



SurModics Reports Fourth Quarter and Fiscal Year 2006 Results

November 1, 2006

Ninth Consecutive Year of Record Revenue Since 1998 IPO

EDEN PRAIRIE, Minn.--(BUSINESS WIRE)--Nov. 1, 2006--SurModics, Inc. (Nasdaq: SRDX), a leading provider of surface modification and drug delivery technologies to the healthcare industry, today reported financial results for the fourth quarter and fiscal year ended September 30, 2006.

Fourth Quarter Highlights:

- Fourth quarter revenue of \$17.6 million
- Record non-Cordis revenue
- Record revenue in "Hydrophilic and Other" and "In Vitro" operating segments
- GAAP results:
 - Operating income of \$9.2 million; operating margin of 52%
 - Net income of \$6.3 million
 - Diluted EPS of \$0.34
- Non-GAAP results (excluding non-cash equity compensation expense):
 - Operating income of \$10.3 million; operating margin of 59%
 - Net income of \$7.0 million
 - Diluted EPS of \$0.37
- Five new licenses signed with SurModics customers, representing three of SurModics' six business units
- Four new product classes launched by our customers
- 10th consecutive quarter with non-Cordis revenue exceeding Cordis revenue

Fiscal Year 2006 Highlights:

- Record revenue of \$69.9 million, up 12% from fiscal 2005
- Record Cordis revenue
- Record non-Cordis revenue
- Record revenue in all three operating segments
- GAAP results:
 - Record operating income of \$36.2 million; operating margin of 52%
 - Record net income of \$20.3 million
 - Record diluted EPS of \$1.09
- Non-GAAP results (excluding non-cash equity compensation expense and a non-cash impairment loss on the Company's investment in Novocell):
 - Record operating income of \$41.7 million; operating margin of 60%
 - Record net income of \$28.2 million
 - Record diluted EPS of \$1.49
- Record 21 new licenses signed with SurModics customers, representing five of SurModics' six business units
- Record 15 new product classes launched by our customers

"Fiscal year 2006 was a strong year for SurModics, representing our ninth consecutive year of record revenue since our IPO in 1998," said Bruce Barclay, President and CEO. "While we are pleased to have recorded another record year of performance, we are not satisfied. We believe that our technology innovations and promising market opportunities provide us with the potential to achieve more rapid growth over time."

"Two years ago, we outlined a new strategy and seven-point revenue growth plan, with the goal of maintaining sustainable growth," commented Barclay. "Since that time, the employees at SurModics have done an excellent job of executing and implementing both. Diversification is a key element of this strategy, and we are pleased to report record non-Cordis revenue again this year. Another component of our strategy is to accelerate our technology leadership. In fiscal 2006, we continued to focus on bringing valuable technology to our customers, both through internal development and by accessing technologies from third parties."

In total, SurModics dedicated 26% of revenue to R&D spending in fiscal 2006, with fully 72% of our operating expenses, excluding product costs and non-cash equity compensation, going towards R&D. In addition, the company filed a record 56 U.S. patent applications during the year covering the

results of our R&D activities, which will help protect the company's unique position in the market. Finally, the company has invested and committed more than \$60 million of capital over the past several years in gaining access to new technologies for the benefit of its customers. SurModics' unique business model continues to allow the company to invest heavily in R&D while maintaining its focus on profitability and operational execution, producing an operating margin (non-GAAP) of 60% for fiscal year 2006.

"Our operational and technical accomplishments this year have been significant," continued Barclay. "We have generated compelling data from the first clinical trial with our I-vation(TM) Intravitreal Implant with triamcinolone acetonide (TA) within our ophthalmology division, and customer interest in our platform technologies remains strong. Our pioneering work with the Donaldson Company in cell culture led to a significant distribution relationship with Coming Life Sciences. In addition, we continue to proliferate our many technologies in the drug eluting stent market, announcing several new customer agreements during the year, including several agreements for the use of our hydrophilic coating technology on DES delivery systems. We continue to make tremendous progress with our various biodegradable polymer technologies for site specific drug delivery applications. Finally, the prohealing technology we have developed in concert with the University of Arizona stands as a potentially revolutionary technology to address late stent thrombosis, and recent animal studies have produced very encouraging outcomes."

Fiscal year 2006 revenue was a record \$69.9 million, a 12% increase over fiscal year 2005 revenue of \$62.4 million. On a GAAP basis, operating income was \$36.2 million; net income was \$20.3 million; and diluted earnings per share was \$1.09. Results include expensing of stock options, as required by SFAS No. 123R, and a non-cash impairment loss of \$4.7 million on our investment in Novocell. On a non-GAAP basis, operating income grew 15% to a record \$41.7 million, from \$36.3 million in the prior-year period; while net income increased 18% to a record \$28.2 million, from \$24.0 million last year; and diluted earnings per share increased 16% to a record \$1.49, compared with \$1.29 in fiscal 2005.

Revenue for the fourth quarter of fiscal year 2006 was \$17.6 million, an increase of 9% from \$16.1 million in the fourth quarter of fiscal year 2005. The CYPHER Sirolimus-eluting Coronary Stent from Cordis Corporation, a Johnson & Johnson company, generated worldwide sales of \$627 million in the quarter, down 4% from the prior year period, and our royalty revenue declined 4% accordingly. Non-Cordis revenue for the quarter again reached a new record. On a GAAP basis, the company reported operating income of \$9.2 million and net income of \$6.3 million, or \$0.34 per diluted share. On a non-GAAP basis, operating income grew 15% to \$10.3 million, from \$9.0 million in the prior-year period; net income increased 8% to \$7.0 million, from \$6.5 million in the same period last year; and diluted earnings per share was \$0.37, compared with \$0.34 in the fourth quarter of fiscal year 2005.

SurModics signed five new licenses in the fourth quarter, bringing the fiscal year total to a record 21, significantly ahead of SurModics' goal of 15 new licenses in fiscal year 2006. During the fiscal year, SurModics' customers introduced 15 new product classes, up from 7 in fiscal year 2005, and ahead of our goal of 12 for the year. At September 30, a total of 83 coated products were on the market generating royalty revenue, compared with 80 in the prior-year period; the total number of licensed products not yet launched was 84, compared with 72 a year ago; and major non-licensed opportunities stood at 69, compared with 64 a year ago. In total, the company now has 153 potential commercial products in development with opportunities in each of SurModics' four focus markets - ophthalmology, cardiovascular, neurology and orthopedics.

SurModics' cash and investment balance grew to \$106.6 million as of September 30, 2006, up from \$73.3 million as of September 30, 2005. Operating cash flow for fiscal 2006 was \$35.8 million. "We continue to explore multiple ways to leverage our strong balance sheet to enhance long-term shareholder value," said Phil Ankeny, Senior Vice President and CFO. "Our pipeline of potential business development opportunities continues to grow. In addition, we believe that our growth prospects are substantial and our stock is undervalued. Our focus on capital efficiency and enhancing long-term shareholder value allows us to return capital to shareholders even as we continue to invest for future growth. Accordingly, in September, our Board authorized the repurchase of up to \$35 million of our common stock. We will evaluate various means of repurchasing stock when and if market conditions warrant, consistent with the legal and regulatory requirements affecting such purchases."

Live Webcast

SurModics will host a webcast at 5:00 p.m. ET (4:00 p.m. CT) today to discuss the quarterly results. To access the webcast, go to the investor relations portion of the company's web site, www.surmodics.com, and click on the Fourth Quarter Webcast icon. If you do not have access to the Internet and want to listen to the audio, dial 800-257-1927. A replay of the fourth quarter conference call will be available by dialing 800-405-2236 and entering conference call ID 11073884. The audio replay will be available beginning at 6:00 p.m. CT on Wednesday, November 1, until 6:00 p.m. CT on Wednesday, November 8.

About SurModics, Inc.

SurModics, Inc. is a leading provider of surface modification technologies in the areas of biocompatibility, site specific drug delivery, biological cell encapsulation, and medical diagnostics. SurModics partners with the world's foremost medical device, pharmaceutical and life science companies to bring innovation together for better patient outcomes. Recent collaborative efforts include the implementation of SurModics' Bravo(TM) drug delivery polymer matrix as a key component of the first-to-market drug-eluting coronary stent. SurModics is also active in the ophthalmology market with a sustained drug delivery system that is currently in human trials for treatment of retinal disease. A significant portion of SurModics' revenue is generated by royalties earned from the sale of our customers' commercial products. SurModics is headquartered in Eden Prairie, MN. More information about the company can be found at www.surmodics.com. The content of SurModics' web site is not part of this release or part of any filings the company makes with the SEC.

Safe Harbor for Forward Looking Statements

Certain statements contained in this press release may be deemed to be forward-looking statements under federal securities laws, and SurModics intends that such forward looking statements be subject to the safe harbor created thereby. SurModics does not undertake an obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

SurModics, Inc.
Statements of Income
Reconciliation of GAAP to Non-GAAP Amounts
(In thousands, except per share data)
(Unaudited)

Three Months Ended
September 30, 2006

	GAAP(1)	Adjust- ments	Non- GAAP(2)
Revenue:			
Royalties and license fees	\$13,495		\$13,495
Product sales	3,258		3,258
Research & development	820		820
	-----		-----
Total revenue	17,573		17,573
Operating expenses:			
Product	959	(8)	951
Research & development	5,456	(595)	4,861
Sales & marketing	371	(72)	299
General & administrative	1,620	(493)	1,127
	-----		-----
Total operating expenses	8,406	(1,168)	7,238
	-----		-----
Income from operations	9,167	1,168	10,335
Investment income	1,271		1,271
	-----		-----
Income before income taxes	10,438	1,168	11,606
Income tax provision	(4,144)	(449)	(4,593)
	-----		-----
Net income	\$6,294		\$7,013
	=====		=====
Basic net income per share	\$0.34		\$0.38
	=====		=====
Diluted net income per share	\$0.34		\$0.37
	=====		=====
Weighted average shares outstanding			
Basic	18,628		18,628
Diluted	18,777		19,030

(1) Reflects operating results in accordance with U.S. generally accepted accounting principles (or GAAP).

(2) Non-GAAP figures exclude non-cash compensation charges, as required by SFAS No. 123R for share-based awards, and related tax effect.

SurModics, Inc.
Statements of Income
Reconciliation of GAAP to Non-GAAP Amounts
(In thousands, except per share data)
(Unaudited)

Three Months Ended
September 30, 2005

	GAAP(1)	Adjust- ments	Non- GAAP(2)
Revenue:			
Royalties and license fees	\$12,530		\$12,530
Product sales	2,419		2,419
Research & development	1,141		1,141
	-----		-----

Total revenue	16,090		16,090
Operating expenses:			
Product	764		764
Research & development	4,334		4,334
Sales & marketing	299		299
General & administrative	1,860	(183)(3)	1,677
Asset impairment charge	2,487	(2,487)(4)	-
	-----		-----
Total operating expenses	9,744	(2,670)	7,074
	-----		-----
Income from operations	6,346	(2,670)	9,016
Investment income	609		609
	-----		-----
Income before income taxes	6,955		9,625
Income tax provision	(2,162)	(983)	(3,145)
	-----		-----
Net income	\$4,793		\$6,480
	=====		=====
Basic net income per share	\$.26		\$0.35
	=====		=====
Diluted net income per share	\$.25		\$0.34
	=====		=====
Weighted average shares outstanding			
Basic	18,490		18,490
Diluted	19,016		19,016

(1) Reflects operating results in accordance with U.S. generally accepted accounting principles (or GAAP).

(2) Non-GAAP figures exclude non-cash compensation charges related to share-based awards and the non-cash impairment loss detailed in Note (4).

(3) Reflects non-cash compensation charges related to share-based awards.

(4) Reflects non-cash impairment charge related to the sale of the Company's contract manufacturing facility in Bloomington, MN recorded in September 2005.

SurModics, Inc.
Statements of Income
Reconciliation of GAAP to Non-GAAP Amounts
(In thousands, except per share data)
(Unaudited)

	Year Ended September 30, 2006	
	Adjust- GAAP(1)	Non- GAAP(2)
	ments	

Revenue:		
Royalties and license fees	\$53,008	\$53,008
Product sales	11,172	11,172
Research & development	5,704	5,704
	-----	-----
Total revenue	69,884	69,884
Operating expenses:		
Product	3,399	(87)(3)
Research & development	20,391	(2,534)(3)
Sales & marketing	1,424	(205)(3)
General & administrative	8,507	(2,700)(3)

Total operating expenses	33,721	(5,526)	28,195
Income from operations	36,163	5,526	41,689
Investment income	4,053		4,053
Impairment loss on investment	(4,651)	4,651	(4) -
Income before income taxes	35,565	10,177	45,742
Income tax provision	(15,231)	(2,309)	(5)(17,540)
Net income	\$20,334		\$28,202
Basic net income per share	\$1.10		\$1.52
Diluted net income per share	\$1.09		\$1.49
Weighted average shares outstanding			
Basic	18,527		18,527
Diluted	18,719		18,971

(1) Reflects operating results in accordance with U.S. generally accepted accounting principles (or GAAP).

(2) Non-GAAP figures exclude non-cash compensation charges, as required by SFAS No. 123R for share-based awards, the non-cash impairment loss detailed in Note (4), and the tax items detailed in Note (5).

(3) Reflects non-cash compensation charges, as required by SFAS No. 123R for share-based awards.

(4) Reflects non-cash impairment loss on the Company's investment in Novocell, Inc. recorded in the second quarter.

(5) Non-GAAP results exclude a \$465,000 benefit related to the reversal of a tax accrual resulting from settlement during the first quarter of a state's prior year tax returns. In addition, no tax benefit has been recorded for the \$4.7 million non-cash impairment loss.

SurModics, Inc.
Statements of Operations
Reconciliation of GAAP to Non-GAAP Amounts
(In thousands, except per share data)
(Unaudited)

	Year Ended September 30, 2005	
	Adjust- GAAP(1)	Non- GAAP(2)
Revenue:		
Royalties and license fees	\$47,582	\$47,582
Product sales	9,403	9,403
Research & development	5,396	5,396
Total revenue	62,381	62,381
Operating expenses:		
Product	2,855	2,855
Research & development	16,072	16,072
Sales & marketing	1,209	1,209
General & administrative	6,496	(588)(3) 5,908
Asset impairment charge	2,487	(2,487)(4) -
Purchased in-process R&D	30,277	(30,277)(5) -
Total operating expenses	59,396	(33,352) 26,044

Income from operations	2,985	33,352	36,337
Investment income	1,365		1,365
Income before income taxes	4,350	33,352	37,702
Income tax provision	(12,596)	(1,134)	(6)(13,730)
Net income (loss)	(\$8,246)		\$23,972
Basic net income (loss) per share	(\$.45)		\$1.32
Diluted net income (loss) per share	(\$.45)		\$1.29
Weighted average shares outstanding			
Basic	18,131		18,131
Diluted	18,131		18,598

(1) Reflects operating results in accordance with U.S. generally accepted accounting principles (or GAAP).

(2) Non-GAAP figures exclude non-cash compensation charges related to share-based awards, the non-cash impairment charge detailed in Note (4), and the non-cash IPR&D charge detailed in Note (5).

(3) Reflects non-cash compensation charges related to share-based awards.

(4) Reflects non-cash impairment charge related to the sale of the Company's contract manufacturing facility in Bloomington, MN in September 2005

(5) Reflects non-cash IPR&D charge in connection with the Company's acquisition of InnoRx, Inc. in January 2005.

(6) Reflects tax impact of items (3) and (4) above, but not item (5) because IPR&D is not tax deductible.

SurModics, Inc.
Condensed Balance Sheets
(In thousands)

	September 30, 2006	September 30, 2005
Assets	(Unaudited)	

Current assets:		
Cash & investments	\$58,813	\$24,445
Accounts receivable	14,493	10,996
Inventories	952	1,091
Other current assets	1,838	5,072
	-----	-----
Total current assets	76,096	41,604
Property & equipment, net	11,686	14,832
Long-term investments	47,758	48,874
Other assets	21,862	18,915
	-----	-----
Total assets	\$157,402	\$124,225
	=====	=====
Liabilities & Stockholders' Equity	-----	
Total current liabilities	\$8,989	\$5,123
Other liabilities	3,210	3,521

Total stockholders' equity	145,203	115,581
	-----	-----
Total liabilities & stockholders' equity	\$157,402	\$124,225
	=====	=====

Certain information in this financial release may be considered non-GAAP Financial Information as contemplated by SEC Regulation G. Accordingly, we are providing the preceding tables, which reconcile results to their corresponding GAAP based operating results presented under our Statements of Income and Statements of Operations.

Management believes the presentation of these non-GAAP financial results, in connection with the results of the fiscal quarter and year ended September 30, 2006, provide useful information to investors regarding our results of operations, as these non-GAAP financial measures allow investors to better evaluate ongoing business performance and factors that influenced performance during the period under report, including when comparing against prior periods. Management also uses these non-GAAP measures internally to monitor performance of the business. These non-GAAP financial measures should be considered in addition to, and not a substitute for, financial measures prepared in accordance with GAAP.

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SOURCE: SurModics, Inc.