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BAXTER INTERNATIONAL INC  
Form S-4  
March 18, 2002

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON MARCH 18, 2002.  
REGISTRATION NO. 333-[\_\_\_\_\_]

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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

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FORM S-4  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933  
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BAXTER INTERNATIONAL INC.  
(Exact name of Registrant as specified in its charter)

DELAWARE	2834	36-0781620
(State or Other	(Primary Standard	
Jurisdiction of	Industrial	
Incorporation or	Classification Code	(I.R.S. Employer
Organization)	Number)	Identification No.)

-----  
BAXTER INTERNATIONAL INC.  
ONE BAXTER PARKWAY  
DEERFIELD, ILLINOIS 60015  
(847) 948-2000

(Address, Including Zip Code, and Telephone Number, Including Area Code, of  
Registrant's Principal Executive Offices)

-----  
JAN STERN REED  
CORPORATE SECRETARY AND ASSOCIATE GENERAL COUNSEL  
BAXTER INTERNATIONAL INC.  
ONE BAXTER PARKWAY  
DEERFIELD, ILLINOIS 60015  
(847) 948-2212

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code,  
of Agent for Service)

-----  
Copies to:  
James J. Lawless, Jr.,      David Saul, Esquire  
Esquire                      Michael S. Dorf, Esquire  
Dechert                      George F. Parker, Esquire  
4000 Bell Atlantic Tower      Wilson Sonsini Goodrich &  
1717 Arch Street                      Rosati  
Philadelphia, PA 19103      Professional Corporation  
One Market  
Spear Street Tower  
Suite 3300  
San Francisco, CA 94105  
-----

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon  
as practicable after consummation of the merger described herein.

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

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

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

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED (2)	PROPOSED MAXIMUM OFFERING PRICE PER SHARE	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE (3)	AMOUNT OF REGISTRATION FEE
Common Stock, par value \$1.00 per share(1)	4,212,112	N/A	\$174,222,345	\$16,030

- (1) Includes corresponding rights to purchase shares of the Registrant's Series B Junior Participating Preferred Stock pursuant to a Rights Agreement dated as of December 9, 1998 between the Registrant and EquiServe Trust Company, N.A. (successor to First Chicago Trust Company of New York), as adjusted. These rights initially are carried and traded with the Baxter common stock. The value attributable to the rights, if any, is reflected in the market price of the Baxter common stock.
- (2) Represents the number of shares of the Registrant's common stock issuable upon consummation of the merger which assumes (i) an exchange ratio of .235238767 based on a Registrant common stock price of \$42.51, the lowest closing price of the Registrant's common stock as reported by the New York Stock Exchange from March 16, 2001 through March 15, 2002, and (ii) a number of shares of Fusion Medical Technologies, Inc. common stock to be received by the Registrant in the merger of 17,835,938, the number of fully-diluted shares of Fusion common stock outstanding upon conversion or exercise of all outstanding options and warrants plus an estimated 69,750 shares of Fusion common stock to be issued under Fusion's Employee Stock Purchase Plan.
- (3) Pursuant to Rule 457(f)(1) under the Securities Act, the proposed maximum aggregate offering price of the Registrant's common stock was calculated in accordance with Rule 457(c) under the Securities Act as: (a) \$9.73, the average of the high and low prices per share of Fusion Medical Technologies, Inc. common stock on March 11, 2002 as reported on the Nasdaq National Market, multiplied by (b) 17,835,938, the number of fully-diluted shares of Fusion common stock outstanding upon conversion or exercise of all outstanding options and warrants plus an estimated 69,750 shares of Fusion common stock to be issued under Fusion's Employee Stock Purchase Plan. This amount is estimated solely for the purpose of calculating the registration fee.

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THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933, AS AMENDED, OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

[Fusion Letterhead]

\_\_\_\_\_, 2002

## Edgar Filing: BAXTER INTERNATIONAL INC - Form S-4

Dear Fusion Stockholders:

I am writing to you today about our proposed merger with a subsidiary of Baxter International Inc. Your board of directors believes that the access to Baxter's strategic, financial and technical resources offered by the merger will accelerate the growth of Fusion's business and maximize stockholder value.

If the merger is completed, each share of Fusion common stock will be converted into a fraction of a share of Baxter common stock equal to \$10.00, subject to adjustments described in the accompanying document, divided by the average closing price of one share of Baxter common stock for the ten consecutive trading days ending on and including the third trading day prior to the special meeting of Fusion stockholders. Baxter common stock is traded on The New York Stock Exchange under the trading symbol "BAX", and closed at \$[\_\_\_\_\_] per share on [\_\_\_\_\_] , 2002. We encourage you to obtain more recent quotations. The merger is described more fully in the accompanying document.

You will be asked to vote upon the merger agreement and the transactions described in the merger agreement at a special meeting of Fusion stockholders to be held on [\_\_\_\_\_] , 2002 at [\_\_\_\_\_] , local time, at Fusion's headquarters located at 34175 Ardenwood Boulevard, Fremont, CA 94555. To complete the merger, the holders of a majority of the outstanding shares of Fusion common stock must adopt and approve the merger agreement and the transactions described in the merger agreement. Only stockholders who held shares of Fusion common stock at the close of business on [\_\_\_\_\_] , 2002 will be entitled to vote at the special meeting.

We are very excited by the opportunities we envision for the combined company. YOUR BOARD OF DIRECTORS HAS CAREFULLY CONSIDERED THE TERMS AND CONDITIONS OF THE MERGER AND HAS UNANIMOUSLY DETERMINED THAT THE MERGER AGREEMENT IS ADVISABLE, AND THAT THE MERGER AGREEMENT AND THE TRANSACTIONS DESCRIBED IN THE MERGER AGREEMENT ARE FAIR TO AND IN THE BEST INTERESTS OF FUSION STOCKHOLDERS, AND UNANIMOUSLY RECOMMENDS THAT YOU VOTE TO ADOPT AND APPROVE THE MERGER AGREEMENT AND THE TRANSACTIONS DESCRIBED IN THE MERGER AGREEMENT.

The accompanying document provides detailed information about Baxter, Fusion and the merger. Please give all of this information your careful attention. IN PARTICULAR, YOU SHOULD CAREFULLY CONSIDER THE DISCUSSION IN THE SECTION ENTITLED "RISK FACTORS" BEGINNING ON PAGE 15 OF THE ACCOMPANYING DOCUMENT.

You may obtain additional information about Fusion and Baxter without charge by following the instructions in the section entitled "Where You Can Find More Information" beginning on page 57 of the accompanying document.

YOUR VOTE IS VERY IMPORTANT REGARDLESS OF THE NUMBER OF SHARES YOU OWN. To vote your shares, you may use the enclosed proxy card or attend the special meeting of stockholders described in the accompanying document. To adopt and approve the merger agreement and the transactions described in the merger agreement, you MUST vote "FOR" the proposal by following the instructions stated on the enclosed proxy card. If you do not vote at all, it will, in effect, count as a vote against the merger agreement and the merger. We urge you to vote FOR this proposal, a necessary step in the combination of Fusion and Baxter.

Sincerely,

Philip M. Sawyer  
President, Chief Executive Officer

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and Director

PLEASE DO NOT SEND YOUR STOCK CERTIFICATE(S) AT THIS TIME. IF THE MERGER IS COMPLETED, YOU WILL BE SENT INSTRUCTIONS REGARDING THE SURRENDER OF YOUR STOCK CERTIFICATE(S).

FUSION MEDICAL TECHNOLOGIES, INC.  
NOTICE OF SPECIAL MEETING OF STOCKHOLDERS  
TO BE HELD ON [\_\_\_\_], 2002

Dear Stockholder:

Notice is hereby given that a special meeting of Fusion stockholders will be held at [\_\_\_\_], local time, on [\_\_\_\_], 2002 at Fusion's headquarters located at 34175 Ardenwood Boulevard, Fremont, CA 94555 for the following purposes:

1. To consider and vote upon a proposal to adopt and approve the merger agreement by and among Baxter International Inc., HB2002 Corporation, a wholly owned subsidiary of Baxter, and Fusion and the transactions described in the merger agreement. If the merger is completed:

- . Fusion will become a wholly owned subsidiary of Baxter; and
- . each outstanding share of Fusion common stock will be converted into a fraction of a share of Baxter common stock equal to \$10.00, subject to adjustments described in the accompanying document, divided by the average closing price of one share of Baxter common stock for the ten consecutive trading days ending on and including the third trading day prior to the special meeting of Fusion stockholders; and

2. To transact such other business that may properly come before the special meeting and any adjournment or postponement of the special meeting, including, if submitted to a vote of the stockholders, a motion to adjourn the special meeting to another time or place for the purpose of soliciting additional proxies.

YOUR BOARD OF DIRECTORS HAS CAREFULLY CONSIDERED THE TERMS AND CONDITIONS OF THE MERGER AND HAS UNANIMOUSLY DETERMINED THAT THE MERGER AGREEMENT IS ADVISABLE, AND THAT THE TERMS OF THE MERGER AGREEMENT AND THE MERGER ARE FAIR TO AND IN THE BEST INTERESTS OF FUSION STOCKHOLDERS. YOUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR THE MERGER AGREEMENT AND THE TRANSACTIONS DESCRIBED IN THE MERGER AGREEMENT.

We describe the merger agreement and the merger more fully in the accompanying document, which we urge you to read.

Only Fusion stockholders of record at the close of business on [\_\_\_\_], 2002 are entitled to notice of and to vote at the special meeting or any adjournment or postponement of the special meeting.

YOUR VOTE IS IMPORTANT. TO ASSURE THAT YOUR SHARES ARE REPRESENTED AT THE SPECIAL MEETING, YOU ARE URGED TO COMPLETE, DATE AND SIGN THE ENCLOSED PROXY CARD AND MAIL IT PROMPTLY IN THE POSTAGE-PAID ENVELOPE PROVIDED, WHETHER OR NOT YOU PLAN TO ATTEND THE SPECIAL MEETING IN PERSON. YOU MAY REVOKE YOUR PROXY IN THE MANNER DESCRIBED IN THE ACCOMPANYING DOCUMENT AT ANY TIME BEFORE IT HAS BEEN VOTED AT THE SPECIAL MEETING. YOU MAY VOTE IN PERSON AT THE SPECIAL MEETING EVEN IF YOU HAVE RETURNED A PROXY CARD.

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By Order of the Board of Directors

Philip M. Sawyer  
President, Chief Executive Officer  
and Director

Fremont, California  
[\_\_\_\_], 2002

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

[LOGO]  
BAXTER INTERNATIONAL INC.

PROSPECTUS

COMMON STOCK, PAR VALUE \$1.00 PER SHARE

[LOGO]  
FUSION MEDICAL TECHNOLOGIES, INC.

PROXY STATEMENT

FOR A SPECIAL MEETING OF FUSION STOCKHOLDERS TO BE HELD ON [\_\_\_\_], 2002

This document relates to the proposed acquisition of Fusion Medical Technologies, Inc., a Delaware corporation, by Baxter International Inc., a Delaware corporation, under an Agreement and Plan of Merger and Reorganization, dated as of February 26, 2002, by and among Baxter, HB2002 Corporation, a Delaware corporation and wholly-owned subsidiary of Baxter, and Fusion. This document is being furnished to Fusion stockholders in connection with the solicitation of proxies by Fusion's board of directors for the special meeting of Fusion stockholders to be held on [\_\_\_\_], 2002 and any adjournment or postponement of this special meeting.

In the merger, each share of Fusion common stock will be converted into a fraction of a share of Baxter common stock equal to \$10.00, subject to adjustments described below, divided by the average closing price of one share of Baxter common stock for the ten consecutive trading days ending on and including the third trading day prior to the special meeting of Fusion stockholders.

At the Fusion special meeting, Fusion stockholders will vote on proposals:

- . To adopt and approve the Agreement and Plan of Merger and Reorganization, dated as of February 26, 2002, by and among Baxter, HB2002 Corporation and Fusion and the transactions described in the merger agreement; and
- . To transact such other business as may properly come before the special meeting or any adjournment thereof, including, if submitted to a vote of the stockholders, a motion to adjourn the special meeting to another time or place for the purpose of soliciting additional proxies.

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This document also constitutes the prospectus of Baxter with respect to the issuance of Baxter common stock in connection with the merger. Baxter common stock is traded on the New York Stock Exchange under the trading symbol "BAX". On [\_\_\_\_], 2002, the closing price of Baxter common stock was \$[\_\_\_\_] per share. We encourage you to obtain more recent quotations.

This document and the accompanying form of proxy are first being mailed to Fusion stockholders on or about [\_\_\_\_], 2002.

All information in this document relating to Baxter has been furnished by Baxter, and all information in this document relating to Fusion has been furnished by Fusion.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

SEE "RISK FACTORS" BEGINNING ON PAGE 15 BELOW FOR A DISCUSSION OF CERTAIN MATTERS THAT SHOULD BE CONSIDERED BY FUSION STOCKHOLDERS WITH RESPECT TO THE PROPOSED MERGER.

The date of this document is [\_\_\_\_], 2002.

REFERENCE TO ADDITIONAL INFORMATION

This document incorporates important business and financial information about Baxter and Fusion from documents that are not included in or delivered with this document. This information is available to you without charge upon your written or oral request. You can obtain documents incorporated by reference in this document by requesting them in writing or by telephone from Baxter or Fusion, as the case may be, at the following addresses and telephone numbers:

Baxter International Inc.  
Investor Relations  
One Baxter Parkway  
Deerfield, IL 60015  
(847) 948-4551

Fusion Medical Technologies, Inc.  
Investor Relations  
34175 Ardenwood Boulevard  
Fremont, CA 94555  
(510) 818-4600

If you would like to request documents, please do so by [\_\_\_\_], 2002 in order to receive them before the special meeting.

In addition, see "Where You Can Find More Information" beginning on page 57 below.

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## SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA OF FUSION

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### QUESTIONS AND ANSWERS ABOUT THE MERGER

Q: WHY IS FUSION PROPOSING THE MERGER?

A: The decision of Fusion's board of directors to recommend the merger is based upon a number of potential benefits of the merger that Fusion's board of directors believes will contribute to the success of the combined company compared to Fusion continuing to operate as an independent business. Fusion's board of directors believes that the merger is fair to, and in the best interests of, Fusion stockholders. In reaching its decision, Fusion's board of directors considered a variety of factors, including the opinion of J.P. Morgan Securities Inc., its financial advisor.

Q: WHAT WILL I RECEIVE IN THE MERGER?

A: If the transaction is completed, for each share of Fusion common stock you hold, you will be entitled to receive a fraction of a share of Baxter common stock equal to \$10.00, subject to adjustments described in the following paragraph, divided by the average closing price of one share of Baxter common stock for the ten consecutive trading days ending on and including the third trading day prior to the special meeting of Fusion stockholders. This fraction is referred to as the exchange ratio.

The exchange ratio may be adjusted in the event of certain inaccuracies in Fusion's representation in the merger agreement regarding its



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capitalization, or in the event that Fusion borrows money under new loan arrangements before the merger closes. These adjustments, if any, could result in Fusion stockholders receiving fewer shares of Baxter common stock. Assuming no such adjustments occur, the following table shows the number of Baxter shares that you would receive in the merger based upon various average market prices of Baxter common stock if you owned 100 Fusion common shares. The values shown are purely hypothetical, and the actual average market price and the corresponding number of shares of Baxter common stock that you will receive in the merger may be more or less than the range of shares shown in the table.

AVERAGE MARKET PRICE OF BAXTER COMMON STOCK	NUMBER OF BAXTER COMMON SHARES RECEIVED PER 100 FUSION COMMON SHARES
\$65.00	15
\$60.00	16
\$55.00	18
\$50.00	20
\$45.00	22
\$40.00	25
\$35.00	28

On [\_\_\_\_], 2002, the closing sale price per share of Baxter common stock on the New York Stock Exchange was \$[\_\_\_\_\_]. We encourage you to obtain more recent quotations.

You will not receive fractional shares of Baxter common stock. Instead, you will receive cash, without interest, for any fractional share of Baxter common stock you might otherwise have been entitled to receive based upon the market price of Baxter common stock. The table above does not reflect the amount of cash you will receive, if any, for any fractional share you might otherwise have been entitled to receive.

Q: WHAT WILL HAPPEN TO FUSION OPTIONS?

A: Until the closing of the merger, all vested Fusion options will continue to be exercisable in accordance with their terms. The merger agreement provides that unvested Fusion stock options will become exercisable for a period of time prior to the closing of the merger. Notice of this exercise period will be sent to each option holder. The exercise of unvested options will be contingent on the merger taking place, and the actual exercise of each unvested option will not occur until immediately prior to the closing of the merger. Fusion will adopt certain procedures that will allow for the conversion of Fusion

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options into Fusion common stock without the payment of cash by the option holder, which procedures will be described in the notice to be sent to option holders. All Fusion options, whether or not vested, will terminate upon the closing of the merger if not earlier exercised.

Q: WHAT WILL HAPPEN TO FUSION'S EMPLOYEE STOCK PURCHASE PLAN?

A: The present offering and purchase periods under the Employee Stock

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Purchase Plan will terminate on or prior to the closing date of the merger, at which time each participant's election to purchase Fusion common stock will be automatically exercised. Effective February 26, 2002, participation levels in the Employee Stock Purchase Plan were frozen at existing levels and no new plan participants may be accepted.

Q: WHAT WILL HAPPEN TO FUSION WARRANTS?

A: Warrants to purchase Fusion common stock outstanding immediately before the completion of the merger will become exercisable solely for Baxter common stock. The number of shares of Baxter common stock which may be purchased under each Fusion warrant will be equal to the number of Fusion shares that were purchasable prior to the merger multiplied by the exchange ratio. The exercise price per share will be the pre-merger exercise price divided by the exchange ratio, rounded up to the nearest whole cent.

Q: SHOULD I SEND IN MY FUSION SHARE CERTIFICATES NOW?

A: No. After we complete the transaction, Baxter will send instructions to you explaining how to exchange your Fusion share certificates for the appropriate number of shares of Baxter common stock.

Q: WHEN DO YOU EXPECT TO COMPLETE THE MERGER?

A: We expect to complete the merger in the second quarter of 2002. Because the merger is subject to various conditions, however, we cannot predict its exact date of completion.

Q: WILL THE MERGER BE TAXABLE TO ME?

A: The merger is intended and expected to constitute, or to be part of a series of transactions that together constitute, a "reorganization" for U.S. federal income tax purposes. If the merger constitutes or is part of a series of transactions that together constitute a reorganization, Fusion stockholders generally will not recognize any gain or loss for U.S. federal income tax purposes on the exchange of their Fusion shares for shares of Baxter common stock in the merger, except for any gain recognized in connection with any cash received for a fractional Baxter share.

You should read "The Merger--Material U.S. Federal Income Tax Consequences" beginning on page 33 for a more complete discussion of the federal income tax consequences of the merger. Tax matters can be complicated and the tax consequences of the merger to you will depend on your particular tax situation. You should consult your tax advisor to fully understand the tax consequences of the merger to you.

Q: DOES FUSION'S BOARD OF DIRECTORS RECOMMEND THE ADOPTION AND APPROVAL OF THE MERGER AGREEMENT AND THE TRANSACTIONS DESCRIBED IN THE MERGER AGREEMENT?

A: Yes. The board of directors of Fusion unanimously recommends the adoption and approval of the merger agreement and the transactions described in the merger agreement.

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Q: WHAT VOTE OF FUSION STOCKHOLDERS IS REQUIRED TO ADOPT AND APPROVE THE MERGER AGREEMENT AND THE TRANSACTIONS DESCRIBED IN THE MERGER AGREEMENT?

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- A: For Fusion to complete the merger, Fusion stockholders holding at least a majority of the outstanding shares of Fusion common stock must vote to adopt and approve the merger agreement and the transactions described in the merger agreement. If you do not vote your Fusion shares, the effect will be a vote against the merger.
- Q: HOW DO I VOTE?
- A: Following your review of this document, mail your signed proxy card in the enclosed return envelope as soon as possible so that your shares are represented at the special meeting. You also may attend the meeting in person instead of submitting a proxy.
- Q: IF MY SHARES ARE HELD IN "STREET NAME" BY MY BROKER, WILL MY BROKER VOTE MY SHARES FOR ME?
- A: If your shares are held in "street name" by your broker, your broker will vote your shares only if you provide instructions on how to vote. You should follow the directions provided by your broker regarding how to instruct your broker to vote your shares. If you do not instruct your broker how to vote your shares, your shares will be counted present at the special meeting for purposes of determining whether a quorum is present, but will not be voted, which will have the effect of voting against the merger.
- Q: CAN I CHANGE MY VOTE AFTER MAILING MY PROXY?
- A: Yes. You may change your vote by delivering a signed notice of revocation or a later-dated, signed proxy card to Fusion's Corporate Secretary at Fusion's executive offices up to the last business day before the special meeting, or to the chairman of the special meeting on the day of the special meeting. You also may change your vote by attending the special meeting and voting in person.
- Q: WHAT HAPPENS IF I DO NOT INDICATE HOW TO VOTE MY PROXY?
- A: If you do not include instructions on how to vote your properly executed and delivered proxy card, your shares will be voted FOR the adoption and approval of the merger agreement and the transactions described in the merger agreement.
- Q: WHAT HAPPENS IF I DO NOT RETURN A PROXY CARD?
- A: Not returning your proxy card will have the same effect as voting against the adoption and approval of the merger agreement and the transactions described in the merger agreement.
- Q: AM I ENTITLED TO APPRAISAL RIGHTS?
- A: No. Under applicable law, you are not entitled to appraisal rights in connection with the merger.
- Q: ARE THERE ANY RISKS I SHOULD CONSIDER IN DECIDING WHETHER TO VOTE FOR THE MERGER?
- A: Yes. We have set out under the heading "Risk Factors" beginning on page 15 of this document a number of risk factors that you should consider.
- Q: WHO CAN I CALL WITH QUESTIONS?
- A: If you have any questions about the transaction, please call Fusion

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Medical Technologies, Inc. Investor Relations at (510) 818-4610 or write to Fusion Medical Technologies, Inc. Investor Relations, 34175 Ardenwood Boulevard, Fremont, CA 94555.

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### SUMMARY

The following summary highlights selected information from this document and may not contain all of the information that is important to you. You should carefully read this entire document, including the annexes, and the other documents we refer to for a more complete understanding of the merger. In addition, Baxter and Fusion incorporate by reference into this document important business and financial information about Baxter and Fusion. You may obtain the information incorporated by reference into this document without charge by following the instructions in the section entitled "Where You Can Find More Information" beginning on page 57 of this document. References in this document to "Fusion" mean Fusion Medical Technologies, Inc., a Delaware corporation, and its subsidiaries. References in this document to "Baxter" mean Baxter International Inc., a Delaware corporation, and its subsidiaries. When we refer to "we", "us" or "our", we mean Baxter International Inc. and its subsidiaries. When we refer to the "combined company", we mean Baxter and Fusion following completion of the merger.

### THE COMPANIES

BAXTER INTERNATIONAL INC.  
One Baxter Parkway  
Deerfield, Illinois 60015  
(847) 948-2000

Baxter engages in the worldwide development, manufacture and distribution of a diversified line of products, systems and services used primarily in the health care field. We manufacture products in 28 countries and sell them in over 100 countries. Health care is concerned with the preservation of health and with the diagnosis, cure, mitigation and treatment of disease and body defects and deficiencies. Our products are used by hospitals, clinical and medical research laboratories, blood and blood dialysis centers, rehabilitation centers, nursing homes, doctors' offices and by patients, at home, under physician supervision.

We operate as a global leader in critical therapies for life-threatening conditions. Our continuing operations are comprised of three segments:

- . Medication Delivery, which provides a range of intravenous solutions and specialty products that are used in combination for fluid replenishment, nutrition therapy, pain management, antibiotic therapy and chemotherapy;
- . BioScience, which develops biopharmaceuticals, biosurgery products, vaccines and blood collection, processing and storage products and technologies; and
- . Renal, which develops products and provides services to treat end-stage kidney disease.

Our three businesses enjoy leading positions in the medical products and services fields.

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FUSION MEDICAL TECHNOLOGIES, INC.  
34175 Ardenwood Boulevard  
Fremont, California 94555  
(510) 818-4600

Fusion develops, manufactures and markets proprietary surgical hemostatic sealant products. Hemostatic products are used to stop bleeding during surgical procedures. Bleeding must be controlled to ensure surgical wounds are effectively closed and to avoid serious or possibly life-threatening complications, including blood loss, tissue damage, infection and excessive scarring.

Fusion's current commercial product is FloSeal(R) Metrix Hemostatic Sealant. FloSeal combines a collagen-derived gelatin with thrombin, a potent clotting agent. Fusion believes the innovative physical structure of FloSeal provides performance advantages over existing surgical hemostatic products. Fusion's advantages include:

- . fast and effective bleeding control;
- . easy on-site preparation;

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- . ease of use;
- . total absorption of FloSeal by the body within six to eight weeks; and
- . shortening of time to stop bleeding, potentially resulting in cost savings to hospitals and doctors.

### THE SPECIAL MEETING OF FUSION STOCKHOLDERS (SEE PAGE 18)

Date, time and place. The special meeting will be held on [\_\_\_\_], 2002 at [\_\_\_\_], local time, at Fusion's headquarters located at 34175 Ardenwood Boulevard, Fremont, CA 94555.

Matters to be considered at the special meeting. At the special meeting and any adjournment or postponement of the special meeting, Fusion stockholders will be asked to adopt and approve the merger agreement and the transactions described in the merger agreement and to transact such other business as may be properly brought before the special meeting.

Record date. Fusion's board of directors has fixed the close of business on [\_\_\_\_], 2002 as the record date for determination of Fusion stockholders entitled to notice of, and to vote at, the special meeting. As of the record date, there were [\_\_\_\_] shares of Fusion common stock outstanding.

Voting and revocability of proxies. Fusion stockholders should complete, date and sign the accompanying proxy card and promptly return it in the pre-addressed accompanying envelope. Brokers holding shares in "street name" may vote the shares only if the stockholder provides instructions on how to vote. Brokers will provide stockholders with directions on how to instruct the broker to vote the shares. All properly executed proxies that Fusion receives prior to the vote at the special meeting, and that are not revoked, will be voted in accordance with the instructions indicated on the proxies. If no direction is indicated on a properly executed proxy returned to Fusion, the underlying shares will be voted FOR the merger.

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If any other matters are properly presented for consideration at the special meeting, or any adjournments or postponements of the special meeting, the persons named in the enclosed form of proxy and voting thereunder will have the discretion to vote on such matters in accordance with their judgment. Fusion's board of directors currently does not intend to bring any other business before the special meeting.

A stockholder may revoke its proxy at any time prior to use by delivering to the corporate secretary of Fusion a signed notice of revocation or a later-dated, signed proxy. In addition, a stockholder may revoke its proxy by delivering to the chairman of the special meeting, on the day of the special meeting, a signed notice of revocation or a later-dated, signed proxy. A stockholder also may revoke such stockholder's proxy by attending the special meeting and voting in person. Attendance at the special meeting does not in itself constitute the revocation of a proxy.

Vote required. The adoption and approval of the merger agreement and the transactions described in the merger agreement will require the affirmative vote of the holders of a majority of the outstanding shares of Fusion common stock.

As of the record date, Fusion's officers and directors and their affiliates held approximately [\_\_\_\_\_] % of the shares eligible to vote at the special meeting.

Voting Agreements. All of Fusion's executive officers (other than one officer who has given notice of his intention to terminate his employment) and directors as of the date of the merger agreement and their affiliates, who hold an aggregate of approximately 23.2% of Fusion's outstanding common stock as of the date of the merger agreement, have entered into voting agreements pursuant to which each of these stockholders has agreed to vote in favor of the adoption and approval of the merger agreement, the transactions described in the merger agreement and certain other matters. In addition, under the voting agreements, each of these stockholders has granted Baxter proxies to vote such stockholders' shares of Fusion common stock with respect to the adoption and approval of the merger agreement, the transactions described in the merger agreement and certain other matters. The full text of the form of voting agreement is included in this document as Annex B.

Solicitation of proxies and expenses. In addition to solicitation by mail, the directors, officers and employees of Fusion may solicit proxies from Fusion's stockholders by telephone, internet, facsimile, other electronic means or in person. Brokerage houses, nominees, fiduciaries and other custodians will be requested to

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forward soliciting materials to beneficial owners and will be reimbursed for their reasonable expenses incurred in sending proxy materials to beneficial owners.

THE MERGER (SEE PAGE 20)

Structure of the Merger. This document relates to the proposed acquisition of Fusion by Baxter pursuant to an Agreement and Plan of Merger and Reorganization, dated as of February 26, 2002, by and among Baxter, HB2002 Corporation, a wholly-owned subsidiary of Baxter, and Fusion. If the merger is completed, HB2002 will be merged with and into Fusion, as a result of which the separate corporate existence of HB2002 shall cease and Fusion shall continue as a wholly-owned subsidiary of Baxter.

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Consideration. At the closing of the merger, Fusion stockholders will receive, for each share of Fusion common stock they hold, the right to receive a fraction of a share of Baxter common stock equal to \$10.00, subject to adjustments described below, divided by the average closing price of one share of Baxter common stock for the ten consecutive trading days ending on and including the third trading day prior to the special meeting of Fusion stockholders. This fraction is referred to as the exchange ratio. The exchange ratio may be adjusted in the event of certain inaccuracies in Fusion's representation in the merger agreement regarding its capitalization, or in the event that Fusion borrows money under new loan arrangements before the merger closes. These adjustments, if any, may result in Fusion stockholders receiving fewer Baxter shares than they otherwise would. Fusion stockholders will receive a cash payment in lieu of any fractional shares of Baxter common stock to which they would otherwise be entitled.

Based on the number of fully-diluted shares of Fusion common stock outstanding on February 26, 2002 and assuming, for purposes of calculating the exchange ratio, that the ten consecutive trading day average closing price of Baxter's common stock is equal to its [\_\_\_\_], 2002 closing price, and that no adjustments are made to the \$10.00 per share price of Fusion common stock, Baxter would issue approximately [\_\_\_\_] shares in the merger, representing [\_\_\_\_]% of Baxter's outstanding common shares on [\_\_\_\_], 2002.

Options. Until the closing of the merger, all vested Fusion options will continue to be exercisable in accordance with their terms. The merger agreement provides that unvested Fusion stock options will become exercisable for a period of time prior to the closing of the merger. Notice of this exercise period will be sent to each option holder. The exercise of unvested options will be contingent on the merger taking place, and the actual exercise of each unvested option will not occur until immediately prior to the closing of the merger. Fusion will adopt certain procedures that will allow for the conversion of Fusion options into Fusion common stock without the payment of cash by the option holder, which procedures will be described in the notice to be sent to option holders. All Fusion options, whether or not vested, will terminate upon the closing of the merger if not earlier exercised.

Employee Stock Purchase Plan. Upon the earlier to occur of:

- . May 31, 2002 (the last day of the current offering and purchase period under Fusion's Employee Stock Purchase Plan); and
- . the last day of a regular payroll period of Fusion ending prior to the closing of the merger,

all offering and purchase periods in progress under Fusion's Employee Stock Purchase Plan will terminate and each participant's election to purchase Fusion stock will be automatically exercised. Effective as of the date of the merger agreement:

- . no new offering or purchase periods may commence;
- . existing participation levels in the Employee Stock Purchase Plan have been frozen; and

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- . Fusion is prohibited from accepting new participants.

Warrants. Upon the closing of the merger, Baxter will assume each

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outstanding warrant to purchase Fusion common stock in accordance with each warrant's terms. From and after the closing of the merger, warrants to purchase Fusion common stock will be exercisable solely for Baxter common stock. The number of Baxter shares subject to each warrant will equal the number of shares of Fusion common stock for which the warrant was exercisable prior to the closing of the merger multiplied by the exchange ratio, rounded down to the nearest whole share. Cash will be paid for any fractional shares. The exercise price of each warrant will equal the exercise price immediately prior to the closing of the merger divided by the exchange ratio, rounded up to the nearest whole cent. All restrictions on the exercise of any warrant immediately prior to the closing will continue in full force and effect and, except as described above, the term, exercisability and other provisions of each warrant will remain unchanged.

Interim Financing. Baxter and Fusion have agreed to use commercially reasonable efforts to negotiate agreements by March 28, 2002 that would require Baxter to loan funds to Fusion under certain circumstances. Fusion will use commercially reasonable efforts to secure an additional \$1,000,000 in financing from its existing lender on terms substantially similar to Fusion's existing loan agreement with its existing lender. If Fusion cannot obtain this new financing by March 28, 2002, or if this new financing is insufficient to fund Fusion's working capital needs, Baxter will loan Fusion the lesser of:

- . \$1,500,000; and
- . the difference between \$1,500,000 and the amount of any new financing that Fusion obtains from its existing lender.

As discussed under "The Merger Agreement and Related Agreements--Conversion of Shares" beginning on page 36 below, if Fusion borrows money under new loan arrangements, it will impact the exchange ratio and have the effect of reducing the consideration that would otherwise be payable to Fusion stockholders.

Closing. Baxter and Fusion intend to close the merger as soon as practicable after the adoption and approval of the merger by Fusion's stockholders and after all other conditions to the merger have been satisfied or waived. At present, Baxter and Fusion anticipate that the closing will occur promptly following the special meeting of Fusion stockholders.

Recommendation of Fusion's Board of Directors. Fusion's board of directors has unanimously determined that the merger agreement is advisable, and that the terms of the merger agreement and the transactions described in the merger agreement are fair to, and in the best interests of, Fusion stockholders. Fusion's board of directors unanimously recommends that Fusion stockholders adopt and approve the merger agreement and the transactions described in the merger agreement.

Opinion of Fusion's Financial Advisor. Fusion requested that J.P. Morgan Securities Inc. evaluate the fairness, from a financial point of view, of the exchange ratio in the merger to the holders of Fusion common stock. On February 26, 2002, JPMorgan delivered its oral opinion, subsequently confirmed in writing, to Fusion's board of directors to the effect that, as of such date and based upon and subject to certain matters stated in its opinion, the exchange ratio in the merger was fair, from a financial point of view, to the holders of Fusion common stock.

The full text of the JPMorgan fairness opinion, which sets forth the assumptions made, factors considered and limitations upon the review undertaken by JPMorgan in rendering its opinion, is included in this document as Annex C. Fusion stockholders are urged to read this opinion in its entirety. JPMorgan's written opinion was addressed to Fusion's board of directors, was directed only



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to the fairness, from a financial point of view, of the exchange ratio in the merger to the holders of Fusion common stock and does not constitute a recommendation to any Fusion stockholder as to how such stockholder should vote on the merger or any other matter.

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Approval by Baxter. Baxter, as the sole stockholder of HB2002 Corporation, and the boards of directors of Baxter and HB2002 have approved the merger agreement and the transactions described in the merger agreement. No other corporate approvals are required for Baxter to consummate the merger.

Termination of the Merger Agreement. Fusion and Baxter each have the right to terminate the merger agreement under certain circumstances. In certain cases, termination of the merger agreement will require payment of a termination fee by Fusion to Baxter.

A COPY OF THE MERGER AGREEMENT IS ATTACHED AS ANNEX A TO THIS DOCUMENT. YOU ARE STRONGLY ENCOURAGED TO READ IT IN ITS ENTIRETY.

INTERESTS OF DIRECTORS AND OFFICERS OF FUSION IN THE MERGER (SEE PAGE 31)

In considering the recommendations of Fusion's board of directors, you should be aware that certain directors of, and members of management of, Fusion may have interests in the merger that differ from, or are in addition to, those of Fusion stockholders generally, which may influence their decision to support or recommend the merger. Fusion's board of directors knew about these interests and considered them in approving the merger agreement and the transactions described in the merger agreement.

MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER (SEE PAGE 33)

The merger is intended and expected to constitute, or to be part of a series of transactions that together constitute, a "reorganization" for U.S. federal income tax purposes. If the merger constitutes, or is part of a series of transactions that together constitute, a reorganization, Fusion stockholders generally will not recognize any gain or loss for U.S. federal income tax purposes on the exchange of their Fusion shares for shares of Baxter common stock in the merger, except for any gain recognized in connection with any cash received for a fractional Baxter share.

Baxter and Fusion will not be required to complete the merger unless they receive legal opinions from their respective tax counsel to the effect that the merger will constitute, or be a part of a series of transactions that together constitute, a reorganization for United States federal income tax purposes.

You should read "The Merger--Material U.S. Federal Income Tax Consequences" beginning on page 33 for a more complete discussion of the federal income tax consequences of the merger. Tax matters can be complicated and the tax consequences of the merger to you will depend on your particular tax situation. You should consult your tax advisor to fully understand the tax consequences of the merger to you.

ACCOUNTING TREATMENT OF THE MERGER (SEE PAGE 35)

Baxter will account for the merger using the purchase method of accounting, as defined by Statement of Financial Accounting Standards No. 141, "Business Combinations". Accordingly, the aggregate purchase price will be allocated to the net assets acquired based on estimates of their fair values at

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the date of the acquisition. The excess of the purchase price over the fair values of the tangible assets and identifiable intangible assets acquired and liabilities assumed will be allocated to goodwill.

### APPRAISAL RIGHTS

Neither Baxter nor Fusion stockholders will have appraisal rights with respect to the merger.

### THE EXCHANGE AGENT

EquiServe Trust Company, N.A. will act as the Exchange Agent in connection with the merger.

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### REGULATORY FILINGS AND APPROVALS REQUIRED TO COMPLETE THE MERGER (SEE PAGE 35)

The merger is subject to discretionary review by the Antitrust Division of the United States Department of Justice and the Federal Trade Commission to determine whether it is in compliance with applicable antitrust laws. At any time before or after the completion of the merger, either the Antitrust Division or the FTC could take any action under U.S. antitrust laws as it deems necessary or desirable in the public interest, including seeking to enjoin the completion of the merger or seeking the divestiture of substantial assets of Baxter or Fusion. Private parties and state attorneys general also may bring actions under U.S. antitrust laws depending on the circumstances. The completion of the merger also is subject to the continued effectiveness of the registration statement of which this document is a part, and compliance with applicable laws of Delaware.

### LISTING ON THE NEW YORK STOCK EXCHANGE OF BAXTER COMMON STOCK TO BE ISSUED IN THE MERGER (SEE PAGE 35)

It is a condition to the closing of the merger that the shares of Baxter common stock issuable in connection with the merger be listed on the New York Stock Exchange prior to the closing of the merger.

### COMPARATIVE PER SHARE DATA

The following summary presents selected comparative unaudited per share data for Baxter and Fusion on a historical and equivalent per share basis. The information listed below should be read in conjunction with the historical financial data and statements of each of Fusion and Baxter, which are incorporated herein by reference.

The per share data set forth below are presented for comparative purposes only and are not necessarily indicative of the future combined financial position, the results of operations or the actual results or combined financial position of Fusion and Baxter that would have been achieved had the merger been completed as of the date or at the beginning of the period indicated. Pro forma amounts have been omitted because the effects of the merger on Baxter's earnings from continuing operations and book value are not significant.

FUSION  
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YEAR ENDED  
DECEMBER 31, 2001  
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Per Share Amounts:	
Loss from continuing operations	(\$1.02)
Cash dividends	-/(1)/
Book value	\$0.70

	YEAR ENDED DECEMBER 31, 2001 -----	
BAXTER -----	FUSION BAXTER COMMON COMMON STOCK STOCK EQUIVALENT -----	
Per Share Amounts:		
Basic earnings from continuing operations	\$1.04	\$0.19/(2)/
Diluted earnings from continuing operations	\$1.00	\$0.18/(2)/
Cash dividends	\$0.582	\$0.11/(2)/
Book value	\$6.27	\$1.13/(2)/

- 
- (1) Fusion has never paid cash dividends on shares of its common stock.
  - (2) Baxter amounts multiplied by the implied exchange ratio of 0.181, calculated by dividing \$10.00, the price per share of Fusion common stock set forth in the merger agreement, by \$55.40, the average closing price per share of Baxter common stock for the ten consecutive trading days ending on March 14, 2002.

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RECENT CLOSING PRICES

The following table sets forth the per share closing prices of Baxter common stock ("BAX"), as reported on the New York Stock Exchange, and of Fusion common stock ("FSON"), as reported on the Nasdaq National Market, on (i) February 26, 2002, the last trading day preceding public announcement of the merger, and (ii) [\_\_\_\_], 2002, the last trading day prior to the date of printing of this document.

	BAXTER COMMON STOCK	FUSION COMMON STOCK
CLOSING PRICE AT: -----	-----	-----
February 26, 2002.....	\$54.50	\$8.30
[____], 2002.....	\$[_____]	\$[_____]

Because the market price of Baxter common stock fluctuates, the number of shares of Baxter common stock that Fusion stockholders will receive in the merger may increase or decrease prior to the merger. Fusion stockholders are urged to obtain current market quotations for Baxter common stock and Fusion common stock. We cannot assure you as to the future prices or markets for Baxter common stock or Fusion common stock.

DIVIDEND POLICY

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Baxter. Baxter has an annual dividend payout schedule. For the year ended December 31, 2001, Baxter paid a dividend of \$0.582 per share.

Fusion. Fusion has never paid dividends on shares of Fusion common stock.

### RISK FACTORS

In evaluating the merger and transactions contemplated in connection with the merger, you should consider the risks discussed under the heading "Risk Factors" beginning on page 15.

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### SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA OF BAXTER INTERNATIONAL INC.

The following selected historical consolidated financial data should be read in conjunction with Baxter's consolidated financial statements and related notes which are incorporated by reference in this document. The consolidated income statement information for each of the three years ended December 31, 2001, 2000 and 1999 and the consolidated balance sheet data as of December 31, 2001 and 2000, are derived from the consolidated financial statements of Baxter which have been audited by PricewaterhouseCoopers LLP, independent accountants, and are incorporated by reference in this document.

	AS OF OR FOR THE YEAR ENDED				
	2001/1/	2000/2,3/	1999	1998/4/	1997/5/
	(IN MILLIONS, EXCEPT PER SHARE DATA)				
<b>OPERATIONS</b>					
Net sales.....	\$ 7,663	\$6,896	\$6,380	\$5,706	\$5,259
Income from continuing operations before cumulative effect of accounting change.....	664	738	779	275	371
Depreciation and amortization.....	441	405	372	344	318
Research and development expenses/6/.....	427	379	332	323	339
<b>COMMON SHARE INFORMATION/7/</b>					
Average number of common shares outstanding/8/.....	590	585	579	567	555
Income from continuing operations before cumulative effect of accounting change per share:					
Basic.....	\$ 1.13	\$ 1.26	\$ 1.34	\$ 0.49	\$ 0.67
Diluted.....	1.09	1.24	1.32	0.48	0.66
Cash dividends declared per common share.....	0.582	0.582	0.582	0.582	0.569
<b>CAPITAL EMPLOYED</b>					
Capital expenditures.....	\$ 787	\$ 648	\$ 631	\$ 556	\$ 454
Total assets.....	10,343	8,733	9,644	9,873	8,511
Long-term debt and lease obligations.....	2,486	1,726	2,601	3,096	2,635

- 
- /1/ Income from continuing operations includes charges for in-process research and development and acquisition-related costs of \$280 million and costs relating to Baxter's A, AF and AX series dialyzers of \$189 million.
- /2/ Certain balance sheet and other data are affected by the spin-off of Edwards Lifesciences Corporation in 2000.
- /3/ Income from continuing operations includes a charge for in-process research and development and acquisition-related costs of \$286 million.
- /4/ Income from continuing operations includes charges for in-process

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- research and development, net litigation, and exit and other reorganization costs of \$116 million, \$178 million and \$122 million, respectively.
- /5/ Income from continuing operations includes a charge for in-process research and development of \$220 million.
  - /6/ Excludes charges for in-process research and development, as noted above.
  - /7/ All share and per share data have been restated for Baxter's two-for-one stock split, which was effective May 30, 2001.
  - /8/ Excludes common stock equivalents.

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### SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA OF FUSION MEDICAL TECHNOLOGIES, INC.

The following selected historical consolidated financial data should be read in conjunction with Fusion's consolidated financial statements and related notes which are incorporated by reference in this document. The consolidated income statement information for each of the three years ended December 31, 2001, 2000 and 1999 and the consolidated balance sheet data as of December 31, 2001 and 2000, are derived from the consolidated financial statements of Fusion, which have been audited by PricewaterhouseCoopers LLP, independent accountants, and are incorporated by reference in this document.

	YEAR ENDED DECEMBER 31			
	2001	2000	1999	1998
	(IN THOUSANDS, EXCEPT PER SHARE DATA)			
<b>STATEMENTS OF OPERATIONS DATA:</b>				
Net sales	\$ 12,494	\$ 4,949	\$ 254	\$ -
Cost of sales and manufacturing start-up costs	8,595	5,235	731	-
Gross profit (loss)	3,899	(286)	(477)	-
<b>Operating expenses:</b>				
Research and development	5,987	6,013	5,095	6,145
Sales and marketing	7,987	5,244	1,441	614
General and administrative	3,769	3,007	1,799	1,470
Total operating expenses	17,743	14,264	8,335	8,229
Loss from operations	(13,844)	(14,550)	(8,812)	(8,229)
Interest income, net	173	836	487	542
Net loss	(\$ 13,671)	(\$ 13,714)	(\$ 8,325)	(\$ 7,687)
Basic and diluted net loss per share	\$ (1.02)	\$ (1.28)	\$ (0.96)	\$ (1.08)
Shares used in computing basic and diluted net loss per share	13,355	10,728	8,707	7,145
<b>BALANCE SHEET DATA:</b>				
Cash, cash equivalents and available-for-sale securities	\$ 3,557	\$ 8,157	\$ 12,978	\$ 7,164
Working capital	3,661	8,261	11,550	6,242

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Total assets	14,535	17,709	16,216	8,088
Long term debt, including current portion	752	1,031	204	321
Accumulated deficit	(64,942)	(51,271)	(37,557)	(29,232)
Total stockholder's equity	9,874	14,821	14,786	6,827

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### RISK FACTORS

By voting in favor of the merger, Fusion stockholders will be choosing to invest in Baxter common stock. In addition to the other information contained in or incorporated by reference into this document, you should carefully consider the following risk factors in deciding whether to vote for the merger. If any of the following risks actually occur, the business and prospects of Fusion or Baxter may be seriously harmed. In such case, the trading price of Baxter common stock may decline, and you may lose all or part of your investment.

THE MARKET VALUE OF BAXTER COMMON STOCK ON THE DAY THE MERGER IS COMPLETED MAY VARY FROM THE AVERAGE CLOSING PRICE OF BAXTER COMMON STOCK USED TO CALCULATE THE CONSIDERATION TO BE RECEIVED BY FUSION STOCKHOLDERS IN THE MERGER.

Under the merger agreement, each share of Fusion common stock will be exchanged for a fraction of a share of Baxter common stock equal to \$10.00, subject to adjustments described in the next risk factor, divided by the average closing price of one share of Baxter common stock for the ten consecutive trading days ending on and including the third trading day prior to the special meeting of Fusion stockholders. This means that if the market price of Baxter common stock increases between the signing of the merger agreement and the date that the exchange ratio is determined, Fusion stockholders will receive fewer shares of Baxter common stock upon completion of the merger than they would have received if the exchange ratio had been fixed prior to the increases in Baxter's common stock price, and the value of the consideration receivable by Fusion stockholders will not increase. Once the exchange ratio for shares of Baxter common stock is determined, it will be a fixed value that will not be adjusted for any increase or decrease in the market price of Baxter common stock and the value of the Baxter common stock to be received by Fusion stockholders in the merger will fluctuate with changes in the Baxter common stock price. The market value of Baxter common stock on the day the merger is completed may vary from the average closing price of Baxter common stock used to calculate the merger consideration. The merger may not be completed immediately following the special meeting of Fusion stockholders, if at all, if all regulatory approvals have not yet been obtained or if other closing conditions have not been satisfied or waived. As a result, the market value of the shares of Baxter common stock you receive in the merger may be more or less than the value attributed to your Fusion shares in calculating the merger consideration.

THE AGREED UPON PRICE PER SHARE OF FUSION COMMON STOCK OF \$10.00 IS SUBJECT TO CHANGE IN CERTAIN INSTANCES.

The \$10.00 price per share of Fusion common stock agreed upon by Baxter and Fusion is based upon the capitalization of Fusion described in the merger agreement. In the event that the actual capitalization differs from the capitalization described in the merger agreement, the price per share of Fusion common stock may be adjusted upwards or downwards, which could result in your receiving fewer shares of Baxter common stock in the merger. Additionally, if Fusion borrows money under new loan arrangements between the date of the merger agreement and the closing date, the price per share of Fusion common stock will

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be reduced, which will result in Fusion stockholders receiving fewer shares of Baxter common stock in the merger. The mechanics of these adjustments are described in greater detail under the heading "The Merger Agreement and Related Agreements--Conversion of Shares" beginning on page 36 below.

THE PRICE OF BAXTER COMMON STOCK MAY BE AFFECTED BY FACTORS DIFFERENT FROM THOSE AFFECTING THE PRICE OF FUSION COMMON STOCK.

Upon completion of the merger, holders of Fusion common stock will be entitled to receive Baxter common stock. Baxter's business differs from that of Fusion, and Baxter's results of operations, as well as the price of Baxter common stock, may be affected by factors different from those affecting Fusion's results of operations and the price of Fusion common stock. For a discussion of Baxter's and Fusion's businesses, see Baxter's Annual Report on Form 10-K for the fiscal year ended December 31, 2001, and Fusion's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2001, each of which are incorporated by reference in this document.

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FUSION'S OFFICERS AND DIRECTORS HAVE INTERESTS THAT MAY INFLUENCE THEM TO SUPPORT OR APPROVE THE MERGER.

In addition to owning Fusion common stock and options to purchase Fusion common stock, the directors and officers of Fusion have interests in the merger that are different from, or in addition to, yours which may influence their decision to support or recommend the merger, including the following:

- . Under the terms of their employment, certain officers of Fusion are entitled to separation benefits if their employment with Fusion is terminated for any reason other than cause;
- . Fusion has executed indemnification agreements with certain officers and directors;
- . Baxter has agreed not to amend the indemnity provisions in Fusion's restated certificate of incorporation or bylaws covering present and former Fusion officers and directors against liabilities arising out of such persons' services as officers or directors. Baxter has agreed to maintain officers' and directors' liability insurance to cover any such liabilities for six years following the closing of the merger, provided that Baxter is not required to pay more than 175% of the annual premium of Fusion's current officers' and directors' liability policy; and
- . All unvested Fusion options, including those held by Fusion's officers and directors, will become exercisable in connection with the merger.

BAXTER AND FUSION MAY NOT REALIZE ALL OF THE ANTICIPATED BENEFITS OF THE MERGER.

The success of the merger will depend, in part, on the ability of Baxter to realize certain anticipated synergies and growth opportunities from integrating the business of Fusion with the businesses of Baxter. We cannot assure you that this integration will result in the realization of the full anticipated benefits of the synergies and growth opportunities or that these benefits will be achieved within the anticipated time frame or at all.

FUSION PURCHASES KEY RAW MATERIALS FROM SINGLE SUPPLIERS WITH WHOM FUSION DOES

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NOT HAVE LONG TERM SUPPLY ARRANGEMENTS; THE MERGER COULD DISRUPT THE SUPPLY OF THESE KEY RAW MATERIALS, WHICH COULD LEAD TO DELAY IN OR SUSPENSION OF FUSION'S MANUFACTURE OF FLOSEAL.

Fusion currently purchases essential elements of FloSeal and sterilization services from single suppliers. Fusion purchases bovine hides from Spear Products and thrombin from King Pharmaceuticals, Inc. Fusion does not have long-term supply arrangements with these suppliers. We cannot assure you that these suppliers will not cancel or alter their arrangements with Fusion because of the merger. If any of these suppliers increases the prices it charges Fusion, Fusion's financial results may be adversely affected. In the event that raw materials from any of Fusion's current single-source suppliers become unavailable for any reason, Fusion will be required to identify alternative suppliers and if Fusion is unable to identify alternative suppliers, then Fusion may have to alter or suspend its manufacturing activities. Identifying and utilizing additional or replacement suppliers for any of the components in FloSeal may not be accomplished quickly, if at all, and could involve significant additional costs. In addition, regulatory approval of any new supplier of a critical component would be required if that component was no longer available from the currently specified supplier and use of components from new or replacement suppliers may require new product regulatory submissions to the United States Food and Drug Administration. The regulatory approval of a new product, a new product component or the qualification of a new supplier could delay Fusion's sales and marketing of FloSeal. Fusion's failure to obtain any of the components used to manufacture FloSeal from alternative suppliers or any delay in the regulatory approval of a new product or a new supplier could suspend the manufacture of FloSeal and would harm Fusion's business.

FAILURE TO ADOPT AND APPROVE OR COMPLETE THE MERGER COULD NEGATIVELY IMPACT FUSION'S COMMON STOCK PRICE AND FUTURE BUSINESS AND OPERATIONS.

If the merger is not completed for any reason, Fusion may be subject to a number of material risks, including the following:

- . Fusion may be unable to obtain financing, on acceptable terms or at all, sufficient to fund continuing operations;

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- . In certain circumstances, Fusion may be required to pay Baxter a termination fee of \$5,000,000;
- . The price of Fusion's shares may decline to the extent that the current market price of Fusion shares reflects a market assumption that the merger will be completed;
- . The costs related to the merger, such as legal, accounting and financial advisor fees, must be paid even if the merger is not completed;
- . Fusion's stock price may decline because of uncertainty regarding Fusion's ability to grow and gain market share as a stand-alone company, rather than as a part of a larger entity;
- . The diversion of Fusion's management's attention from Fusion's day-to-day business may make retaining its market position difficult; and



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- . If Fusion and Baxter enter into a loan agreement, Fusion will have to repay Baxter for any money Fusion borrows from Baxter, and Fusion may not have sufficient funds to satisfy this obligation.

In addition, current and prospective Fusion employees may experience uncertainty about their future roles with Baxter until Baxter's strategies with regard to Fusion are announced or executed. This may adversely affect Fusion's ability to attract and retain key management, sales, marketing and technical personnel. In addition, the announcement of the merger may adversely affect Fusion's relationships with customers, distributors, suppliers and other persons having business dealings with Fusion and may result in delays, reductions or cancellations of customer orders. Impairment of these relationships could reduce Fusion's revenues or increase its expenses, either of which could harm Fusion's financial condition and operating results.

Further, if the merger is terminated and Fusion's board of directors determines to seek another merger or business combination, there can be no assurance that it will be able to find a party willing to pay an equivalent or more attractive price than the price to be paid in the merger. In addition, while the merger agreement is in effect, Fusion is prohibited, subject to certain exceptions, from soliciting, initiating or encouraging or entering into certain extraordinary transactions, such as a merger, sale of assets or other business combination, with any party other than Baxter.

In addition to the risks discussed above, Baxter and Fusion are subject to their own specific risks, including risks relating to their respective businesses, strategies, markets and legal and regulatory environments. For a discussion of these risks, please see each of Baxter's and Fusion's reports filed under the Exchange Act and incorporated by reference into this document and the section entitled "Forward-Looking Statements" beginning on page 56 below.

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### THE SPECIAL MEETING OF FUSION STOCKHOLDERS

#### PURPOSE OF THE SPECIAL MEETING

The purpose of the special meeting of Fusion stockholders is to consider and vote upon the adoption and approval of the merger agreement and the transactions described in the merger agreement. If the merger is completed, Fusion will become a wholly-owned subsidiary of Baxter. Fusion's stockholders also will consider and vote upon such other matters, if any, as may be properly brought before the special meeting, including any motion submitted to a vote of the stockholders to adjourn or postpone the special meeting to another time and place for the purpose of soliciting additional proxies.

The board of directors of Fusion has unanimously approved the merger agreement and unanimously recommends that you vote FOR the merger agreement and the transactions described in the merger agreement. Certain members of the board of directors of Fusion may be deemed to have interests in the merger that are different from, or in addition to, those of other Fusion stockholders, which may influence their decision to support or recommend the merger. See "The Merger--Interests of Directors and Officers of Fusion in the Merger" beginning on page 31 below.

#### DATE, TIME AND PLACE OF THE SPECIAL MEETING

The special meeting of Fusion stockholders will be held on [\_\_\_\_], 2002 at [\_\_\_\_], local time, at Fusion's headquarters located at 34175 Ardenwood

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Boulevard, Fremont, CA 94555.

### RECORD DATE; VOTING RIGHTS AND OUTSTANDING SHARES

Only holders of record of Fusion common stock at the close of business on [\_\_\_\_], 2002, the record date, will be entitled to notice of, and to vote at, the special meeting. On that date, there were [\_\_\_\_] stockholders of record holding an aggregate of [\_\_\_\_] shares of Fusion common stock. Each holder of record of shares of Fusion common stock on the record date will be entitled to one vote for each share held on all matters to be voted upon at the special meeting.

### SOLICITATION OF PROXIES; EXPENSES

The cost of the solicitation of proxies from holders of shares of Fusion common stock and all related costs will be borne by Fusion. In addition, Fusion may reimburse brokerage firms and other persons representing beneficial owners of Fusion common stock for their expenses in forwarding solicitation materials to such beneficial owners. Original solicitation of proxies by mail may be supplemented by telephone, telegram or personal solicitation by directors, officers or other regular employees of Fusion. No additional compensation will be paid to directors, officers or other regular employees for such services.

### QUORUM; VOTE REQUIRED

The presence, in person or by properly executed proxy, of the holders of a majority of the issued and outstanding shares of Fusion common stock at the special meeting is necessary to constitute a quorum. The adoption and approval of the merger agreement and the transactions described in the merger agreement will require the affirmative vote of the holders of a majority of the outstanding shares of Fusion common stock. The votes cast at the special meeting will be tabulated by an inspector of elections appointed by Fusion's board of directors.

### EFFECT OF ABSTENTIONS AND BROKER NON-VOTES

If an executed proxy is returned and the stockholder has specifically abstained from voting on the merger agreement and the merger, the shares represented by such proxy will be considered present at the special meeting for purposes of determining a quorum and will be counted as votes against the adoption and approval of the merger agreement. Brokerage firms who hold shares in street name for customers will not have the authority to vote shares of Fusion's common stock with respect to the merger if they have not received instructions from the beneficial owners of such shares. If a broker fails to vote shares of Fusion's common stock because the

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broker has not received instructions from the beneficial owner (a "broker non-vote"), such shares will be considered present at the special meeting for purposes of determining a quorum and will be counted as votes against the adoption and approval of the merger agreement.

### VOTING AND REVOCABILITY OF PROXIES

All shares of Fusion's common stock that are represented at the special meeting, either in person or by properly executed proxies received prior to or at the special meeting and not duly and timely revoked, will be voted at the special meeting in accordance with the instructions indicated on such proxies. If no such instructions are indicated, such proxies will be voted FOR the

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adoption and approval of the merger. Shares represented at the special meeting by proxies FOR the merger agreement will be voted FOR any motion to adjourn or postpone the special meeting to permit further solicitation of proxies.

If any other matters are properly presented for consideration at the special meeting, or any adjournments or postponements of the special meeting, the persons named in the enclosed form of proxy and voting thereunder will have the discretion to vote on such matters in accordance with their judgment.

Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time before it is voted. Proxies may be revoked by:

- . duly executing and delivering a written notice of revocation to Fusion's Corporate Secretary up to the last business day before the special meeting, or to the chairman of the special meeting on the day of the special meeting;
- . duly executing a later-dated proxy relating to the same shares and delivering it to Fusion's Corporate Secretary up to the last business day before the special meeting, or to the chairman of the special meeting on the day of the special meeting; or
- . attending the special meeting and voting in person (although attendance at the special meeting will not in and of itself constitute revocation of a proxy).

Any written notice of revocation or subsequent proxy delivered to Fusion's Corporate Secretary should be sent so as to be delivered to Fusion at Fusion Medical Technologies, Inc., 34175 Ardenwood Boulevard, Fremont, CA 94555, Attention Corporate Secretary, at or before the taking of the vote at the special meeting.

Fusion's stockholders should not send any certificates representing shares of Fusion's common stock with the enclosed proxy card. If the merger is consummated, a letter of transmittal will be mailed to each person who was a holder of outstanding shares of Fusion's common stock immediately prior to the consummation of the merger. Fusion's stockholders should send certificates representing shares of Fusion's common stock to the exchange agent only after they receive, and in accordance with the instructions contained in, the letter of transmittal.

### STOCK OWNERSHIP BY MANAGEMENT

Fusion's directors and executive officers and their respective affiliates beneficially owned, as of the record date, an aggregate of [\_\_\_\_\_] shares of Fusion's common stock, representing beneficial ownership of approximately [\_\_\_\_\_] % of Fusion's common stock on a fully diluted basis on such date.

### VOTING AGREEMENTS

All of Fusion's executive officers (other than one officer who has given notice of his intention to terminate his employment) and directors as of the date of the merger agreement and their affiliates, who hold an aggregate of approximately 23.2% of Fusion's outstanding common stock as of the date of the merger agreement, have entered into voting agreements pursuant to which each of these stockholders has agreed to vote in favor of the adoption and approval of the merger agreement, the transactions described in the merger agreement and certain other matters. In addition, under the voting agreements, each of these stockholders has granted Baxter proxies to vote such stockholder's shares of Fusion common stock with respect to the adoption and approval of the merger agreement, the transactions described in the merger agreement and certain other matters. The full text of the form of voting agreement is included in this

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document as Annex B.

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### THE MERGER

This section of the document describes the proposed merger. While we believe that the description covers the material terms of the merger and the related transactions, this summary may not contain all of the information that is important to you. You should carefully read this entire document, including the annexes, and the other documents we refer to for a more complete understanding of the merger.

### BACKGROUND OF THE MERGER

From time to time, Fusion has participated in discussions with other companies about possible joint venture partnership, distribution, supply and development arrangements, as well as other strategic transactions.

On January 3, 2001, Cary Reich, Ph.D., the Vice President of the Research & Development Group of Fusion, telephoned Thomas Glanzman, the President of Baxter's BioScience division, to express Fusion's interest in discussing the use of Baxter's human thrombin as a second source raw material for the manufacture of FloSeal.

On January 5, 2001, Lee Blumenfeld, M.D., the Director of Business Development of Baxter BioScience, called Dr. Reich to follow up on Dr. Reich's call to Mr. Glanzman.

On March 6, 2001, Fusion and Baxter entered into a non-disclosure agreement providing for Baxter's disclosure of certain confidential information to Fusion.

On March 15, 2001, Dr. Reich met with Dr. Blumenfeld, Howard Kelly, then the U.S. Vice President Sales & Marketing of Baxter BioSurgery, Arlene Vidor, the Vice President, U.S. Regulatory of Baxter BioScience, and Ray Leonard, the Manager of Global Strategic Planning of Baxter BioSurgery in Deerfield, Illinois to discuss the potential use of Baxter's human thrombin as a second source raw material for the manufacture of FloSeal. During these discussions the parties also discussed the possibility of Baxter BioScience serving as a distributor of FloSeal in one or more markets.

On April 27, 2001, Fusion and Baxter entered into a second non-disclosure agreement pursuant to which they agreed to exchange confidential information regarding their respective businesses.

On May 15, 2001, representatives of Baxter met with representatives of Fusion management at Fusion's offices in Glendale, California to review background historical information on Fusion's strategy, products and financial and operational performance.

On May 15, 2001, Dr. Reich met with Greg Bosch, the Vice President/General Manager of Baxter's BioSurgery business unit, Dr. Blumenfeld and Reiner Spaethe, M.D., the Vice President of Research and Development Clinical/Medical Affairs, Baxter BioSurgery, in Deerfield, Illinois to discuss a possible thrombin supply arrangement between Fusion and Baxter.

On May 16, 2001, the companies exchanged products for laboratory testing.

On June 19, 2001, Mr. Bosch, Dr. Blumenfeld, Philip Sawyer, the President

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and CEO of Fusion, Larry Strauss, the Vice President of Finance and Chief Financial Officer of Fusion, and Dr. Reich met at Fusion's offices in Fremont, California to continue discussions regarding the potential use of Baxter's human thrombin in FloSeal. At this meeting, representatives of Baxter introduced the concept of pursuing a number of strategic alternatives, including a possible business combination transaction with Fusion.

On June 21, 2001, Mr. Strauss telephoned a representative of Group Outcome LLC, a financial advisor with which Fusion had previously worked, and discussed Fusion's conversations with Baxter. The parties discussed the possibility of Fusion's retaining Group Outcome to advise it in a possible business combination transaction with Baxter.

On July 18, 2001, Drs. Reich and Blumenfeld and Messrs. Sawyer, Strauss and Bosch met in San Francisco, California and continued the discussions of a possible business combination transaction.

On August 17, 2001, Dr. Reich met in Glendale, California with Ms. Vidor and Allison Mueller, Project Manager Regulatory Affairs, Baxter BioScience, to discuss a regulatory and clinical approach for a human thrombin product.

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On August 27, 2001, Messrs. Sawyer and Strauss and a representative of Group Outcome participated in a conference call with Mr. Bosch and Dr. Blumenfeld to discuss the process for proceeding with a possible business combination transaction, including possible terms of such a transaction.

On September 6, 2001, Messrs. Strauss and Sawyer, Dr. Reich and a representative of Group Outcome met in Glendale, California, with Mr. Bosch, Dr. Blumenfeld and Ms. Vidor and discussed regulatory issues pertaining to Fusion's products and continued discussions regarding a possible business combination transaction.

Between late September and October 2001, representatives of Fusion and Baxter, including Messrs. Bosch, Sawyer and Strauss and Drs. Reich and Blumenfeld, continued discussions regarding a possible business combination transaction.

In October 2001, Fusion decided to contact third parties to determine their level of interest in pursuing a possible strategic transaction with Fusion. From late October 2001 through January 14, 2002, several discussions took place among representatives of Fusion, a representative of Group Outcome and several third parties. A representative of Group Outcome initiated conversations with four other potential transaction partners, and Fusion entered into non-disclosure agreements with two of these companies. However, neither of these companies proposed a bid comparable to that being discussed with Baxter.

On November 9, 2001, Fusion and Group Outcome executed an engagement letter under which Group Outcome would provide financial advisory services in connection with a possible business combination transaction.

On November 16, 2001, Group Outcome provided Baxter with guidelines for submitting a bid to enter into a business combination transaction with Fusion.

On November 28, 2001, Baxter transmitted to Fusion, care of Group Outcome, a preliminary, non-binding indication of interest for a business combination transaction with Fusion, along with a due diligence request list.

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On November 29, 2001, Mr. Bosch and a representative of Group Outcome discussed Baxter's preliminary, non-binding indication of interest.

On November 30, 2001, Fusion's board of directors held a meeting to discuss the results of Fusion's discussions with potential transaction partners and concluded that a possible business combination transaction with Baxter was the best alternative. Fusion's board of directors authorized management to continue discussions with Baxter.

Also on November 30, 2001, Group Outcome transmitted to Baxter Fusion's proposed form of merger agreement prepared by Wilson Sonsini Goodrich & Rosati, Professional Corporation, outside legal counsel to Fusion.

On December 7, 2001, Baxter returned to Fusion a revised draft of the merger agreement.

On December 10, 2001, Baxter requested that Fusion enter into an exclusivity agreement and transmitted the proposed agreement to Fusion.

On December 11-12, 2001, representatives from Baxter conducted a due diligence review of Fusion at the offices of Wilson Sonsini Goodrich & Rosati in Palo Alto, California. Due diligence efforts continued through the signing of the merger agreement, and included meetings between representatives of Baxter and Fusion management in Palo Alto and Fremont, California.

On December 14, 2001, Fusion's board of directors held a regularly scheduled meeting, which included discussions with respect to the potential business combination transaction with Baxter.

On January 11, 2002, Fusion's board of directors held a meeting to consider Baxter's request for exclusivity and to consider the likelihood of an alternative offer resulting from Fusion's discussions with potential partners. After this discussion, Fusion's board of directors authorized Fusion's management to enter into a three-week exclusivity agreement with Baxter. During the exclusivity period, Fusion agreed not to negotiate with, solicit interest from or provide information to any party other than Baxter with respect to a possible business combination involving Fusion.

On January 14, 2002, Fusion and Baxter signed an agreement under which Fusion would negotiate exclusively with Baxter for a period expiring February 11, 2002. Also on January 14, 2002, Baxter and Fusion

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signed an amendment to the April 27, 2001 mutual non-disclosure agreement to extend it to the discussions involving the possible business combination transaction between Fusion and Baxter.

From January 14, 2002 through February 5, 2002, negotiations on the terms of the merger agreement and related agreements continued among Baxter, Fusion and their respective legal counsel and financial advisors.

On February 5, 2002, a representative of Group Outcome received an oral inquiry from a third party regarding the third party's interest in a potential business combination with Fusion. As required by the exclusivity agreement, Fusion notified Baxter of the receipt of this proposal.

On February 8, 2002, Baxter notified Fusion that if Fusion did not extend the exclusivity agreement upon its expiration on February 11, 2002, Baxter would discontinue its discussions with Fusion regarding a potential business

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combination transaction.

On February 8 and 11, 2002, Fusion's board of directors held telephonic meetings to discuss the oral inquiry received from the third party and whether to renew the exclusivity agreement with Baxter. At these meetings, Fusion's board of directors considered the relatively advanced stage of the discussions with Baxter, the extent of the due diligence conducted by Baxter, the likelihood of entering into a definitive acquisition agreement with Baxter on acceptable terms and Baxter's history of successfully completing acquisition transactions, and also considered the preliminary nature of the inquiry received from the third party. After deliberations, Fusion's board of directors determined that if Baxter were able to tell Fusion that Baxter's executive management team would recommend taking the business combination transaction with Fusion to Baxter's board of directors for approval, Fusion would extend the exclusivity agreement through February 26, 2002 and would not respond to the inquiry received from the third party.

On February 11, 2002, Baxter notified Fusion that its executive management team had recommended taking the transaction to Baxter's board of directors for approval, and Fusion executed an extension to the exclusivity agreement through February 26, 2002.

Between February 11 and February 26, 2002, Baxter and Fusion and their respective legal counsel negotiated the terms of the merger agreement and related agreements by teleconference. These negotiations covered all aspects of the transaction, including the representations and warranties to be made by the parties, the restrictions on the conduct of Fusion's business, the conditions to the completion of the proposed merger, the provisions regarding termination, including Fusion's right to terminate the merger agreement to accept a superior proposal under certain circumstances, the details of the non-solicitation provisions, the amount, triggers and payment of the termination fees, the possibility and terms of Baxter providing interim financing to Fusion, the treatment of options under the merger agreement and the terms of a voting agreement.

On February 18, 2002, Fusion retained J.P. Morgan Securities Inc. to serve as a financial advisor and, if necessary, deliver its opinion as to the fairness of the transaction to Fusion's board of directors.

On February 25, 2002, Fusion's board of directors held a special telephonic meeting at which Mr. Sawyer and representatives of Wilson Sonsini Goodrich & Rosati and Group Outcome reviewed the status of the negotiations and discussions with Baxter and its representatives. In addition, representatives of Wilson Sonsini Goodrich & Rosati reviewed with Fusion's board of directors the main legal principles applicable to the proposed merger (including Fusion's board of directors' fiduciary duties and authority in considering the merger). Representatives of Wilson Sonsini Goodrich & Rosati also reviewed in detail the principle terms of the proposed merger agreement and voting agreement and summarized the remaining open issues and deal points. JPMorgan delivered a presentation regarding the pricing terms of the proposed transaction and informed the board of directors that it would be in a position to deliver a fairness opinion when requested by the board of directors. Fusion's board of directors reviewed and discussed the principal issues in the proposed transaction, including the proposed exchange ratio, closing conditions, termination rights, termination fees, financing arrangements and the voting agreements.

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On February 26, 2002, Fusion's board of directors held a special telephonic meeting to review the revised drafts of the merger agreement and related agreements. Representatives of Group Outcome, JPMorgan and Wilson Sonsini Goodrich & Rosati also participated. Representatives of Wilson Sonsini Goodrich & Rosati reviewed the outcome of further negotiations and responded to questions by Fusion's board of directors. JPMorgan reviewed the financial terms of the proposed transaction and delivered its oral opinion, subsequently confirmed in writing, to Fusion's board of directors that, based upon and subject to various considerations, as of February 26, 2002, the exchange ratio pursuant to the merger agreement was fair, from a financial point of view, to the holders of Fusion common stock. For a more detailed discussion of JPMorgan's analysis and opinion, you should review the section entitled "The Merger--Opinion of Fusion's Financial Advisor" beginning on page 26 below and the text of JPMorgan's opinion attached to this document as Annex C. After further deliberation, Fusion's board of directors, by the unanimous vote of all directors present and voting at the meeting:

- . determined that the merger agreement and the transactions contemplated thereby, including the merger, are consistent with and in furtherance of the long-term business strategy of Fusion and are advisable and are fair to and in the best interest of Fusion stockholders,
- . approved the merger agreement and the transactions described in the merger agreement, including the merger and the voting agreement,
- . resolved to call a special meeting of Fusion stockholders to adopt and approve the merger agreement and to approve the merger;
- . resolved to recommend that Fusion stockholders vote in favor of the adoption and approval of the merger agreement and approval of the merger; and
- . authorized Mr. Sawyer and Mr. Strauss to execute, on behalf of Fusion, the merger agreement and such other documents that certain of Fusion's officers find necessary or advisable in their sole discretion, together with any changes, deletions, additions and alterations that such officers approve consistent with the resolutions of Fusion's board of directors.

On February 26, 2002, at a regularly scheduled meeting, Baxter's board of directors reviewed the significant terms of the proposed merger and authorized Baxter's management to proceed with the execution of a definitive agreement.

On the evening of February 26, 2002, Fusion and Baxter entered into the merger agreement. Also on February 26, 2002, all of Fusion's executive officers (other than one officer who has given notice of his intention to terminate his employment) and directors as of the date of the merger agreement and their affiliates entered into voting agreements with Baxter, pursuant to which they agreed to vote their Fusion shares in favor of the adoption and approval of the merger agreement and approval of the merger.

After the parties signed the merger agreement, Fusion and Baxter issued a joint press release on the morning of February 27, 2002 announcing the transaction.

### RECOMMENDATION OF FUSION'S BOARD OF DIRECTORS

After careful consideration of the terms and conditions of the merger, Fusion's board of directors has unanimously determined that the merger agreement is advisable, and that the terms of the merger agreement and the



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transactions described in the merger agreement are fair to, and in the best interests of, Fusion and its stockholders, and unanimously recommends that Fusion stockholders adopt and approve the merger agreement and the transactions described in the merger agreement.

### FUSION'S REASONS FOR THE MERGER

The decision of Fusion's board of directors to recommend the merger is based upon a number of potential benefits of the merger that Fusion's board of directors believes will contribute to the success of the combined company compared to Fusion continuing to operate as an independent business, including the following:

- . the judgment of Fusion's board of directors that the two companies have significantly complementary strengths and products;
- . the potential that Baxter's:

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- . larger market capitalization;
  - . broad suite of products and services,
  - . manufacturing, distribution and marketing and sales capabilities, and
  - . historical revenue growth,
- will provide Fusion's products with additional resources to grow and gain market share more rapidly than Fusion could grow these products as an independent company in the rapidly evolving medical device industry characterized by the entrance of an increasing number of large, well capitalized and well known competitors;
- . the judgment of Fusion's board of directors that the medical device industry has experienced consolidation as participants have sought to broaden product lines, gain market share, increase market penetration and effectively sell products to hospitals and managed care organizations, which favors companies offering large and cost-effective product portfolios over companies with more limited product offerings;
  - . that the exchange ratio was at a significant premium over the price of Fusion common stock prevailing in the market during various time periods, and the further opportunity for Fusion stockholders to participate in the future growth in value of the combined company as stockholders of Baxter following the merger;
  - . the fixed value of the exchange ratio and the resulting benefit that the value of the consideration to be received by Fusion stockholders will not be reduced due to a decrease in the value of Baxter's common stock prior to the date the exchange ratio is determined;
  - . the greater liquidity afforded Fusion stockholders upon exchange of their shares of Fusion common stock for shares of Baxter common stock, whose shares trade at significantly higher dollar and share volumes than shares of Fusion common stock; and

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- . the merger is expected to qualify as a tax-free reorganization for U.S. federal income tax purposes.

In identifying these benefits and evaluating the merger, Fusion's board of directors reviewed a number of factors and sources of information, including the following:

- . the terms of the merger agreement and related agreements, by themselves and in comparison to the terms of other transactions, and the intensive negotiations between Baxter and Fusion, including their negotiations relating to the details of the conditions to the parties' obligations to complete the merger, the details of the restrictions on Fusion's ability to pursue alternative transactions and the scope of Fusion's ability to avoid these restrictions to comply with the fiduciary obligations of its board of directors, including Fusion's right to terminate the merger agreement under certain circumstances to accept a superior proposal, the parties' other termination rights, the termination fee that Fusion may be required to pay Baxter in certain circumstances, and the voting agreements;
- . the current and historical information concerning Fusion and Baxter and their respective businesses, financial performance, condition, operations, technology, management and industry position, and information and evaluations regarding the two companies' strengths, weaknesses and prospects, both before and after giving effect to the merger;
- . the oral and written presentations of Fusion's financial advisor, JPMorgan, and JPMorgan's opinion (which is attached to this document as Annex C) to the effect that, based upon and subject to various considerations, as of February 26, 2002, the exchange ratio pursuant to the merger agreement was fair, from a financial point of view, to holders of Fusion common stock;

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- . the current financial market conditions and historical market prices, volatility and trading information for Fusion common stock and Baxter common stock, and various factors that might affect the market value of Fusion common stock in the future;
- . the premium represented by the exchange ratio and the premiums paid in other recent transactions that could be viewed as comparable, and the negotiations between Fusion and Baxter relating to the exchange ratio; and
- . the alternatives available to Fusion and the history of contacts by Fusion and Group Outcome, one of Fusion's financial advisors, with other parties concerning their possible interest in a business combination or other strategic transaction with Fusion.

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

- . the risk that the potential benefits sought in the merger may not be fully realized, if at all;
- . the possibility that the merger may not be consummated and the

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potential negative effect of the public announcement of the merger on Fusion's relationships with customers, distributors, suppliers, and other persons having business dealings with Fusion; possible delays, reductions, or cancellations of customer orders; and the reduction in revenues or increased expenses that will be caused by the impairment of these relationships;

- . the risk that despite the efforts of the combined company, key technical, marketing and management personnel might not choose to remain employed by the combined company;
- . the risk of market confusion and hesitation and potential delay or reduction in orders of Fusion products;
- . the fact that pursuant to the merger agreement, Fusion is required to obtain Baxter's consent before it can take a variety of actions between the signing and the closing of the merger;
- . the difficulty of integrating the businesses of Fusion and Baxter's BioScience unit, and the possible adverse effect that could result from the need to focus significant time and effort on completing the merger and integrating the businesses;
- . the fact that the exchange ratio will fluctuate based on the market value of Baxter common stock, and that if the market price of the Baxter common stock increases between the signing of the merger agreement and the date that the exchange ratio is determined, Fusion stockholders will receive fewer shares of Baxter common stock upon completion of the merger than they would have received if the exchange ratio had been fixed prior to the increases in Baxter's common stock price, and the value of the consideration receivable by Fusion stockholders will not increase; and
- . various other risks described under the section entitled "Risk Factors" beginning on page 15 of this document.

Fusion's board of directors concluded, however, that many of these risks could be managed or mitigated by Fusion or by the combined company or were unlikely to have a material impact on the merger or the combined company, and that, overall, the risks, uncertainties, restrictions and potentially negative factors associated with the merger were outweighed by the potential benefits of the merger.

The foregoing discussion of information and factors considered and given weight by Fusion's board of directors is not intended to be exhaustive. In view of the variety of factors considered in connection with its evaluation of the merger, Fusion's board of directors did not find it practicable to, and did not, quantify or otherwise assign relative weights to the specific factors considered in reaching its determinations and recommendations.

FOR THE REASONS DISCUSSED ABOVE, FUSION'S BOARD OF DIRECTORS HAS UNANIMOUSLY APPROVED THE MERGER AGREEMENT AND THE TRANSACTIONS DESCRIBED IN THE MERGER AGREEMENT AND HAS DETERMINED THAT THE MERGER AGREEMENT IS ADVISABLE, AND THAT THE TERMS OF THE MERGER AGREEMENT AND TRANSACTIONS DESCRIBED IN THE MERGER AGREEMENT ARE FAIR TO, AND IN THE BEST INTERESTS OF, FUSION STOCKHOLDERS, AND UNANIMOUSLY RECOMMENDS THAT FUSION STOCKHOLDERS VOTE TO ADOPT AND APPROVE THE MERGER AGREEMENT AND THE TRANSACTIONS DESCRIBED IN THE MERGER AGREEMENT.

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### OPINION OF FUSION'S FINANCIAL ADVISOR

J.P. Morgan Securities, Inc. acted as Fusion's financial advisor in connection with the merger. Fusion requested JPMorgan, in its role as a financial advisor, to evaluate the fairness, from a financial point of view, of the exchange ratio in the merger to the holders of Fusion common stock. On February 26, 2002, JPMorgan delivered its oral opinion, subsequently confirmed in writing, to Fusion's board of directors to the effect that, as of such date and based upon and subject to certain matters stated therein, the exchange ratio in the merger was fair, from a financial point of view, to the holders of Fusion common stock.

The full text of the JPMorgan fairness opinion, which sets forth the assumptions made, factors considered and limitations upon the review undertaken by JPMorgan in rendering its opinion, is included in this document as Annex C. JPMorgan's written opinion was addressed to Fusion's board of directors, was directed only to the fairness, from a financial point of view, of the exchange ratio in the merger to the holders of Fusion common stock and does not constitute a recommendation to any Fusion stockholder as to how such stockholder should vote on the merger or any other matter. The following summary of the material provisions of the JPMorgan fairness opinion is qualified by reference to the opinion. Fusion stockholders are urged to read this opinion in its entirety.

In arriving at its opinion, JPMorgan, among other things:

- . reviewed the drafts dated February 26, 2002 of the merger agreement and the form of voting agreement;
- . reviewed certain publicly available business and financial information concerning Fusion and Baxter and the industries in which they operate;
- . compared the proposed financial terms of the merger with the publicly available financial terms of certain transactions involving companies JPMorgan deemed relevant and the consideration received for such companies;
- . compared the financial and operating performance of Fusion and Baxter with publicly available information concerning certain other companies JPMorgan deemed relevant;
- . reviewed the current and historical market prices of Fusion common stock and Baxter common stock and certain publicly traded securities of such other companies;
- . reviewed certain internal financial analyses and forecasts prepared by the management of Fusion relating to its businesses; and
- . performed such other financial studies and analyses and considered such other information as JPMorgan deemed appropriate for the purposes of its opinion.

In rendering its opinion, JPMorgan relied upon and assumed, without independent verification, the accuracy and completeness of all information that was publicly available or that was furnished to it by Fusion and Baxter or otherwise reviewed by it, and JPMorgan did not assume any responsibility or liability therefor. JPMorgan did not conduct any valuation or appraisal of any assets or liabilities, nor were any valuations or appraisals provided to it. In relying on financial analyses and forecasts provided to it, JPMorgan assumed

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that they were reasonably prepared based on assumptions reflecting the best currently available estimates and judgments by management as to the expected future results of operations and financial condition of Fusion to which such analyses or forecasts relate. In addition, JPMorgan assumed that the merger will qualify as a tax-free reorganization for United States federal income tax purposes, and that the merger and the other transactions described in the merger agreement will be completed as described in the merger agreement without waiver or modification of any material terms thereof. JPMorgan further assumed that all material governmental, regulatory or other consents and approvals necessary for the completion of the merger will be obtained without any adverse effect on Fusion or Baxter or on the contemplated benefits of the merger.

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The forecasts furnished to JPMorgan for Fusion were prepared by the management of Fusion. Fusion does not publicly disclose internal management forecasts of the type provided to JPMorgan in connection with JPMorgan's analysis of the exchange ratio in the merger, and such forecasts were not prepared with a view toward public disclosure. These forecasts were based on numerous variables and assumptions that are inherently uncertain and may be beyond the control of Fusion's management, including, without limitation, factors related to general economic and competitive conditions and prevailing interest rates. Accordingly, actual results could vary significantly from those set forth in such forecasts.

JPMorgan's opinion was necessarily based on economic, market and other conditions as in effect on, and the information made available to JPMorgan as of, the date of its opinion. Subsequent developments may affect the opinion, and JPMorgan does not have any obligation to update, revise or reaffirm such opinion. JPMorgan's opinion was limited to the fairness, from a financial point of view, to the holders of Fusion common stock of the exchange ratio in the merger, and JPMorgan expressed no opinion as to the underlying decision of Fusion to engage in the merger. JPMorgan expressed no opinion as to the price at which Fusion common stock or Baxter common stock will trade at any future time.

JPMorgan's opinion noted that JPMorgan:

- . was not requested to and did not provide advice concerning the structure, the specific exchange ratio, or any other aspects of the merger, or to provide services other than the delivery of its opinion;
- . was not authorized to and did not solicit any expressions of interest from any other parties with respect to the sale of all or any part of Fusion or any other alternative transaction;
- . did not participate in negotiations with respect to the terms of the merger and related transactions;
- . assumed that the agreed terms of the merger are the most beneficial terms from Fusion's perspective that could under the circumstances be negotiated among the parties to such a transaction; and
- . expressed no opinion whether any alternative transaction might produce consideration for Fusion's stockholders in an amount in excess of that contemplated in the merger.

In accordance with customary investment banking practice, JPMorgan

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employed generally accepted valuation methods in reaching its opinion. The following is a summary of certain of the financial analyses presented to Fusion's board of directors at its meetings on February 25, 2002 and February 26, 2002, which analyses were also among those considered by JPMorgan in connection with delivering its opinion. Some of the analyses include information presented in a tabular format. To understand fully the financial analyses used by JPMorgan, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. This summary does not purport to be a complete description of the analyses underlying the opinion of JPMorgan.

Public Companies Analysis. Using publicly available information, JPMorgan compared certain financial and operating information and ratios for Fusion with corresponding financial and operating information and ratios for the following medical products companies:

- . BioSphere Medical, Inc.;
- . Cohesion Technologies, Inc.;
- . Closure Medical Corporation;
- . CryoLife, Inc.;
- . Genzyme Biosurgery Division (Genzyme Corporation);
- . Haemacure Corporation;
- . Kensey Nash Corporation;

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- . Organogenesis Inc.; and
- . Vascular Solutions, Inc.

The following table reflects the results of the analysis:

	RANGE	MEAN	MEDIAN	FUSION
Ratio of enterprise value* to calendar 2001 sales	1.4x-14.4x	6.5x	5.7x	10.0x
Ratio of enterprise value* to calendar 2002 projected sales	1.7x-11.0x	4.8x	3.5x	4.8x

\* Market value, plus debt and minority interests, minus cash

Using publicly available information, JPMorgan also compared certain financial and operating information and ratios for Baxter with corresponding financial and operating information and ratios for the following large-capitalization medical products companies:

- . Becton, Dickinson and Company;
- . Boston Scientific Corporation;

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- . C.R. Bard, Inc.;
- . Guidant Corporation;
- . Medtronic, Inc.;
- . Smith & Nephew plc; and
- . St. Jude Medical, Inc.

The following table reflects the results of the analysis:

	RANGE	MEAN	MEDIAN	BAXTER
Ratio of enterprise value to calendar 2001 sales	2.2x-9.6x	4.8x	4.0x	4.8x
Ratio of enterprise value to calendar 2001 EBITDA*	9.9x-25.4x	16.2x	15.1x	19.2x
Ratio of market price to calendar 2001 earnings	18.7x-39.2x	28.4x	29.2x	34.0x
Ratio of market price to projected calendar 2002 earnings	16.7x-34.0x	24.6x	24.8x	27.5x
Ratio of market price to projected calendar 2002 earnings divided by projected long term earnings per share growth rate	1.4x-2.3x	1.8x	1.7x	1.8x

\* Earnings before interest, taxes, depreciation and amortization

Based upon the reference ranges derived from the public companies analysis for Fusion and Baxter, JPMorgan calculated an implied exchange ratio by comparing the implied per share equity values of Fusion common stock and Baxter common stock. The analysis yielded the following implied exchange ratios (rounded to the nearest thousandth), in each case compared to the implied exchange ratio of 0.180, calculated by dividing \$10.00, the price per share of Fusion common stock set forth in the merger agreement, by \$55.48, the February 22, 2002 closing price