIRED**

The Board recommends that you vote **FOR** the ratification of PricewaterhouseCoopers LLP as the independent registered public accounting firm for the Company. Ratification of PricewaterhouseCoopers LLP requires the affirmative vote of a majority of the shares present in person or represented by proxy and entitled to vote at the Annual Meeting.

## EXECUTIVE COMPENSATION

### Overview

This section describes the material elements of the compensation awarded to, earned by or paid to our Chief Executive Officer and the two most highly compensated executive officers as determined in accordance with SEC rules, who are collectively referred to as our named executive officers. This discussion focuses primarily on the fiscal 2010 information contained in the Summary Compensation Table and related footnotes following this section but also describes compensation actions taken during other periods to the extent it enhances the understanding of our executive compensation disclosure for fiscal 2010. For example, although our fiscal year ends on June 30 of each year, our compensation programs were previously established on a calendar year basis. To align the period for our compensation program with the June 30th fiscal year end, our Board adopted an interim compensation plan for the six-month period ended June 30, 2009, and began to establish compensation programs for executive officers on a fiscal year basis beginning with fiscal 2010.

### Executive Compensation Components for Fiscal 2010

#### *Base Salary*

Base salary is an important element of our executive compensation program as it provides executives with a fixed, regular, non-contingent earnings stream to support annual living and other expenses. As a component of total compensation, we generally set base salaries at levels believed to attract and retain an experienced management team that will successfully grow our business and create stockholder value. We also utilize base salaries to reward individual performance and contributions to our overall business objectives, but seek to do so in a manner that does not detract from the executives' incentive to realize additional compensation through our performance-based compensation programs, stock options and restricted stock awards.

The Compensation Committee reviews the Chief Executive Officer's salary annually at the end of each fiscal year. The Compensation Committee may recommend adjustments to the Chief Executive Officer's base salary based upon the Compensation Committee's review of his current base salary, incentive cash compensation and equity-based compensation, as well as his performance and comparative market data. The Compensation Committee reviews other executives' salaries throughout the year, with input from the Chief Executive Officer. The Compensation Committee may recommend adjustments to other executive's base salary based upon the Chief Executive Officer's recommendation and the reviewed executive's responsibilities, experience and performance, as well as comparative market data.

In utilizing comparative data, the Compensation Committee seeks to recommend salaries for each executive at a level that is appropriate after giving consideration to experience for the relevant position and the executive's performance. The Compensation Committee reviews performance for both our company (based upon achievement of strategic initiatives) and each individual executive. Based upon these factors, the Compensation Committee may recommend adjustments to base salaries to better align individual compensation with comparative market compensation, to provide merit-based increases based upon individual or company achievement, or to account for changes in roles and responsibilities.

Our employment agreement with David L. Martin, President and Chief Executive Officer, originally provided that his annual base salary for calendar 2008 would be \$370,000 and that his base salary for subsequent years would be determined by the Board. We offered this amount as part of a package of compensation for Mr. Martin sufficient to induce him to join our company. The compensation package for Mr. Martin is designed to provide annual cash compensation, including both base salary and potential cash incentive earnings, sufficient to induce him to join CSI combined with the equity compensation described below, although less than the annual cash compensation Mr. Martin received at his previous employer and, we believe, less than Mr. Martin likely could have obtained with other, more established employers. The equity portion of Mr. Martin's original compensation package was designed to provide sufficient potential growth in value to induce Mr. Martin to join us despite the lower cash compensation. Mr. Martin's base salary rate of \$395,000 for calendar 2009 remained in effect throughout fiscal 2010.

Robert J. Thatcher commenced employment with us in October 2005 and became Executive Vice President in August 2008. Mr. Thatcher is a party to our standard employment agreement. Mr. Thatcher's base salary has been set at an amount that we believe to be generally consistent with the base salaries paid by other growth stage medical

device companies for similar positions. Effective July 1, 2009, the Board approved an increase to Mr. Thatcher's base salary rate from \$250,000 to \$262,500.

James E. Flaherty commenced employment with us in March 2003 and became our Chief Administrative Officer in January 2008. Mr. Flaherty is a party to our standard employment agreement. Mr. Flaherty's base salary has been set at an amount that we believe to be generally consistent with the base salaries paid by other growth stage medical device companies for similar positions. Effective July 1, 2009, the Board approved an increase to Mr. Flaherty's base salary rate from \$233,000 to \$244,650.

*Annual Cash Incentive Compensation for Fiscal 2010*

Our annual cash incentive compensation plan is designed to reward the executive officers for achieving and surpassing the financial goals set by the Compensation Committee and Board of Directors.

The annual cash incentive plan for fiscal 2010 was adopted in July 2009 and amended in April 2010. It provided for two separate payments to the participants, the first based upon company performance in the first half of fiscal 2010 and the second based upon company performance in the second half of fiscal 2010. The plan conditioned the payment of incentive compensation to all participants, including Mr. Martin, upon our achievement of revenue and adjusted EBITDA financial goals. Target bonus amounts were split evenly between the two goals. None of our executive officers was subject to individual goals. Under the plan, our executive officers were eligible to receive annual cash incentive compensation with target bonus levels ranging from 75%, in the case of the President and Chief Executive Officer, to 50%, in the case of other executive officers, of their yearly base salaries. Participants were eligible to earn 50% to 150% of their target bonus amount, depending upon our performance relative to the plan criteria. However, in the event of extraordinary revenue performance above the goals set by the Board, all of the executive officers could receive incentive payments greater than 150% of their targets based upon a formula established by the Board, with no maximum payout set under the plan. The plan criteria were the same for all of the named executive officers.

In April 2010, although the financial goals were not achieved in the first half of fiscal 2010, the Board and the Compensation Committee awarded cash bonuses equal to 75% of each executive's target bonus amount for such period. The Board and the Compensation Committee believed that such awards were justified because of our financial performance and progress in other areas for this period, including clinical trials, sales training, product protocol definition and customer education.

In addition to incentives under the cash incentive plan, the Board has authority to grant additional cash bonuses of up to 15% of annual base salary for any executive officer.

*Stock Option and Other Equity Awards*

Consistent with our compensation philosophies related to performance-based compensation, long-term stockholder value creation and alignment of executive interests with those of stockholders, we make periodic grants of long-term compensation in the form of stock options or restricted stock to our executive officers and across our organization generally.

Stock options provide executive officers with the opportunity to purchase common stock at a price fixed on the grant date regardless of future market price. A stock option becomes valuable only if the common stock price increases above the option exercise price and the holder of the option remains employed during the period required for the option shares to vest. This provides an incentive for an option holder to remain employed by us. In addition, stock options link a significant portion of an employee's compensation to stockholders' interests by providing an incentive to achieve corporate goals and increase stockholder value. Under our 2007 Equity Incentive Plan, we may also make grants of restricted stock awards, restricted stock units, performance share awards, performance unit awards and stock appreciation rights to officers and other employees. We adopted this plan to give us flexibility in the types of awards that we could grant to our executive officers and other employees. We intend to continue to grant restricted stock instead of, or in addition to, stock options to our executive officers, because we can typically use fewer shares from our available pool in making restricted stock grants. We believe that restricted stock is as effective as stock options in motivating performance of employees.

From time to time we may make one-time grants of stock options or restricted stock to recognize promotion or consistent long-term contribution, or for specific incentive purposes. We also grant stock options or other equity awards to executive officers in connection with their initial employment.

In April 2010, the Board and Compensation Committee approved the extension of certain options granted to Messrs. Martin, Thatcher and Flaherty under our 2003 Stock Option Plan. Each of Mr. Martin's options had an

exercise price of \$8.83 and each of Messrs. Thatcher's and Flaherty's options had an exercise price of \$12.37, all of which exceeded the then-current fair market value of



our common stock. We believed that Messrs. Martin, Thatcher and Flaherty were unlikely to exercise these options, and, accordingly, that an extension of the exercise periods was desirable to provide adequate incentives for these executive officers to remain committed to us. In addition, the Board and the Compensation Committee have been granting all new options with ten-year terms, and these extensions were intended to reflect the current practice. Mr. Martin's options, which were otherwise set to expire on July 16, 2011 (116,460 shares), August 14, 2011 (38,820 shares), and February 14, 2012 (349,380 shares), were each extended an additional five years beyond the original five-year term. Mr. Thatcher's options that were set to expire on October 16, 2010 (64,700 shares) and Mr. Flaherty's options that were set to expire on June 30, 2010 (16,175 shares) and November 7, 2010 (7,764 shares) were each extended an additional five years beyond the original five-year term. All other terms of the options, including the vesting schedule and exercise price, remained the same.

The Board and Compensation Committee also approved the issuance of new options to Mr. Flaherty in April 2010 to replace certain expired options Mr. Flaherty had received under our 2003 Stock Option Plan. Mr. Flaherty's prior options (4,852 shares) expired on November 15, 2009 and had an exercise price of \$9.28. In view of the extensions of certain options to executive officers described above and to provide an adequate incentive for Mr. Flaherty to remain committed to us, we issued these new options to Mr. Flaherty under our 2007 Equity Incentive Plan. The new options were exercisable immediately and had five-year terms from the expiration date of the prior options. All other terms of the new options, including the amount of underlying shares and the exercise price, remained the same.

Although we do not have any detailed stock retention or ownership guidelines, the Board and Compensation Committee generally encourage our executives to have a financial stake in our company in order to align the interests of our stockholders and management, and view stock options as a means of furthering this goal. We will continue to evaluate whether to implement a stock ownership policy for our officers and directors.

#### *Limited Perquisites; Other Benefits*

It is generally our policy not to extend significant perquisites to our executives beyond those that are available to our employees generally, such as 401(k) plan, health, dental and life insurance benefits. We have given car allowances to certain named executives and moving allowances for executives who have relocated. We also pay for housing, commuting and related costs for our Chief Executive Officer.

#### **Compensation Consultant**

In fiscal 2010, the Compensation Committee consulted Lyons, Benenson & Company, a third-party compensation consulting firm, to determine competitive compensation levels for our executive officers, including base salary, incentive compensation, stock options and restricted stock awards.

#### **Potential Payments Upon Termination or Change of Control**

##### *Stock Options and Other Equity Awards*

The majority of our stock option agreements provide that in the event of a change of control (the sale by us of substantially all of our assets and the consequent discontinuance of our business, or in the event of a merger, exchange or liquidation), the vesting of all options will accelerate and the options will be immediately exercisable as of the effective date of the change of control. Our restricted stock agreements also provide for the acceleration of vesting as of the effective date of a change of control.

##### *Employment Agreements*

Under the terms of the employment agreement with Mr. Martin, we will pay Mr. Martin an amount equal to 12 months of his then current base salary and 12 months of our share of health insurance costs if Mr. Martin is terminated by us without cause, or if Mr. Martin terminates his employment for good reason, as defined in the agreement. Good reason is generally defined as the assignment of job responsibilities to Mr. Martin that are not comparable in status or responsibility to those job responsibilities set forth in the agreement, a reduction in Mr. Martin's base salary without his consent, or our failure to provide Mr. Martin the benefits promised under his employment agreement. As a condition to receiving his severance benefits, Mr. Martin is required to execute a release of claims agreement in favor of us.

We agreed to the payment of severance benefits in the employment agreement with Mr. Martin because he requested these severance benefits and we believed it was necessary to provide such benefits in order to obtain the agreement with him. We believe that other medical device manufacturers provide substantially similar severance benefits to their senior officers and that providing severance benefits to our Chief Executive Officer is therefore consistent with market practices. We believe that such benefits are reasonable to protect the Chief Executive Officer against the risk of having no compensation while he seeks alternative employment following a termination of his employment with us.

#### *Executive Officer Severance Plan*

Effective June 28, 2010, we adopted the Cardiovascular Systems, Inc. Executive Officer Severance Plan. Each of our named executives is covered by this Severance Plan. Under the Severance Plan, if we terminate an executive without cause or due to a reduction in force, as defined in the plan, the executive will receive certain severance benefits during the severance period. The severance period is 18 months for the Chief Executive Officer, 15 months for the Chief Financial Officer, and 12 months for all other executives. For purposes of the Severance Plan, cause is generally defined as the executive's (i) failure to perform his material duties; (ii) willful or deliberate misconduct; (iii) false or materially misleading representation made to the Board; or (iv) commission of any felony. Reduction in force is generally defined as an action or decision involving the termination of employment of our employees that is designated by the Compensation Committee, in its sole and absolute discretion, as a Reduction-in-Force.

The severance benefits generally consist of the continued payment of (i) the executive's then-current base salary; and (ii) our share of the costs of the executive's coverage under our medical, dental, and life insurance plans. As a condition to receiving these severance benefits, the executive is required to execute a release of claims agreement in favor of us. The executive is not entitled to severance benefits if his termination is due to death or disability; if the executive is on military leave, sick leave, or another bona fide leave of absence generally not exceeding six months; or if the executive continues to provide services to us in excess of 20% of the average level of services he performed over the immediately preceding 36-month period.

The Severance Plan does not affect any other rights our executives may have to severance benefits in their employment agreements. However, an executive will be eligible for severance benefits under the Severance Plan only to the extent the severance is not duplicative of the benefits received by the executive under his employment agreement. The executive will receive benefits under his employment agreement first, and then will be eligible for severance benefits under the Severance Plan; provided, however, that the combined benefit will not exceed the maximum benefit available under the Severance Plan.

Although we have the right to amend or terminate the Severance Plan, we may not do so in any manner that diminishes the severance benefits (i) within 12 months of a change of control (the sale by us of substantially all of our assets and the consequent discontinuance of our business; a merger, exchange, liquidation or certain acquisitions; certain changes in the composition of the Board; or a definitive agreement relating to any of these); (ii) if such amendment or termination was requested by a party other than the Board, that had previously taken other steps reasonably calculated to result in a change of control and that ultimately resulted in a change of control; or (iii) if such amendment or termination arose in connection with or in anticipation of a change of control that ultimately occurs.

#### **Summary Compensation Table for Fiscal 2010 and 2009**

The following table provides information regarding the compensation earned during the fiscal years ended June 30, 2010 and June 30, 2009 by each of the named executive officers.

Name and Principal Position	Fiscal Year	Salary (\$)	Stock awards (1) (\$)	Option awards (1) (\$)	Nonequity	All other compensation (\$)	Total (\$)
					incentive plan compensation (\$)		
David L. Martin <i>President and Chief Executive Officer</i> <sup>(2)</sup>	2010	395,000	972,935	335,910	221,719	97,527	2,023,091
	2009	395,000		154,310	308,108	97,849	955,267

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Robert J. Thatcher <i>Executive Vice President</i> <sup>(3)(5)</sup>	2010	262,163	353,202	45,355	98,230	758,950
James E. Flaherty <i>Chief Administrative Officer and Secretary</i> <sup>(4)(5)</sup>	2010	244,336	262,257	21,723	91,550	619,867

- (1) The value of stock awards and options in this table represent the fair value of such awards granted or modified during the fiscal year, as computed in accordance with FASB ASC 718 (formerly FAS 123(R)). The assumptions used to determine the valuation of the awards are discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations and in Note 6 to our consolidated financial statements, each included in the Company's Annual Report on Form 10-K for the 2010 fiscal year, filed with the Securities and Exchange Commission on September 28, 2010.
- (2) The amount under Non-Equity

Incentive Plan Compensation for Mr. Martin for 2010 consists of incentive compensation paid to Mr. Martin for company performance through June 30, 2010 under our cash incentive plan for fiscal 2010.

The amount under Non-Equity Incentive Plan Compensation for Mr. Martin for 2009 consists of (i) incentive compensation of \$184,663 paid to Mr. Martin at the end of calendar 2008 under our calendar 2008 incentive plan, and (ii) incentive compensation of \$123,445 paid for company performance through June 30, 2009, under our incentive plan for the six months ended June 30, 2009.

The amounts under All Other Compensation for Mr. Martin

(i) for 2010 consist of payments for housing, furniture rental, cleaning and related expenses of \$61,210 and car and transportation expenses of \$36,317, and (ii) for 2009 consist of payments for housing, furniture rental, cleaning and related expenses of \$54,635 and car and transportation expenses of \$43,214.

(3) The amount under Non-Equity Incentive Plan Compensation for Mr. Thatcher for 2010 consists of incentive compensation paid for company performance through June 30, 2010, under our incentive plan for fiscal 2010.

(4) The amount under Non-Equity Incentive Plan Compensation for Mr. Flaherty for 2010 consists of

incentive  
compensation  
paid for  
company  
performance  
through June 30,  
2010, under our  
incentive plan  
for fiscal 2010.

- (5) Neither  
Mr. Thatcher  
nor Mr. Flaherty  
was a named  
executive  
officer in Fiscal  
2009.

**Outstanding Equity Awards at Fiscal Year-end for Fiscal 2010**

The following table sets forth certain information regarding outstanding equity awards held by the named executive officers as of June 30, 2010.

	Option Awards				Stock Awards		
	Grant Date	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable	Option Exercise Price(1)	Option Expiration Date	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Rights that Have Not Vested	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Rights that Have Not Vested
David L. Martin <sup>(2)(3)(4)</sup>	7/17/06	71,170		\$ 8.83	7/16/16		
	8/15/06	38,820		\$ 8.83	8/14/16		
	2/15/07	349,380		\$ 8.83	2/14/17		
	6/12/07	90,580		\$ 7.90	6/11/17		
	12/12/07	121,313	121,312	\$ 12.15	12/11/17		
	3/2/09	16,175	16,175	\$ 8.75	3/2/19		
	7/16/09					57,413	\$ 257,210
	7/16/09					55,719	\$ 249,621
Robert J. Thatcher <sup>(2)(3)(4)</sup>	10/17/05	64,700		\$ 12.37	10/16/15		
	12/19/06	7,764		\$ 8.83	12/18/16		
	4/18/07	29,762		\$ 8.83	4/17/17		
	8/7/07	15,097	7,548	\$ 7.90	8/6/17		
	12/12/07	16,175	16,175	\$ 12.15	12/11/17		
	3/2/09	5,823	5,823	\$ 8.75	3/2/19		
	7/16/09					22,175	\$ 99,344
	7/16/09					18,895	\$ 84,650
James E. Flaherty <sup>(2)(3)(4)</sup>	7/1/05	16,175		\$ 12.37	6/30/15		
	11/8/05	7,764		\$ 12.37	11/7/15		
	12/19/06	9,381		\$ 8.83	12/18/16		
	4/18/07	25,233		\$ 8.83	4/17/17		
	8/7/07	15,097	7,548	\$ 7.90	8/6/17		



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12/12/07	16,175	16,175	\$ 12.15	12/11/17		
3/2/09	5,500	5,499	\$ 8.75	3/2/19		
7/16/09					17,610	\$ 78,893
7/16/09					12,884	\$ 57,720
4/21/10	4,852		\$ 9.28	11/15/14		

(1) See Note 6 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2010, filed with the SEC on September 28, 2010, for a discussion of the methodology for determining the exercise price.

(2) The August 2007 options vest at the rate of one-third per year starting on the first anniversary of the grant date. The December 2007 grant was to vest in full on the third anniversary of the grant date provided that we had completed an initial public offering or a change of control transaction before December 31,

2008. The December 2007 options were amended by the Board of Directors 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. The March 2009 options vest at the rate of one-half per year starting on the first anniversary of the grant date.

- (3) Certain of our stock option agreements provide that in the event of a change of control (the sale by the company of substantially all of its assets and the consequent discontinuance of its business, or in the event of a merger, exchange or liquidation), the vesting of all options will accelerate and the options will be immediately exercisable as of the effective

date of the  
change of  
control.

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- (4) Restricted stock awards vest at the rate of one-third per year starting on the first anniversary of the grant date, except the July 2009 restricted stock awards of 55,719, 22,175 and 12,884 shares to Messrs. Martin, Thatcher and Flaherty, respectively, vest at the rate of one-half per year starting on the first anniversary of the grant date.

#### DIRECTOR COMPENSATION

During the year ended June 30, 2010, each of our non-employee members of the Board received the following compensation:

Retainers of \$40,000 for service as a board member; \$20,000 for service as a chairman of a board committee; \$10,000 for service as a member of a board committee; and \$1,200 per board or committee meeting attended in the event that more than 12 of such meetings are held during the period. We may pay these retainers in cash or permit directors to elect to receive the value of the retainers in our common stock.

A restricted stock unit award with a value of \$100,000 payable, in our discretion, in cash or in shares of our common stock. We may provide for the restricted stock units, when paid in cash, to be made in a lump sum on the six-month anniversary of the termination of the director's board membership.

In addition, the Chairman of the Board receives an annual retainer of \$40,000, which may, at the election of the Chairman, be paid in shares of common stock based on the fair market value of the Company's common stock on the date of payment. The non-employee members of the Board are also reimbursed for travel, lodging and other reasonable expenses incurred in attending board or committee meetings.

#### Director Compensation Table for Fiscal 2010

The following table summarizes the compensation paid to each non-employee director in the fiscal year ended June 30, 2010.

Name	Fees Earned or Paid in Cash or Stock (\$)	Stock Awards (1)(2) (\$)	Option Awards (1)(2)(3) (\$)	Total (\$)
Brent G. Blackey	60,000	100,000	0	160,000

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Edward Brown	60,000	100,000	0	160,000
John H. Friedman	60,000	100,000	28,339	188,339
Geoffrey O. Hartzler, M.D.	70,000	100,000	6,803	176,803
Roger J. Howe, Ph.D.	40,000	100,000	6,803	146,803
Augustine Lawlor	50,000	100,000	0	150,000
Glen D. Nelson, M.D.	90,000	100,000	6,803	196,803
Gary M. Petrucci (4)	50,000	50,000	0	100,000

(1) The value of stock awards and options in this table represent the fair value of such awards granted or modified during the fiscal year, as computed in accordance with FASB ASC 718 (formerly FAS 123(R)). The assumptions used to determine the valuation of the awards are discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations and in Note 6 to our consolidated financial statements, each included in the Company's Annual Report on Form 10-K for the 2010 fiscal year, filed with the Securities and Exchange Commission on September 28,

2010.

- (2) The aggregate number of restricted stock units held by each of the directors and former directors listed in the table above as of June 30, 2010, was as follows:
- Mr. Blackey,  
17,342 shares;  
Mr. Brown,  
15,605 shares;  
Mr. Friedman,  
17,342 shares;  
Dr. Hartzler,  
17,342 shares;  
Dr. Howe,  
17,342 shares;  
Mr. Lawlor,  
15,605 shares;  
Dr. Nelson,  
17,342 shares;  
and  
Mr. Petrucci,  
11,528 shares.  
All of these awards represent restricted stock units granted to such directors and former directors on March 2, 2009 and July 16, 2009.
- (3) The aggregate number of shares subject to outstanding option awards held by each of the directors and former



directors listed  
in the table  
above as of  
June 30, 2010,  
was as follows:  
Mr. Blackey,  
45,290 shares;  
Mr. Friedman,  
58,229 shares;  
Dr. Hartzler,  
129,275 shares;  
Dr. Howe,  
176,484 shares;  
Dr. Nelson,  
48,524 shares;  
and  
Mr. Petrucci,  
308,075 shares.  
Messrs. Brown  
and Lawlor did  
not hold any  
shares subject to  
outstanding  
option awards  
on June 30,  
2010.

- (4) Mr. Petrucci  
served until the  
term of his  
directorship  
ended on  
March 5, 2010.

#### **TRANSACTIONS WITH RELATED PERSONS**

Pursuant to its written charter, the Audit Committee has the responsibility to review and approve all transactions to which a related party and we may be a party prior to their implementation to assess whether such transactions meet applicable legal requirements. Since July 1, 2009, there were no related party transactions arising or existing requiring disclosure under applicable Nasdaq listing standards or SEC rules and regulations.



**SECURITY OWNERSHIP OF  
CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth as of September 23, 2010, certain information regarding beneficial ownership of our common stock by:

Each person known to us to beneficially own 5% or more of our common stock;

Each executive officer named in the Summary Compensation Table on page 19 who in this proxy statement are collectively referred to as the named executive officers;

Each of our directors (including nominees); and

All of our executive officers (as that term is defined under the rules and regulations of the SEC) and directors as a group.

We have determined beneficial ownership in accordance with Rule 13d-3 under the Exchange Act. Beneficial ownership generally means having sole or shared voting or investment power with respect to securities. Unless otherwise indicated in the footnotes to the table, each stockholder named in the table has sole voting and investment power with respect to the shares of common stock set forth opposite the stockholder's name. We have based our calculation of the percentage of beneficial ownership on 15,694,291 shares of CSI common stock outstanding on September 23, 2010. Unless otherwise noted below, the address for each person or entity listed in the table is c/o Cardiovascular Systems, Inc., 651 Campus Drive, St. Paul, Minnesota 55112.

<b><u>Beneficial Owner</u></b>	<b>Amount and Nature of Beneficial Ownership</b>	<b>Percentage of Shares Beneficially Owned</b>
<b>Named Executive Officers, Directors and Nominees</b>		
David L. Martin <sup>(1)</sup>	1,005,885	6.1%
Robert J. Thatcher <sup>(2)</sup>	252,370	1.6%
James E. Flaherty <sup>(3)</sup>	231,675	1.5%
Brent G. Blackey <sup>(4)</sup>	65,232	*
Edward Brown <sup>(5)</sup>	33,268	*
John H. Friedman <sup>(6)</sup>	66,229	*
Geoffrey O. Hartzler, M.D. <sup>(7)</sup>	246,163	1.6%
Roger J. Howe, Ph.D. <sup>(8)</sup>	176,484	1.1%
Augustine Lawlor <sup>(9)</sup>	435,905	2.8%
Glen D. Nelson, M.D. <sup>(10)</sup>	659,355	4.2%
Leslie L. Trigg <sup>(11)</sup>	14,157	*
All Directors, Nominees and Executive Officers as a Group (16 individuals) <sup>(12)</sup>	3,955,317	22.5%
<b>5% Stockholders</b>		
Easton Capital Investment Group <sup>(13)</sup>	1,379,876	8.5%
Maverick Capital, Ltd. <sup>(14)</sup>	2,183,154	13.2%

\* Less than 1% of the outstanding shares.

(1)

Includes  
687,438 shares  
issuable upon  
the exercise of  
options  
exercisable  
within 60 days  
of  
September 23,  
2010, and  
216,270 shares  
of restricted  
stock that are  
subject to a risk  
of forfeiture.

(2) Includes  
149,914 shares  
issuable upon  
the exercise of  
options and  
warrants  
exercisable  
within 60 days  
of  
September 23,  
2010, and  
74,199 shares of  
restricted stock  
that are subject  
to a risk of  
forfeiture.

(3) Includes  
107,725 shares  
issuable upon  
the exercise of  
options  
exercisable  
within 60 days  
of  
September 23,  
2010, and  
65,943 shares of  
restricted stock  
that are subject  
to a risk of  
forfeiture.

- (4) Includes 48,029 shares issuable upon the exercise of options and warrants exercisable within 60 days of September 23, 2010. Does not include 39,081 vested restricted stock units that represent the right to receive a payment in cash or shares from the Company equal in value to the market price of one share per unit of the Company's common stock as of the date that is six months following the date of the termination of Mr. Blackey's board membership.
- (5) Does not include 37,344 vested restricted stock units that represent the right to receive a payment in cash or shares from the Company equal in value to the market price of one share per

unit of the  
Company's  
common stock  
as of the date  
that is six  
months  
following the  
date of the  
termination of  
Mr. Brown's  
board  
membership.

- (6) Includes 58,229  
shares issuable  
upon the  
exercise of  
options  
exercisable  
within 60 days  
of  
September 23,  
2010 issued to  
Mr. Friedman  
that are held for  
the benefit of  
entities  
affiliated with  
Easton Capital  
Investment  
Group. Does not  
include 39,081  
vested restricted  
stock units that  
represent the  
right to receive  
a payment in  
cash or shares  
from the  
Company equal  
in value to the  
market price of  
one share per  
unit of the  
Company's  
common stock  
as of the date  
that is six  
months  
following the  
date of the

termination of  
Mr. Friedman's  
board  
membership,  
issued to  
Mr. Friedman  
that are held for  
the benefit of  
entities  
affiliated with  
Easton Capital  
Investment  
Group.

- (7) Includes  
129,275 shares  
issuable upon  
the exercise of  
options  
exercisable  
within 60 days  
of  
September 23,  
2010. Does not  
include 39,081  
vested restricted  
stock units that  
represent the  
right to receive  
a payment in  
cash or shares  
from the  
Company equal  
in value to the  
market price of  
one share per  
unit of the  
Company's  
common stock  
as of the date  
that is six  
months  
following the  
date of the  
termination of  
Dr. Hartzler's  
board  
membership.

- (8) Includes  
176,484 shares

issuable upon the exercise of options exercisable within 60 days of September 23, 2010. Does not include 39,081 vested restricted stock units that represent the right to receive a payment in cash or shares from the Company equal in value to the market price of one share per unit of the Company's common stock as of the date that is six months following the date of the termination of Dr. Howe's board membership.

- (9) Includes 361,235 shares held by HealthCare Ventures VI, L.P. and 74,670 shares held by HealthCare Ventures VIII, L.P. Mr. Lawlor is a general partner of HealthCare Partners VI, L.P., which is the general partner of HealthCare

Ventures VI,  
L.P. Mr. Lawlor  
is a managing  
director of  
HealthCare  
Partners VIII,  
LLC, which is  
the general  
partner of  
HealthCare  
Partners VIII,  
L.P., which is  
the general  
partner of  
HealthCare  
Ventures VIII,  
L.P. Mr. Lawlor  
disclaims  
beneficial  
ownership of  
these shares  
except to the  
extent of his  
pecuniary  
interest therein.  
Does not  
include 37,344  
vested restricted  
stock units that  
represent the  
right to receive  
a payment in  
cash or shares  
from the  
Company equal  
in value to the  
market price of  
one share per  
unit of the  
Company's  
common stock  
as of the date  
that is six  
months  
following the  
date of the  
termination of  
Mr. Lawlor's  
board  
membership.

- (10) Includes 48,524 shares issuable upon the exercise of options exercisable within 60 days of September 23, 2010. Also includes 246,524 shares and 122,605 shares issuable upon the exercise of warrants exercisable within 60 days of September 23, 2010, held by GDN Holdings, LLC, of which Dr. Nelson is the sole owner. Does not include 39,081 vested restricted stock units that represent the right to receive a payment in cash or shares from the Company equal in value to the market price of one share per unit of the Company's common stock as of the date that is six months following the date of the termination of Dr. Nelson's board membership.



- (11) Includes 7,215 shares issuable upon the exercise of options and warrants exercisable within 60 days of September 23, 2010, and 4,000 shares of restricted stock that are subject to a risk of forfeiture.
  
- (12) Includes 1,898,770 shares issuable upon the exercise of options and warrants exercisable within 60 days of September 23, 2010, and 625,837 shares of restricted stock that are subject to a risk of forfeiture.
  
- (13) Includes 398,679 shares and 316,061 shares issuable upon the exercise of warrants exercisable within 60 days of September 23, 2010, held by Easton Hunt Capital Partners, L.P. and

398,679 shares and 208,228 shares issuable upon the exercise of warrants exercisable within 60 days of September 23, 2010, held by Easton Capital Partners, LP. Investment decisions of Easton Hunt Capital Partners, L.P. are made by EHC GP, LP through its General Partner, EHC, Inc. Mr. Friedman, one of the Company's directors, is the President and Chief Executive Officer of EHC, Inc. Investment decisions of Easton Capital Partners, LP are made by its General Partner, ECP GP, LLC, through its manager ECP GP, Inc. Mr. Friedman is the President and Chief Executive Officer of EHC, Inc. and ECP GP, Inc. Mr. Friedman shares voting and investment power of the shares owned by

Easton Hunt  
Capital

Partners, L.P. and Easton Capital Partners, L.P. Also includes 58,229 shares issuable upon the exercise of options exercisable within 60 days of September 23, 2010, issued to Mr. Friedman that are held for the benefit of entities affiliated with Easton Capital Investment Group. Does not include 39,081 vested restricted stock units that represent the right to receive a payment in cash or shares from the Company equal in value to the market price of one share per unit of the Company's common stock as of the date that is six months following the date of the termination of Mr. Friedman's board membership, issued to Mr. Friedman that are held for

the benefit of  
entities  
affiliated with  
Easton Capital  
Investment  
Group.

Mr. Friedman  
disclaims  
beneficial  
ownership of  
securities held  
by entities  
affiliated with  
Easton Capital  
Investment  
Group except as  
to his pecuniary  
interest therein.

The address for  
the entities  
affiliated with  
Easton Capital  
Investment  
Group is 767  
Third Avenue,  
7<sup>th</sup> Floor, New  
York, New  
York, 10017.

- (14) Includes
- (i) 601,116  
shares and  
359,018 shares  
issuable upon  
the exercise of  
warrants  
exercisable  
within 60 days  
of  
September 23,  
2010, held by  
Maverick Fund,  
L.D.C.;
  - (ii) 242,683  
shares and  
144,942 shares  
issuable upon  
the exercise of  
warrants  
exercisable  
within 60 days

of  
September 23,  
2010, held by  
Maverick Fund  
USA, Ltd.; and  
(iii) 523,020  
shares and  
312,375 shares  
issuable upon  
the exercise of  
warrants  
exercisable  
within 60 days  
of  
September 23,  
2010, by  
Maverick Fund  
II, Ltd.  
Maverick  
Capital, Ltd. is  
an investment  
adviser  
registered under  
Section 203 of  
the Investment  
Advisers Act of  
1940 and, as  
such, may be  
deemed to have  
beneficial  
ownership of  
the shares held  
by Maverick  
Fund, L.D.C.,  
Maverick Fund  
USA, Ltd., and  
Maverick Fund  
II, Ltd., and  
through the  
investment  
discretion it  
exercises over  
these accounts.  
Maverick  
Capital  
Management,  
LLC is the  
general partner  
of Maverick  
Capital, Ltd.  
Lee S. Ainslie

III is the manager of Maverick Capital Management, LLC who possesses sole investment discretion pursuant to Maverick Capital Management, LLC's regulations. The address for the entities affiliated with Maverick Capital, Ltd. is 300 Crescent Court, 18th Floor, Dallas, Texas 75201.

**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Exchange Act requires the Company's directors and executive officers, and persons who own more than ten percent of a registered class of the Company's equity securities, to file with the SEC initial reports of ownership and reports of changes in ownership of common stock and other equity securities of the Company. Officers, directors and greater than ten percent stockholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

To the Company's knowledge, based on a review of the copies of such reports furnished to the Company, the officers, directors and greater than ten percent stockholders complied with all Section 16(a) filing requirements, except for the following: Messrs. Blackey, Brown, Friedman, Petrucci, and Lawlor and Drs. Hartzler, Howe and Nelson each filed one late Form 4 on August 11, 2009 related to restricted stock unit grants on July 16, 2009. Mr. Petrucci filed one late Form 4 on January 4, 2010 related to a new option grant and the amendment of an outstanding option on December 2, 2009. Dr. Nelson filed one late Form 4 on February 12, 2010, which report included purchases of shares during February 5 through 11, 2010.

**EQUITY COMPENSATION PLAN INFORMATION**

The following table presents the equity compensation plan information as of June 30, 2010:

Number of securities to be issued upon exercise of outstanding options,	Weighted-average exercise price of outstanding options,	Number of securities remaining available for future issuance under equity compensation plans (excluding
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	<b>warrants, and rights (a)</b>	<b>warrants and rights (b)</b>	<b>securities reflected in column (a) (c)</b>
Equity compensation plans approved by security holders	3,311,703	\$ 10.53	271,011 <sup>(1)</sup>
Equity compensation plans not approved by security holders	3,281,986 <sup>(2)</sup>	\$ 8.69	
<b>TOTAL</b>	<b>6,593,689</b>	<b>\$ 9.61</b>	<b>271,011</b>

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- (1) Includes 110,173 shares of common stock available for issuance under the Company's 2007 Equity Incentive Plan, as amended (the 2007 Plan ), and 160,838 shares of common stock available for issuance under the Company's Employee Stock Purchase Plan, as amended (the ESPP ).

The 2007 Plan includes a renewal provision whereby the number of shares shall automatically be increased on the first day of each fiscal year beginning July 1, 2008, and ending July 1, 2017, by the lesser of (i) 970,500 shares, (ii) 5% of the outstanding common shares on such date, or (iii) a lesser amount determined by the Board.

Effective on July 1, 2010 the number of shares available for grant was increased by 757,427 under the 2007 Plan's renewal provision.

The ESPP allows for an annual increase in reserved shares on July 1 equal to the lesser of (i) one percent of the outstanding common shares outstanding (ii) 180,000 shares, provided that the Board may designate a smaller amount of shares to be reserved.

Effective on July 1, 2010, 151,485 shares were added to ESPP.

- (2) Represents outstanding warrants to selling agents and investors issued in connection with financing transactions, warrants issued to former preferred stockholders in connection with the merger, and non-qualified

stock options granted to employees, directors and consultants outside of the 2007 Plan and our other equity incentive plans. For information regarding these warrants and options, refer to our consolidated financial statements for the years ended June 30, 2010 and 2009.

**FORM 10-K INFORMATION**

A COPY OF THE COMPANY'S FORM 10-K ANNUAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2010 (WITHOUT EXHIBITS), ACCOMPANIES THIS NOTICE OF MEETING AND PROXY STATEMENT. NO PART OF THE ANNUAL REPORT IS INCORPORATED HEREIN AND NO PART THEREOF IS TO BE CONSIDERED PROXY SOLICITING MATERIAL. THE COMPANY WILL FURNISH WITHOUT CHARGE TO EACH PERSON WHOSE PROXY IS BEING SOLICITED, UPON WRITTEN REQUEST OF ANY SUCH PERSON, ANY EXHIBIT DESCRIBED IN THE LIST ACCOMPANYING THE FORM 10-K, UPON THE PAYMENT, IN ADVANCE, OF REASONABLE FEES RELATED TO THE COMPANY'S FURNISHING SUCH EXHIBIT(S). REQUESTS FOR COPIES OF SUCH EXHIBIT(S) SHOULD BE DIRECTED TO CSI'S SECRETARY AT 651 CAMPUS DRIVE, ST. PAUL, MINNESOTA 55112.

**OTHER MATTERS**

The Board of Directors and management know of no other matters that will be presented for consideration at the Annual Meeting. However, since it is possible that matters of which the Board and management are not now aware may come before the meeting or any adjournment of the meeting, the proxies confer discretionary authority with respect to acting thereon, and the persons named in such properly executed proxies intend to vote, act and consent in accordance with their best judgment with respect thereto. Upon receipt of such proxies (in the form enclosed) in time for voting, the shares represented thereby will be voted as indicated thereon and in the proxy statement.

By Order of the Board of Directors

David L. Martin  
*President, Chief Executive Officer and Director*  
St. Paul, Minnesota  
October 5, 2010

**CARDIOVASCULAR SYSTEMS, INC**  
**ATTN: JAMES FLAHERTY**  
**651 CAMPUS DRIVE**  
**ST PAUL, MN 55112**

**VOTE BY INTERNET - [www.proxyvote.com](http://www.proxyvote.com)**

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

**Electronic Delivery of Future PROXY MATERIALS**

If you would like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

**VOTE BY PHONE - 1-800-690-6903**

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you call and then follow the instructions.

**VOTE BY MAIL**

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

KEEP THIS PORTION FOR YOUR RECORDS  
 DETACH AND RETURN THIS PORTION ONLY

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

	<b>For All</b>	<b>Withhold All</b>	<b>For All Except</b>	
<b>The Board of Directors recommends a vote FOR the following:</b>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	To withhold authority to vote for any individual nominee(s), mark <b>For All Except</b> and write the number(s) of the nominee(s) on the line below.

**1. Election of Directors  
Nominees**

01 Brent G. Blackey 02 John H. Friedman 03 Leslie L. Trigg

**The Board of Directors recommends a vote FOR the following proposal:**

**For    Against    Abstain**

**2** To ratify the appointment of PricewaterhouseCoopers LLP as the independent registered public accounting firm of the Company for its fiscal year ending June 30, 2011.

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**NOTE:** Proposal 1 is to elect Class II directors to hold office until the 2013 Annual Meeting of Stockholders. In their discretion, the proxies named on the front of this card are authorized to vote upon such other matters as may properly come before the Annual Meeting of Stockholders and at any adjournment or postponement thereof.

Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name, by authorized officer.

Signature [PLEASE SIGN WITHIN    Date  
BOX]

Signature (Joint    Date  
Owners)

*The Stockholder Letter, Annual Report on Form 10-K, Notice & Proxy Statement are available online at:*

<http://www.csi360proxy.com>

**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:** The Stockholder Letter, Annual Report on Form 10-K, Notice & Proxy Statement is/are available at [www.proxyvote.com](http://www.proxyvote.com).

**CARDIOVASCULAR SYSTEMS, INC**

**Annual Meeting of Stockholders**

**November 18, 2010 10:00 AM CST**

**This proxy is solicited by the Board of Directors**

The undersigned hereby appoints David L. Martin and Laurence L. Betterley, and each of them individually, as attorneys and proxies, of the undersigned, with the power to act without the other and with full power of substitution, and hereby authorizes them to represent and to vote all of the shares of stock of Cardiovascular Systems, Inc., a Delaware corporation, standing in the name of the undersigned with all the power which the undersigned would have if present at the Annual Meeting of Stockholders to be held on November 18, 2010, at 10:00 a.m. (Central Standard Time), and any adjournment or adjournments thereof, as fully and with the same force and effect as the undersigned might or could so act if personally present thereat, upon and in respect of the following matters and in accordance with the following instructions, with discretionary authority as to any and all other matters that may properly come before the meeting.

**This Proxy, when properly executed, will be voted in the manner directed herein by the undersigned stockholder. If no selection is made, this Proxy will be voted FOR Proposal Nos. 1 and 2.**

**Continued and to be signed on reverse side**