



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

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2008

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-23837

**SurModics, Inc.**

(Exact name of registrant as specified in its Charter)

MINNESOTA  
(State of incorporation)

41-1356149  
(I.R.S. Employer Identification No.)

9924 West 74<sup>th</sup> Street  
Eden Prairie, Minnesota 55344  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (952) 829-2700

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2).

Yes  No

The number of shares of the registrant's common stock, \$.05 par value per share, outstanding as of April 30, 2008 was 18,279,553.

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**PART I. FINANCIAL INFORMATION**

## Item 1. Financial Statements

**SurModics, Inc. and Subsidiaries**  
Condensed Consolidated Balance Sheets  
(unaudited)

<i>(In thousands, except share data)</i>	<b>March 31, 2008</b>	<b>September 30, 2007</b>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 26,746	\$ 13,812
Short-term investments	11,083	12,496
Accounts receivable, net of allowance for doubtful accounts of \$40 as of March 31, 2008 and September 30, 2007	17,821	16,138
Inventories	2,591	2,497
Deferred tax asset	1,116	1,116
Income taxes receivable	3,814	—
Prepays and other	1,424	1,836
Total current assets	<u>64,595</u>	<u>47,895</u>
Property and equipment, net	20,934	19,738
Restricted cash	1,630	—
Long-term investments	43,089	43,917
Deferred tax asset	8,597	5,908
Intangible assets, net	16,983	18,399
Goodwill	18,298	15,686
Other assets	10,911	19,788
Total assets	<u>\$ 185,037</u>	<u>\$ 171,331</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 4,216	\$ 2,541
Accrued liabilities	3,394	4,187
Accrued income taxes payable	—	6,227
Deferred revenue	3,911	5,586
Other current liabilities	4,451	1,311
Total current liabilities	15,972	19,852
Deferred revenue, less current portion	24,203	20,305
Other long-term liabilities	1,597	252
Total liabilities	<u>41,772</u>	<u>40,409</u>
Stockholders' Equity		
Series A preferred stock— \$.05 par value, 450,000 shares authorized; no shares issued and outstanding	—	—
Common stock— \$.05 par value, 45,000,000 shares authorized; 18,233,618 and 18,164,980 shares issued and outstanding	912	909
Additional paid-in capital	79,863	76,670
Accumulated other comprehensive income	37	1,723
Retained earnings	62,453	51,620
Total stockholders' equity	<u>143,265</u>	<u>130,922</u>
Total liabilities and stockholders' equity	<u>\$ 185,037</u>	<u>\$ 171,331</u>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**SurModics, Inc. and Subsidiaries**  
Condensed Consolidated Statements of Income  
(unaudited)

<i>(In thousands, except per share data)</i>	Three Months Ended March 31,		Six Months Ended March 31,	
	2008	2007	2008	2007
<b>Revenue</b>				
Royalties and license fees	\$ 13,809	\$ 13,028	\$ 26,987	\$ 26,247
Product sales	4,700	3,381	9,907	6,107
Research and development	7,198	953	12,642	1,748
Total revenue	25,707	17,362	49,536	34,102
<b>Operating costs and expenses</b>				
Product costs	2,154	1,092	4,129	2,179
Research and development	10,370	5,717	19,904	10,924
Selling, general and administrative	6,002	2,468	10,751	4,805
Total operating costs and expenses	18,526	9,277	34,784	17,908
Income from operations	7,181	8,085	14,752	16,194
<b>Other income</b>				
Investment income	1,051	1,187	2,004	2,520
Other income (loss)	133	(15)	900	(19)
Other income	1,184	1,172	2,904	2,501
Income before income taxes	8,365	9,257	17,656	18,695
Income tax provision	(3,258)	(3,582)	(6,903)	(7,029)
Net income	\$ 5,107	\$ 5,675	\$ 10,753	\$ 11,666
<b>Basic net income per share</b>	\$ 0.28	\$ 0.31	\$ 0.60	\$ 0.64
<b>Diluted net income per share</b>	\$ 0.28	\$ 0.31	\$ 0.58	\$ 0.64
<b>Weighted average shares outstanding</b>				
Basic	18,102	18,017	18,055	18,232
Dilutive effect of outstanding stock options	326	116	366	110
Diluted	18,428	18,133	18,421	18,342

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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**SurModics, Inc. and Subsidiaries**  
Condensed Consolidated Statements of Cash Flows  
(unaudited)

<i>(In thousands)</i>	Six Months Ended	
	2008	March 31, 2007
<b>Operating Activities:</b>		
Net income	\$ 10,753	\$ 11,666
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,993	1,960
(Gain) loss on equity method investment and sales of investments	(857)	19
Amortization of premium (discount) on investments	2	(993)
Stock-based compensation	5,351	2,870
Deferred taxes	(1,129)	(102)
Excess tax benefits from exercise of stock options	(765)	—
Loss on disposals of property and equipment	22	7
Change in operating assets and liabilities:		
Accounts receivable	(1,683)	4,613
Inventories	(94)	(38)
Accounts payable and accrued liabilities	31	(1,102)
Income taxes	(7,603)	(2,349)
Deferred revenue	1,988	375
Prepays and other	(65)	(472)
Net cash provided by operating activities	<u>8,944</u>	<u>16,454</u>
<b>Investing Activities:</b>		
Purchases of property and equipment	(2,056)	(1,610)
Proceeds from sales of property and equipment	26	—
Purchases of available-for-sale investments	(7,810)	(63,211)
Sales/maturities of available-for-sale investments	16,215	85,707
Purchases of held-to-maturity investments	(4,333)	—
Purchase of licenses and patents	(65)	(68)
Investment in other strategic assets	—	(2,117)
Collection of notes receivable	5,870	261
Cash restricted for land purchase	(1,630)	—
Other investing activities	(567)	—
Net cash provided by investing activities	<u>5,650</u>	<u>18,962</u>
<b>Financing Activities:</b>		
Excess tax benefits from exercise of stock options	765	—
Issuance of common stock	1,848	1,885
Repurchase of common stock	(2,601)	(35,030)
Purchase of common stock to fund employee taxes	(1,450)	—
Repayment of notes payable	(222)	—
Net cash used in financing activities	<u>(1,660)</u>	<u>(33,145)</u>
Net change in cash and cash equivalents	12,934	2,271
<b>Cash and cash equivalents</b>		
Beginning of period	13,812	3,751
End of period	<u>\$ 26,746</u>	<u>\$ 6,022</u>
<b>Supplemental Information</b>		
Cash paid for income taxes	\$ 15,381	\$ 9,468
Noncash transaction — accrued earnout payments in connection with business acquisition agreements	\$ 3,148	\$ —
Noncash transaction — acquisition of property, plant, and equipment on account	\$ 953	\$ 118

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**SurModics, Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**Period Ended March 31, 2008**  
**(Unaudited)**

**(1) Basis of Presentation**

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and reflect all adjustments, consisting solely of normal recurring adjustments, needed to fairly present the financial results for the periods presented. These financial statements include some amounts that are based on management's best estimates and judgments. These estimates may be adjusted as more information becomes available, and any adjustment could be significant. The impact of any change in estimates is included in the determination of earnings in the period in which the change in estimate is identified. The results of operations for the three-month and six-month periods ended March 31, 2008 are not necessarily indicative of the results that may be expected for the entire 2008 fiscal year.

The six-month period ended March 31, 2008 includes a reclassification of \$807,000 of research and development expenses reported as product costs in the first quarter. The expenses reclassified were out-of-pocket project costs related to research and development activities.

In July 2007, the Company acquired Brookwood Pharmaceuticals, Inc., from Southern Research Institute, for \$40 million in cash at closing and up to an additional \$22 million in cash upon the successful achievement of specified milestones. In the second quarter of fiscal 2008 a milestone was achieved and \$2 million of additional purchase price was recorded as an increase to goodwill. Brookwood specializes in proprietary injectable microparticles and implants to provide sustained delivery of drugs being developed by leading pharmaceutical, biotechnology and medical device clients as well as emerging companies. This acquisition is helping the Company broaden its technology offerings to customers, diversifying the range of markets in which the Company participates, expanding the Company's customer base, and enhancing the pipeline of potential revenue generating opportunities.

In August 2007, the Company acquired BioFX Laboratories, Inc., a provider of substrates to the *in vitro* diagnostics industry, for \$11.3 million in cash at closing and up to an additional \$11.4 million in cash upon the successful achievement of specified revenue targets. In the first quarter of fiscal 2008 a milestone was achieved and \$1.1 million of additional purchase price was recorded as an increase to goodwill. BioFX is a leading manufacturer of substrates, a critical component of diagnostic test kits used to detect and signal that a certain reaction has taken place. The acquisition of BioFX is broadening the Company's product portfolio in the *in vitro* diagnostics market.

The operating results for the Brookwood Pharmaceuticals, Inc. and BioFX Laboratories, Inc. businesses are included in the consolidated results of operations from the dates of acquisition.

In accordance with the rules and regulations of the United States Securities and Exchange Commission, the Company has omitted footnote disclosures that would substantially duplicate the disclosures contained in the audited consolidated financial statements of the Company. These unaudited condensed consolidated financial statements should be read together with the audited consolidated financial statements for the year ended September 30, 2007, and footnotes thereto included in the Company's Form 10-K as filed with the United States Securities and Exchange Commission on December 14, 2007.

**(2) New Accounting Pronouncements**

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements* ("SFAS No. 157"). This statement establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. SFAS No. 157 applies to fair value measurements required by existing accounting pronouncements and does not require any new fair value measurements. SFAS No. 157 is effective for the Company in fiscal 2009. FASB Staff Position No. FAS 157-2 provides a deferral of SFAS No. 157 provisions for non-financial assets and liabilities until fiscal 2010. The Company has not determined the impact, if any, the adoption of this statement will have on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS No. 159"). SFAS No. 159 permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings. SFAS No. 159 is effective for the Company in fiscal 2009. The Company is currently evaluating the impact of SFAS No. 159 on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* ("SFAS No. 141(R)"), which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in an acquiree, including the recognition and measurement of goodwill acquired in a business combination. SFAS No. 141(R) is effective for the Company in fiscal 2010. Earlier adoption is prohibited and once adopted SFAS No. 141(R) will impact recognition and measurement of future business combinations.

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### (3) Inventories

Inventories are principally stated at the lower of cost or market using the specific identification method and include direct labor, materials and overhead. Inventories consisted of the following components (*in thousands*) :

	March 31, 2008	September 30, 2007
Raw materials	\$ 1,129	\$ 1,241
Finished products	1,462	1,256
Total	<u>\$ 2,591</u>	<u>\$ 2,497</u>

### (4) Restricted Cash

The Company has entered into an agreement to purchase an undeveloped parcel of land, as described in Note 12. To secure the performance of its obligations under the purchase agreement, the Company delivered a standby letter of credit in the amount of \$1.6 million. This letter of credit is fully collateralized by restricted cash that the Company deposited with the issuing institution.

### (5) Other Assets

Other assets consist principally of strategic investments. The Company accounts for its strategic investments under the cost method, except for its investments in Paragon Intellectual Properties, LLC ("Paragon"), Paragon's subsidiary, Apollo Therapeutics, LLC, and Brookwood's investment in Aeon Bioscience, Inc. (included in the "Other" category in the table below), which are accounted for under the equity method. Other assets consisted of the following (*in thousands*):

	March 31, 2008	September 30, 2007
Investment in OctoPlus	\$ 5,506	\$ 8,762
Long-term portion of note receivable	—	5,158
Investment in Paragon and subsidiary	3,242	3,632
Investment in ThermopectiX	1,185	1,185
Investment in Novocell	559	559
Other	419	492
Total other assets	<u>\$ 10,911</u>	<u>\$ 19,788</u>

In September 2005, the Company entered into an agreement to sell a contract manufacturing facility and 27 acres of land located in Bloomington, Minnesota. The terms of the sale agreement included a \$100,000 cash down payment and a note receivable of \$6.9 million, which was collateralized by the property. The terms of the note called for monthly installment payments of principal and interest at 6% with the remaining amount due and payable in September 2010. On January 14, 2008, the outstanding balance (including principal and accrued interest) of \$5.8 million was repaid in its entirety.

The Company recognized revenue of \$1.5 million and \$76,000 for the three-month period ended March 31, 2008 and 2007, respectively, and recognized revenue of \$2.4 million and \$125,000 for the six-month period ended March 31, 2008 and 2007, respectively, from activity with companies in which it had a strategic investment.

### (6) Intangible Assets

Intangible assets consist principally of acquired patents and technology, customer relationships, licenses, and trademarks. The Company recorded amortization expense of \$741,000, and \$447,000 for the three months ended March 31, 2008 and 2007, respectively. The Company recorded amortization expense of \$1,481,000, and \$532,000 for the six months ended March 31, 2008 and 2007, respectively.

In September 2004, the Company made a commitment to purchase for \$7.0 million certain additional sublicense rights and the accompanying future royalty revenue streams under certain sublicenses through an amendment to the Company's diagnostic format patent license with Abbott Laboratories. Prior to such amendment, the Company was receiving only a



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portion of the royalties under such sublicenses. The first \$5.0 million installment was paid in fiscal 2005, and an additional \$1.0 million installment was paid in fiscal 2007. The remaining \$1.0 million installment is reflected in other current liabilities.

Intangible assets consisted of the following (*in thousands*):

	Useful life (in years)	March 31, 2008	September 30, 2007
Customer list	9 — 11	\$ 7,340	\$ 7,340
Abbott license	4	7,037	7,037
Core technology	8 — 18	6,930	6,933
Patents and other	7 — 20	2,056	1,988
Trademarks		580	580
Less accumulated amortization of intangible assets		(6,960)	(5,479)
Intangible assets, net		<u>\$ 16,983</u>	<u>\$ 18,399</u>

Based on the intangible assets in service as of March 31, 2008, estimated amortization expense for each of the next five years ending March 31 is as follows (*in thousands*):

2009	\$2,550
2010	1,299
2011	1,299
2012	1,299
2013	1,299

### (7) Stock-based Compensation

The Company's stock-based compensation expenses were as follows (*in thousands*):

	Three months ended March 31,		Six months ended March 31,	
	2008	2007	2008	2007
Product costs	\$ 63	\$ 25	\$ 87	\$ 52
Research and development	1,039	714	1,876	1,407
Selling, general and administrative	2,296	719	3,388	1,411
Total	<u>\$ 3,398</u>	<u>\$ 1,458</u>	<u>\$ 5,351</u>	<u>\$ 2,870</u>

As of March 31, 2008, approximately \$15.1 million of total unrecognized compensation costs related to non-vested awards is expected to be recognized over a weighted average period of approximately 2.5 years.

#### *Stock Option Plans*

The Company accounts for stock-based compensation in accordance with SFAS No. 123(R), *Share Based Payment* ("SFAS 123(R)"), which requires all share-based payments, including grants of stock options, to be recognized in the income statement as an operating expense, based on their fair values, over the requisite service period.

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The Company uses the Black-Scholes option pricing model to determine the weighted average fair value of options. The weighted average fair values of options granted during the three-month periods ended March 31, 2008 and 2007 were \$22.21 and \$14.54, respectively. The weighted average fair values of options granted during the six-month periods ended March 31, 2008 and 2007 were \$25.19 and \$16.56, respectively. The assumptions used as inputs in the model were as follows:

	Three months ended March 31,		Six months ended March 31,	
	2008	2007	2008	2007
Risk-free interest rates	3.0%	4.8%	3.6%	4.7%
Expected life (years)	6.2	4.9	6.5	5.8
Expected volatility	44.6%	42.5%	47.8%	49.4%
Dividend yield	0%	0%	0%	0%

The risk-free interest rate assumption was based on yields for U.S. Treasury bonds with maturities similar to those of the expected term of the award. The expected life of options granted is determined based on the Company's experience. Expected volatility is based on the Company's stock price movement over a period approximating the expected term. Based on management's judgment, dividend rates are expected to be zero for the expected life of the options. The Company also estimates forfeitures of options granted, which is based on historical experience.

The Company's Incentive Stock Options ("ISO") are granted at a price of at least 100% of the fair market value of the common stock of the Company ("Common Stock") on the date of the grant or 110% with respect to optionees who own more than 10% of the total combined voting power of all classes of stock. ISO's expire in seven years or upon termination of employment and are exercisable at a rate of 20% per year commencing one year after the date of grant. Nonqualified stock options ("NQSO") are granted at fair market value on the date of grant. NQSO's expire in 7 to 10 years and are exercisable at rates of 20% per year from the date of grant, or 20% to 33% per year commencing one year after the date of grant.

### *Restricted Stock Awards*

The Company has entered into restricted stock agreements with certain key employees, covering the issuance of Common Stock ("Restricted Stock"). Under SFAS No.123(R), these shares are considered to be non-vested shares. The Restricted Stock will be released to the key employees if they are employed by the Company at the end of the vesting period. The stock-based compensation table above includes Restricted Stock expenses of \$749,000 and \$1,206,000 for the three-month and six-month periods ended March 31, 2008, respectively, and \$287,000 and \$556,000 for the three-month and six-month periods ended March 31, 2007, respectively.

### *Performance Share Awards*

Historically, the Company has entered into performance share agreements with certain key employees, covering the issuance of Common Stock ("Performance Shares"). The Performance Shares vest upon the achievement of certain performance objectives, which must be achieved during the performance period. Compensation is recognized in each period based on management's best estimate of the achievement level of the grants' specified performance objectives and the resulting vesting amounts. For the three-month and six-month periods ended March 31, 2008, the Company recognized \$308,000 associated with the fair value of vesting of grants. For the three-month and six-month periods ended March 31, 2007, the Company recognized \$380,000 and \$138,000 of the fair value of anticipated vesting of grants, respectively. The stock-based compensation table above includes the Performance Share expenses.

### *1999 Employee Stock Purchase Plan*

Under the 1999 Employee Stock Purchase Plan ("Stock Purchase Plan"), the Company is authorized to issue up to 200,000 shares of common stock. All full-time and part-time employees can choose to have up to 10% of their annual compensation withheld to purchase the Company's common stock at purchase prices that are 85% of the average closing price as defined in the Stock Purchase Plan. As of March 31, 2008 and 2007, there were \$57,000 and \$48,000 of employee contributions, respectively, included in accrued liabilities in the accompanying condensed consolidated balance sheets. Stock compensation expense recognized related to the Stock Purchase Plan for three-month periods ended March 31, 2008 and 2007 totaled \$45,000 and \$39,000, respectively. Stock compensation expense recognized related to the Stock Purchase Plan for the six-month periods ended March 31, 2008 and 2007 totaled \$83,000 and \$79,000, respectively. The stock-based compensation table above includes the Stock Purchase Plan expenses.

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### (8) Comprehensive Income

The components of comprehensive income are as follows (*in thousands*):

	Three months ended March 31,		Six months ended March 31,	
	2008	2007	2008	2007
Net income	\$ 5,107	\$ 5,675	\$ 10,754	\$ 11,666
Other comprehensive income:				
Unrealized holding gains (losses) on available-for-sale securities arising during the period, net of tax	(671)	1,041	(882)	2,841
Adjustment for realized (gains) losses included in net income, net of tax	(241)	9	(804)	12
Comprehensive income	<u>\$ 4,195</u>	<u>\$ 6,725</u>	<u>\$ 9,068</u>	<u>\$ 14,519</u>

### (9) Income Taxes

The Company adopted the provisions of FASB Interpretation No. 48 (“FIN 48”) *Accounting for Uncertainty in Income Taxes — An Interpretation of FASB Statement No. 109*, on October 1, 2007. Upon adoption of FIN 48, the Company recorded a net \$79,000 benefit related to taxes, which was recorded as an increase to the October 1, 2007 beginning retained earnings balance. As of the adoption date, the Company has gross unrecognized tax benefits of \$1.1 million and if recognized, this total amount would impact the effective tax rate. The Company has classified \$160,000 of the gross unrecognized tax benefits as a current liability, reflecting the amount the Company expects to pay during the next twelve months in connection with certain amended tax returns filed by the Company. The remaining liability for unrecognized tax benefits has been classified as non-current, as no payments are expected to be made in the next twelve months. The Company does not anticipate any other significant increases or decreases in unrecognized tax benefits within twelve months of adoption of FIN 48. Interest and penalties related to unrecognized tax benefits are recorded in income tax expense. As of October 1, 2007, a gross balance of \$445,000 of interest and penalties has been accrued related to the unrecognized tax benefits balance.

The Company files tax returns, including returns for its subsidiaries, in the United States federal jurisdiction and in various state jurisdictions. Uncertain tax positions are related to tax years that remain subject to examination. As of the date of the adoption, U.S. tax returns for fiscal years ended September 30, 2005, 2006, and 2007 remain subject to examination by federal tax authorities. Tax returns for state and local jurisdictions for fiscal years ended September 30, 2003 through 2007 remain subject to examination by state and local tax authorities.

### (10) Operating Segments

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance.

SurModics manages its business on the basis of the operating segments noted in the table below, which are comprised of the Company’s seven business units. The three operating segments are aggregated into one reportable segment. The “Drug Delivery” operating segment contains: (1) the Drug Delivery business unit, which is responsible for technologies dedicated to site specific delivery of drugs; (2) the Ophthalmology business unit, which is dedicated to the advancement of treatments for eye diseases, such as age-related macular degeneration (AMD) and diabetic macular edema (DME), two of the leading causes of blindness; and (3) the Brookwood Pharmaceuticals unit, which provides proprietary polymer-based technologies to companies developing improved pharmaceutical products. The “Hydrophilic and Other” operating segment consists of three business units: (1) the Hydrophilic Technologies business unit, which focuses on enhancing medical devices with advanced lubricious coatings that facilitate their placement and maneuverability in the body; (2) the Regenerative Technologies business unit, which is developing platforms intended to augment or replace tissue/organ function (e.g., cell encapsulation applications), or to modify medical devices to facilitate tissue/organ recovery through natural repair mechanisms (e.g., hemo/biocompatible or prohealing coatings); and (3) the Orthopedics business unit, which is committed to innovative solutions for orthopedics patients using proven SurModics technologies, and creating new technology solutions to existing patient care gaps in the orthopedics field. The “In Vitro” operating segment contains the In Vitro Technologies (formerly Diagnostics and Drug Discovery) business unit, which includes the Company’s genomics slide technologies, stabilization products, antigens and substrates for immunoassay diagnostics tests, its *in vitro* diagnostic format technology and its synthetic ECM cell culture products.

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Each operating segment has similar economic characteristics, technology, manufacturing processes, customers, regulatory environments, and shared infrastructures. The Company manages its expenses on a company-wide basis, as many costs and activities are shared among the business units. The focus of the business units is providing solutions to customers and maximizing financial performance over the long term. The accounting policies for segment reporting are the same as for the Company as a whole. The table below presents revenue from the three operating segments for the three-month and six-month periods in fiscal 2008 and 2007, respectively (*in thousands*):

	Three months ended		Six months ended	
	March 31,		March 31,	
	2008	2007	2008	2007
<b>Operating segment:</b>				
Drug Delivery	\$ 11,955	\$ 6,205	\$ 22,723	\$ 12,834
Hydrophilic and Other	8,261	6,546	15,815	11,823
In Vitro	5,491	4,611	10,998	9,445
<b>Total revenue</b>	<b>\$ 25,707</b>	<b>\$ 17,362</b>	<b>\$ 49,536</b>	<b>\$ 34,102</b>

### **(11) Share Repurchases**

In November 2007, the company's Board of Directors authorized the repurchase of \$35.0 million of the Company's common stock in open-market transactions, private transactions, tender offers, or other transactions. The repurchase authorization does not have a fixed expiration date. During the three months ended March 31, 2008, the Company repurchased 64,200 shares for \$2.6 million at an average price of \$40.56 per share under this plan. No shares were purchased in the three months ended December 31, 2007. As of March 31, 2008, \$32.4 million remains authorized and available for future purchases under the repurchase program.

### **(12) Commitments and Contingencies**

*Litigation.* From time to time, the Company may become involved in various legal actions involving its products and technologies, including intellectual property disputes. The outcomes of these legal actions are not within the Company's complete control and may not be known for prolonged periods of time. In some actions, the claimants seek damages, as well as other relief, including injunctions barring the sale of products that are the subject of the lawsuit, which, if granted, could require significant expenditures or result in lost revenues. In accordance with SFAS No. 5, "Accounting for Contingencies," the Company records a liability in the consolidated financial statements for these actions when a loss is known or considered probable and the amount can be reasonably estimated. If the reasonable estimate of a known or probable loss is a range, and no amount within the range is a better estimate, the minimum amount of the range is accrued. If a loss is possible but not known or probable, and can be reasonably estimated, the estimated loss or range of loss is disclosed. In most cases, significant judgment is required to estimate the amount and timing of a loss to be recorded. While it is not possible to predict the outcome for most of the actions discussed below and the Company believes that it has meritorious defenses against these matters, it is possible that costs associated with them could have a material adverse impact on the Company's consolidated earnings, financial condition or cash flows.

*Land Purchase Commitment.* In August 2007, the Company entered into an agreement to purchase an undeveloped parcel of land in Eden Prairie, Minnesota for approximately \$3.6 million (including a non-refundable deposit of \$100,000 paid to the seller at the time the purchase agreement was signed). The agreement requires that the Company complete the purchase on or before August 24, 2008 (the "Closing Date"). While it is the Company's current expectation to complete the purchase on or before the Closing Date, the Company will be required to pay the seller \$1.6 million if it fails to do so and will have no further rights to acquire the land. This \$1.6 million commitment is secured by a standby letter of credit as discussed in Note 4.

### **(13) Subsequent Events**

In April 2008, the Company acquired a 286,000 square foot facility situated on 42 acres located in Birmingham, Alabama for \$12.2 million. The Company plans to remodel the existing facility to accommodate research and development, clinical manufacturing and commercial manufacturing of drug delivery products for pharmaceutical and biotechnology customers. Total investment in this facility, including the \$12.2 million already paid, is expected to approximate \$30.0 million, and renovation and remodeling is expected to be completed over the next two years.

In May 2008, the Company invested an additional \$2.5 million in a subsidiary of Paragon (see Note 5 for additional information on previous investments in Paragon). The arrangement with the Paragon subsidiary called for the Company to invest the additional amount based upon successful completion of specified development milestones.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Overview

SurModics is a leading provider of surface modification and drug delivery technologies to the healthcare industry. The Company is organized into three operating segments composed of seven technology-centered and industry-focused business units. The "Drug Delivery" operating segment consists of three business units: (1) the Drug Delivery business unit, which is responsible for technologies dedicated to site-specific delivery of drugs; (2) the Ophthalmology business unit, which is dedicated to the advancement of treatments for eye diseases, such as age-related macular degeneration (AMD) and diabetic macular edema (DME), two of the leading causes of blindness; and (3) the Brookwood Pharmaceuticals business unit, which provides proprietary polymer-based technologies to companies developing improved pharmaceutical products. The "Hydrophilic and Other" operating segment consists of three business units: (1) the Hydrophilic Technologies business unit, which focuses on enhancing medical devices with advanced lubricious coatings that facilitate their placement and maneuverability in the body; (2) the Regenerative Technologies business unit, which is developing platforms intended to augment or replace tissue/organ function (e.g., cell encapsulation applications), or to modify medical devices to facilitate tissue/organ recovery through natural repair mechanisms (e.g., hemo/biocompatible or prohealing coatings); and (3) the Orthopedics business unit, which is committed to innovative solutions for orthopedics patients using proven SurModics technologies, and creating new technology solutions to existing patient care gaps in the orthopedics field. The "In Vitro" operating segment consists of the In Vitro Technologies (formerly Diagnostics and Drug Discovery) business unit, which includes our genomics slide technologies, our stabilization products, antigens and substrates for immunoassay diagnostic tests, our *in vitro* diagnostic format technology and our synthetic ECM cell culture products.

Revenue in each of our operating segments is derived from three primary sources: (1) royalties and license fees from licensing our patented surface modification and drug delivery technologies and *in vitro* diagnostic formats to customers; the vast majority (typically in excess of 90%) of revenue in the "royalties and license fees" category is in the form of royalties; (2) the sale of reagent chemicals to licensees of our technologies, stabilization products, antigens and substrates to the diagnostics industry and coated glass slides to the genomics market; and (3) research and development fees generated on customer projects. Revenue should be expected to fluctuate from quarter to quarter depending on, among other factors: our customers' success in selling products incorporating our technologies; the timing of introductions of coated products by customers; the timing of introductions of products that compete with our customers' products; the number and activity level associated with customer development projects; the number and terms of new license agreements that are finalized; the value of reagent chemicals and other products sold to customers; and the timing of future acquisitions we complete, if any.

In June 2007, we signed a collaborative research and license agreement with Merck (the "Merck Agreement") to pursue the joint development and commercialization of the I-vation sustained drug delivery system with triamcinolone acetonide and other products that combine Merck proprietary drug compounds with the I-vation system for the treatment of serious retinal diseases. Under the terms of our agreement with Merck, we received an up-front license fee of \$20 million and may receive up to an additional \$288 million in fees and development milestones associated with the successful product development and attainment of appropriate U.S. and EU regulatory approvals for these new combination products. We will also be paid for our activities in researching and developing these combination products. Additionally, under the terms of our agreement with Merck, we will be responsible for the exclusive manufacture and supply of clinical and commercial products. Once products licensed under the agreement are commercialized, we will also receive royalties on sales of such products.

Under EITF 00-21, we are amortizing the \$20 million license fee we received upon signing the agreement in June 2007, over the economic life of the technology we licensed to Merck, or 16 years. This accounting treatment, and the resulting amortization, also applies to current and future license fees and milestone payments. The commercial R&D fees that we are paid by Merck are also amortized over the same economic life. However, all of the costs of the R&D work we perform for Merck are expensed in the period performed. In addition, we recognize billings to Merck for reimbursed out-of-pocket expenses in the period incurred; accordingly such amounts are not amortized. As of March 31, 2008, the deferred revenue balance related to the Merck Agreement was \$24.9 million.

In July 2007, we acquired Brookwood Pharmaceuticals, Inc. ("Brookwood"), from Southern Research Institute, for \$40 million in cash at closing and up to an additional \$22 million in cash upon the successful achievement of specified milestones. In the second quarter of fiscal 2008 a milestone was achieved and \$2 million of additional purchase price was recorded as an increase to goodwill. Brookwood specializes in proprietary injectable microparticles and implants to provide sustained delivery of drugs being developed by leading pharmaceutical, biotechnology and medical device clients as well as emerging companies. This acquisition is expected to help us broaden our technology offerings to our customers, diversify the range of markets in which we participate, expand our customer base, and enhance our pipeline of potential revenue generating opportunities.

In August 2007, we acquired BioFX Laboratories, Inc. ("BioFX"), a provider of substrates to the *in vitro* diagnostics industry, for \$11.3 million in cash at closing and up to an additional \$11.4 million in cash upon the successful achievement of specified revenue targets. In the first quarter of fiscal 2008 a milestone was achieved and \$1.1 million of additional purchase

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price was recorded as an increase to goodwill. BioFX is a leading manufacturer of substrates, a critical component of diagnostic test kits used to detect and signal that a certain reaction has taken place. We expect our acquisition of BioFX to broaden our product portfolio in the *in vitro* diagnostics market.

The operating results for the Brookwood and BioFX businesses are included in the consolidated results of operations from the dates of acquisition.

For financial accounting and reporting purposes, we treat our three operating segments as one reportable segment. We made this determination because a significant percentage of our employees provide support services (including research and development) to each operating segment; technology and products from each operating segment are marketed to the same or similar customers; each operating segment uses the same sales and marketing resources; and each operating segment operates in the same regulatory environment.

### Critical Accounting Policies

Critical accounting policies are those policies that require the application of management's most challenging subjective or complex judgment, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Critical accounting policies involve judgments and uncertainties that are sufficiently sensitive to result in materially different results under different assumptions and conditions. For a detailed description of our critical accounting policies, see the notes to the financial statements included in our Annual Report on Form 10-K for the year ended September 30, 2007.

### Results of Operations

<i>(Dollars in thousands)</i>	<u>Three Months Ended March 31,</u>		<u>\$ Increase</u>	<u>% Increase</u>
	<u>2008</u>	<u>2007</u>		
Revenue:				
Drug Delivery	\$ 11,955	\$ 6,205	\$ 5,750	93%
Hydrophilic and Other	8,261	6,546	1,715	26%
In Vitro	5,491	4,611	880	19%
Total revenue	<u>\$ 25,707</u>	<u>\$ 17,362</u>	<u>\$ 8,345</u>	48%

**Revenue.** Second quarter revenue was \$25.7 million, an increase of \$8.3 million or 48%, compared with the second quarter of fiscal 2007. Revenue included \$5.2 million from the acquisition of Brookwood and \$1.1 million from the acquisition of BioFX, which were completed in the fourth quarter of fiscal 2007. All three operating segments generated revenue growth, as detailed in the table above and further explained in the narrative below.

*Drug Delivery.* Revenue in the Drug Delivery segment was \$12.0 million in the second quarter of fiscal 2008, a 93% increase compared with \$6.2 million in the prior-year period. The increase in total revenue reflects a significant increase in research and development revenue from drug delivery and ophthalmology customers. Our Brookwood business unit generated \$5.2 million of revenue in the second quarter, whereas prior period results do not include any revenue from Brookwood. Excluding the contribution from Brookwood in the second quarter, Drug Delivery revenue increased 9% compared with the prior-year period.

Drug Delivery derives a substantial amount of revenue from royalties and license fees and product sales attributable to Cordis Corporation, a Johnson & Johnson company, on its CYPHER® Sirolimus-eluting Coronary Stent. The CYPHER® stent incorporates a proprietary SurModics polymer coating that delivers a therapeutic drug designed to reduce the occurrence of restenosis in coronary artery lesions.

Drug Delivery royalties and license fees decreased 3%, as increased royalties and license fees from ophthalmology and drug delivery customers nearly offset a 25% decrease in royalty revenue from Cordis as a result of lower CYPHER® sales.

Drug Delivery generated total revenue of \$1.1 million from Merck royalties, license fees and research and development activities during the three-month period ended March 31, 2008. In accordance with accounting for arrangements with multiple elements, we are amortizing the payments received from Merck over the estimated 16 year economic life of the technology we licensed to Merck.

The CYPHER® stent, from which we derive a substantial amount of our Drug Delivery revenue, faces continuing competition from Boston Scientific Corporation's Taxus® drug-eluting stent and Medtronic's Endeavor® drug-eluting stent, which are sold domestically and internationally, and stents from Abbott Vascular and others sold outside the U.S. In addition,

a drug-eluting stent from Abbott is expected to be approved in the U.S. within the next year. These stents compete or will compete directly with the CYPHER® stent. The Company also receives a royalty on the Medtronic Endeavor® drug-eluting stent, but the associated royalty revenue is reflected in the Hydrophilic and Other segment. In addition to competition among the various players, the total size of the drug-eluting stent market has decreased significantly in the past eighteen months as a result of concerns about product safety, mostly related to potential clotting associated with stents. Therefore, future royalty and reagent sales revenue could decrease due to lower CYPHER® stent sales as a result of the overall market contraction and the ongoing and expected future competition. We anticipate that quarterly royalty revenue from the CYPHER® stent may be volatile throughout fiscal 2008 and beyond as the various marketers of drug-eluting stents continue competing in the marketplace and as others enter the marketplace. Management expects royalties from the CYPHER® stent to continue to constitute a substantial portion of our revenue in fiscal 2008. However, whether and the extent to which royalties from the CYPHER® stent continue to constitute a significant source of revenue is subject to a number of risks, including intellectual property litigation generally, and specifically the damages, settlements and mutual agreements that may result from various infringement suits between Boston Scientific and Cordis in which each has been found to have violated certain intellectual property rights of the other.

The inclusion of revenue from our Brookwood business unit in Drug Delivery will also impact the overall revenue and mix in fiscal 2008, as a substantial majority of Brookwood revenue is comprised of research and development fees.

*Hydrophilic and Other.* Hydrophilic and Other revenue was \$8.3 million in the second quarter of fiscal 2008, an increase of 26% compared with \$6.5 million in the prior-year period, primarily as a result of 34% growth in royalties and license fees. This increase primarily reflects the Company's growing portfolio of licensed customers. In contrast to our Drug Delivery segment, where a significant percentage of revenue is attributable to Cordis, there are several dozen licensees and an even larger number of coated products generating royalties in this segment. The growth in royalties principally reflects increased sales of coated products already on the market, and to a lesser extent newly introduced licensed products. We believe that revenue will likely continue to increase for the remainder of fiscal 2008; however, the rate of growth will depend upon the timing and market success of our customers' newly released products, as well as the sales of existing products.

*In Vitro.* Revenue in the In Vitro segment was \$5.5 million in the second quarter of 2008, an increase of 19% compared with \$4.6 million in the prior-year period. The increase was attributable to increased product sales, mostly as a result of the addition of \$1.1 million of BioFX products sold during the quarter. The increase was partially offset by a decrease in royalties and license fees. Prior-year results do not include sales of BioFX products, because the acquisition of BioFX was completed in the fourth quarter of fiscal 2007. In Vitro segment royalties and license fees decreased principally because of lower underlying sales of licensed products in the second quarter of fiscal 2008. We anticipate continued growth in product sales for the remainder of fiscal 2008 reflecting particularly the addition of BioFX products, but the rate of growth will depend on the success of certain product launches. Royalties and license fees likely will not increase. In Vitro derives a significant percentage of its revenue from GE Healthcare and Abbott Laboratories. Royalty revenue generated under our diagnostic format patent license agreement with Abbott Laboratories (the "Abbott Agreement") is expected to decline significantly following the expiration of the licensed patents in December 2008. Consistent with our revenue recognition practices, royalty revenue is recognized as licensees report it to us, which typically occurs on a quarter lag basis. Accordingly, we expect royalties generated under the Abbott Agreement to extend into the second quarter of fiscal 2009.

**Product costs.** Product costs were \$2.2 million in the second quarter of fiscal 2008, compared with \$1.1 million in the prior-year period. The \$1.1 million increase in product costs reflects principally the addition of product sales from BioFX and Brookwood and to a lesser extent a changing product mix. Overall product margins averaged 54%, compared with 68% reported last year. The decrease in product margins reflects the changing mix of products sold in the period. In particular, some of our stabilization and antigen products, genomics slides and Brookwood polymer products carry lower margins than our reagent products. We anticipate that product margins will continue to be lower on a year-over-year basis throughout fiscal 2008 when compared to prior-year results, principally as a result of revenue mix.

**Research and development expenses.** Research and development expenses were \$10.4 million for the second quarter, an increase of 81% compared with \$5.7 million in the prior-year period. The increase principally reflects the addition of Brookwood and BioFX to our operations, which together incurred total research and development expenses of \$3.5 million in the quarter. In addition, compensation expenses have increased as we have added personnel to support customer projects and internal development projects. Our research and development headcount has increased by six and eleven employees compared with December 31 and March 31, 2007, respectively, not including the addition of 53 research and development employees related to our Brookwood and BioFX acquisitions. Also contributing to the increase were a \$0.3 million increase in stock-based compensation, higher costs related to our internal development projects and \$0.4 million of out-of-pocket expenses in connection with our Merck projects, for which we are reimbursed. Research and development expenses are expected to continue to increase for the remainder of fiscal 2008, reflecting the addition of Brookwood and BioFX to our operations, and our continued expansion of the research and development organization. Research and development expenses for our Brookwood business unit, in particular, are a higher percentage of that unit's total revenues than for our other business units.

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**Selling, general and administrative expenses.** Selling, general and administrative (“SG&A”) expenses were \$6.0 million for the three-month period ended March 31, 2008, an increase of \$3.5 million compared with the prior-year period. The increase principally reflects the addition of Brookwood and BioFX to our operations, which comprised \$1.2 million of SG&A expenses. Our stock-based compensation expenses increased \$1.6 million this quarter principally as a result of recent transitions on our Board of Directors. We expect SG&A expenses to remain approximately at current levels for the remainder of fiscal 2008, reflecting the addition of Brookwood and BioFX to our operations, and continued expansion of our organization to support our anticipated growth.

**Other income, net.** Other income was \$1.2 million in the second quarter of fiscal 2008, consistent with the prior-year period. Income from investments was \$1.1 million, compared with \$1.2 million in the prior-year period. The decrease principally reflects lower yields from our investment portfolio. Offsetting the decrease in investment income was \$0.1 million in other income.

**Income tax expense.** The income tax provision was \$3.3 million in the second quarter of fiscal 2008, compared with \$3.6 million in the prior-year period. The effective tax rate was 38.9%, compared with 38.7% in the prior-year period. This increase is primarily attributable to tax reserve increases for state tax contingencies.

<i>(Dollars in thousands)</i>	<u>Six Months Ended March 31,</u>		<u>\$ Increase</u>	<u>% Increase</u>
	<u>2008</u>	<u>2007</u>		
Revenue:				
Drug Delivery	\$ 22,723	\$ 12,834	\$ 9,889	77%
Hydrophilic and Other	15,815	11,823	3,992	34%
In Vitro	10,998	9,445	1,553	16%
Total revenue	<u>\$ 49,536</u>	<u>\$ 34,102</u>	<u>\$ 15,434</u>	45%

**Revenue.** Total revenue was \$49.5 million for the first six months of fiscal 2008, an increase of \$15.4 or 45%, compared with the same period of fiscal 2007. Revenue included \$11.7 million from the acquisitions of Brookwood and BioFX businesses, which were completed in the fourth quarter of fiscal 2007. All three operating segments generated revenue growth, as detailed in the table above and further explained in the narrative below.

**Drug Delivery.** Drug Delivery revenue increased 77% to \$22.7 million for the first half of fiscal 2008 compared with \$12.8 million for the same period last year. The increase in total revenue reflects a significant increase in research and development revenue from drug delivery and ophthalmology customers, offset partially by lower royalties and license fees. Our Brookwood business unit generated \$9.4 million of revenue in the first six months of fiscal 2008. Prior-period results do not include any revenue from Brookwood, as the acquisition was completed in the fourth quarter of 2007. The decrease in Drug Delivery royalties and license fees principally reflects decreased royalty revenue from Cordis as a result of lower CYPHER® sales. Substantially offsetting the decrease attributable to CYPHER® was an increase in royalties and license fees from other drug delivery and ophthalmology customers, including Merck.

**Hydrophilic and Other.** Hydrophilic and Other revenue increased 34% to \$15.8 million compared with \$11.8 million for the same period last year. The growth was driven principally by increased royalties and license fees as the company continues to grow its licensed customer base.

**In Vitro.** In Vitro revenue increased 16% to \$11.0 million compared with \$9.4 million for the same period last year. The increase was attributable to increased product sales, mostly as a result of the addition of \$2.2 million of BioFX products sold during the period. The increase was partially offset by a decrease in royalties and license fees. Prior-period results do not include sales of BioFX products, because the acquisition of BioFX was completed in the fourth quarter of fiscal 2007. In Vitro segment royalties and license fees decreased principally because the prior-year results included a settlement related to past due royalties; there was no such settlement in the first half of fiscal 2008.

**Product costs.** Product costs were \$4.1 million for the six months ended March 31, 2008, an 89% increase from \$2.2 million for the same period last year. Overall product margins averaged 58% compared with 64% for the comparable period last year. The margin decrease was primarily attributable to a lower mix of reagent sales which carry higher gross margins than our other products.

**Research and development expenses.** Research and development expenses were \$19.9 million for the first six months of fiscal 2008, an increase of 82% compared with \$10.9 million for the same period of fiscal 2007. The increase principally reflects the addition of Brookwood and BioFX to our operations, which together had total research and development expenses of \$6.5 million in the first six months of fiscal 2008. In addition, compensation expenses have increased as we have



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added personnel to support customer projects and internal development projects. Our research and development headcount has increased by eight and eleven compared with September 30 and March 31, 2007, respectively, not including the addition of 53 research and development employees from our Brookwood and BioFX acquisitions. We have also incurred higher costs related to our internal development projects, and \$1.0 million of out-of-pocket expenses were incurred in connection with our Merck projects, for which we are reimbursed.

**Selling, general and administrative expenses.** SG&A expenses were \$10.8 million for the first six months of fiscal 2008, an increase of \$6.0 million compared with the prior-year period. The increase principally reflects the addition of Brookwood and BioFX to our operations, as they incurred \$2.3 million of SG&A expenses. Our stock-based compensation expenses were \$2.0 million higher for the first six months of fiscal 2008 mainly associated with recent transitions on our Board of Directors.

**Other income, net.** Other income was \$2.9 million for the first six months of fiscal 2008 compared with income of \$2.5 million in the same period of fiscal 2007. Income from investments was \$2.0 million, compared with \$2.5 million in the prior-year period. The decrease principally reflects a decrease in investable cash and lower yields in our investment portfolio. Offsetting the decrease in investment income was \$0.9 million in other income.

**Income tax expense.** The income tax provision was \$6.9 million for the first six months of fiscal 2008, compared with \$7.0 million for the same period in fiscal 2007. The effective tax rate for the first six months of fiscal 2008 was 39.1%, compared with 37.6% for the same period last year. The increase in the effective tax rate principally reflects an increase in state tax contingency reserves in fiscal 2008 and to a release of federal tax reserves in fiscal 2007.

### **Liquidity and Capital Resources**

As of March 31, 2008, the Company had working capital of \$48.6 million, of which \$37.8 million consisted of cash, cash equivalents and short-term investments. Working capital increased \$20.6 million from the September 30, 2007 level driven principally by cash flow from operations, changes in income tax assets and liabilities, and the collection of \$5.8 million of notes receivable. Our cash, cash equivalents and short-term and long-term investments totaled \$80.9 million at March 31, 2008, an increase of \$10.7 million from \$70.2 million as of September 30, 2007. The Company's investments principally consist of U.S. government and government agency obligations and investment grade, interest-bearing corporate debt securities with varying maturity dates, the majority of which are five years or less. The Company's policy requires that no more than 5% of investments be held in any one credit issue, excluding U.S. government and government agency obligations. The primary investment objective of the portfolio is to provide for the safety of principal and appropriate liquidity while meeting or exceeding a benchmark (Merrill Lynch 1-3 Year Government-Corporate Index) total rate of return. Management plans to continue to direct its investment advisors to manage the Company's investments primarily for the safety of principal for the foreseeable future as it assesses other investment opportunities and uses of its investments.

We had cash flows from operating activities of approximately \$8.9 million in the six months ended March 31, 2008, compared with \$16.5 million the six months ended March 31, 2007. The decrease compared with prior-year results primarily reflects timing of income tax payments and accounts receivable increasing in the six months, rather than being a source of cash as it was in the prior-year period.

In November 2007, our Board of Directors authorized the repurchase of up to \$35 million of the Company's common stock in open-market transactions, private transactions, tender offers, or other transactions. The repurchase authorization does not have a fixed expiration date. We entered into a Rule 10b5-1 agreement in January 2008 and during the second quarter of fiscal 2008 purchased 64,200 shares of common stock for \$2.6 million at an average price of \$40.52 per share. Under the current authorization the Company has \$32.4 million remaining available for authorized share repurchases as of March 31, 2008.

As of March 31, 2008, we had approximately \$236,000 of debt outstanding in connection with our Brookwood subsidiary. We do not have any material credit agreements established, and we believe that our existing capital resources will be adequate to fund our operations and material commitments into the foreseeable future. Our remaining anticipated liquidity needs for fiscal 2008 include but are not limited to the following: milestone payments associated with prior-year business acquisitions of approximately \$3 million; capital expenditures related to the recently acquired Alabama facility in the range of \$13 million to \$18 million (including the \$12.2 million paid in April 2008) and related to our Minnesota facilities in the range of \$4 million to \$8 million; and any amounts associated with the repurchase of common stock under the authorization discussed above.

As of March 31, 2008, the Company did not have any off-balance sheet arrangements with any unconsolidated entities.

## Forward-Looking Statements

Certain statements contained in this report and other written and oral statements made from time to time by the Company do not relate strictly to historical or current facts. As such, they are considered “forward-looking statements” that provide current expectations or forecasts of future events. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements can be identified by the use of terminology such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “forecast,” “intend,” “may,” “plan,” “possible,” “project,” “will” and similar words or expressions. Any statement that is not an historical fact, including estimates, projections, future trends and the outcome of events that have not yet occurred, are forward-looking statements. The Company’s forward-looking statements generally relate to its growth strategy, financial results, product development programs, sales efforts, sufficiency of capital resources, and the impact of the Cordis agreement and other significant customer agreements. You should carefully consider forward-looking statements and understand that such statements involve a variety of risks and uncertainties, known and unknown, and may be affected by inaccurate assumptions. Consequently, no forward-looking statement can be guaranteed and actual results may vary materially. The Company undertakes no obligation to update any forward-looking statement.

Although it is not possible to create a comprehensive list of all factors that may cause actual results to differ from the Company’s forward-looking statements, such factors include, among others: (i) the Company’s significant dependence upon Cordis, which causes our financial results and stock price to be subject to factors affecting Cordis and its Cypher stent program, including among others, the rate of market penetration by Cordis, the timing of market introduction of competing products, product safety or efficacy concerns and intellectual property litigation generally and specifically the litigation involving Boston Scientific Scimed, Inc. and Cordis in the U.S. District Court for the District of Delaware in which each was reported in June and July 2005 to have been found to have infringed the patent rights of the other; (ii) frequent intellectual property litigation in the medical device industry that may directly or indirectly adversely affect our customers’ ability to market their products incorporating our technologies; (iii) failure to obtain intellectual property rights protecting our proprietary technologies, or the expiration or loss of such rights, could have a material adverse effect on our business, financial condition and results of operations; (iv) healthcare reform efforts and reimbursement rates for medical device products that may adversely affect our customers’ ability to cost effectively market and sell devices incorporating our technologies; (v) the Company’s ability to attract new licensees and to enter into agreements for additional product applications with existing licensees, the willingness of potential licensees to sign license agreements under the terms offered by the Company, and the Company’s ability to maintain satisfactory relationships with its licensees; (vi) the Company’s ability to increase the number of market segments and applications that use its coating technologies through its sales and marketing and research and development efforts; (vii) the Company’s ability to facilitate through strategic investment and research and development support the creation of new medical device market segments and applications that incorporate its coating technologies; (viii) market acceptance of products sold by customers incorporating our technologies and the timing of new product introductions by licensees; (ix) market acceptance of products sold by customers’ competitors and the timing and pricing of new product introductions by customers’ competitors; (x) the difficulties and uncertainties associated with the lengthy and costly new product development and foreign and domestic regulatory approval processes, such as delays, difficulties or failures in achieving acceptable clinical results or obtaining foreign or FDA marketing clearances, which may result in lost market opportunities or postpone or preclude product commercialization by licensees; (xi) efficacy or safety concerns with respect to products marketed by us and our licensees, whether scientifically justified or not, that may lead to product recalls, withdrawals or declining sales; (xii) the ability to secure raw materials for reagents the Company sells; (xiii) the Company’s ability to manage successfully clinical trials and related foreign and domestic regulatory processes for the I-vation™ intravitreal implant or other acquired products from InnoRx under development by the Company’s ophthalmology division, whether delays, difficulties or failures in achieving acceptable clinical results or obtaining foreign or FDA marketing clearances postpone or preclude product commercialization of the intravitreal implant or other acquired products, and whether the intravitreal implant and any other acquired products remain viable commercial prospects; (xiv) product liability claims not covered by insurance; (xv) the development of new products or technologies by competitors, technological obsolescence and other changes in competitive factors; (xvi) the trend of consolidation in the medical device industry, resulting in more significant, complex and long term contracts than in the past and potentially greater pricing pressures; (xvii) the Company’s ability to identify suitable businesses to acquire or with whom to form strategic relationships to expand its technology development and commercialization, its ability to successfully integrate the operations of companies it may acquire from time to time (including Brookwood Pharmaceuticals, Inc., and BioFX Laboratories, Inc.) and its ability to create synergies from acquisitions and other strategic relationships; (xviii) difficulties in bringing our facilities into compliance with good manufacturing practices or other applicable regulatory standards may adversely impact our ability to manufacture and supply products, or perform other services for our customers; (xix) the Company’s ability to successfully internally perform certain product development activities and governmental and regulatory compliance activities with respect to acquired technology, including InnoRx technology, which activities the Company has not previously undertaken in any significant manner; (xx) the Company’s ability to successfully perform and earn milestone payments related to contractual milestone criteria in general and specifically the \$288 million in fees and development milestones in the Merck Agreement; (xxi) economic and other factors over which the Company has no control, including changes in inflation and consumer confidence; (xxii) acts of God or terrorism which impact the Company’s personnel or facilities; and (xxiii) other factors described in the “Risk Factors” and other sections of SurModics’ Annual Report on Form 10-K, which you are encouraged to read carefully. Many of these factors are outside the control and knowledge of the Company and could result in increased volatility in period-to-period results. Investors are advised not to place undue reliance upon the Company’s forward-looking information and to consult any further disclosures by the Company on this subject in its filings with the Securities and Exchange Commission.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

The Company's investment policy requires investments with high credit quality issuers and limits the amount of credit exposure to any one issuer. The Company's investments principally consist of U.S. government and government agency obligations and investment-grade, interest-bearing corporate debt securities with varying maturity dates, the majority of which are five years or less. Because of the credit criteria of the Company's investment policy, the primary market risk associated with these investments is interest rate risk. The Company does not use derivative financial instruments to manage interest rate risk or to speculate on future changes in interest rates. A one percentage point increase in interest rates would result in an approximate \$894,000 decrease in the fair value of the Company's available-for-sale securities as of March 31, 2008, but no material impact on the results of operations or cash flows. Management believes that a reasonable change in raw material prices would not have a material impact on future earnings or cash flows because the Company's inventory exposure is not material.

Although we conduct business in foreign countries, our international operations consist primarily of sales of reagent and stabilization chemicals. Additionally, all sales transactions are denominated in U.S. dollars. Accordingly, we do not expect to be subject to material foreign currency risk with respect to future costs or cash flows from our foreign sales. To date, we have not entered into any foreign currency forward exchange contracts or other derivative financial instruments to hedge the effects of adverse fluctuations in foreign currency exchange.

### **Item 4. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**

As of the end of the period covered by this report, the Company conducted an evaluation under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer regarding the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in to Rule 13a-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act"), pursuant to Rule 13a-15(b) of the Exchange Act. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of such time.

#### **Changes in Internal Controls**

There were no changes in the Company's internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II — OTHER INFORMATION****Item 1. Legal Proceedings.**

There have been no material developments in the legal proceedings previously disclosed in the Company's Form 10-K for the fiscal year ended September 30, 2007.

**Item 1A. Risk Factors.**

There have been no material changes from risk factors as previously disclosed in the Company's Form 10-K for the fiscal year ended September 30, 2007 in response to Item 1A to Part I of Form 10-K.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.****(c) Issuer Purchases of Equity Securities**

The following table presents information with respect to purchases of common stock of the Company made during the three months ended March 31, 2008, by the Company or on behalf of the Company or any "affiliated purchaser" of the Company, as defined in Rule 10b-18(a)(3) under the Exchange Act.

Period	(a) Total Number of Shares Purchased(1)	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs(2)
1/01/08 — 1/31/08	0	NA	NA	NA
2/01/08 — 2/29/08	0	NA	NA	NA
3/01/08 — 3/31/08	67,390	\$40.50	64,200	\$32,398,599
Total	67,390	\$40.50	64,200	\$32,398,599

- (1) The purchases in this column included shares repurchased as part of our publicly announced program and in addition include 3,190 shares that were repurchased by the Company to satisfy tax withholding obligations in connection with so-called "stock swap exercises" related to the vesting of restricted stock awards.
- (2) On November 15, 2007, our Board of Directors announced the authorization of the repurchase of \$35 million of its outstanding common stock. As of March 31, 2008, we have repurchased 64,200 shares at an average price of \$40.52 per share. Under the current authorization the Company has \$32.4 million available for authorized share repurchases as of March 31, 2008, and such authorization has no expiration date.

**Item 3. Defaults Upon Senior Securities.**

Not Applicable.

**Item 4. Submission of Matters to a Vote of Security Holders.**

The information disclosed under Part II Item 4 of the Company's Quarterly Report on Form 10-Q for the period ended December 31, 2007 is incorporated herein by reference.

**Item 5. Other Information.**

Not Applicable.

## Table of Contents

### **Item 6. Exhibits.**

<u>Exhibit</u>	<u>Description</u>
3.1	Restated Articles of Incorporation, as amended — incorporated by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-QSB for the quarter ended December 31, 1999, SEC File No. 0-23837
3.2	Restated Bylaws — incorporated by reference to Exhibit 3.2 of the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2007, SEC File No. 0-23837
10.1	Real Estate Purchase Agreement between Brookwood Pharmaceuticals, Inc., and Belk, Inc., dated March 11, 2008**
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002**
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002**
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of Sarbanes-Oxley Act of 2002**
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of Sarbanes-Oxley Act of 2002**

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\*\* Filed herewith.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**SurModics, Inc.**

Date: May 9, 2008

By: /s/ Philip D. Ankeny  
Philip D. Ankeny  
Senior Vice President and Chief Financial Officer  
(duly authorized officer and principal financial officer)

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

EXHIBIT INDEX TO FORM 10-Q  
For the Quarter Ended March 31, 2008

SURMODICS, INC.

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\*\* Filed herewith.

**REAL ESTATE PURCHASE AND SALE AGREEMENT**

**THIS AGREEMENT** is made this 11<sup>th</sup> day of March, 2008, by and between:

**SELLER:**           **BELK, INC.**  
                  **2801 West Tyvola Road**  
                  **Charlotte, North Carolina 28217**  
                  **Attention: Bradley B. Wood, Vice President**  
                  **("Seller")**

**PURCHASER:**      **BROOKWOOD PHARMACEUTICALS, INC., or its assigns**  
                  **756 Tom Martin Drive**  
                  **Birmingham, Alabama 35211**  
                  **Attention: Arthur J. Tipton, President**  
                  **("Purchaser")**

**WITNESSETH:**

**WHEREAS**, pursuant to that certain Lease Agreement dated December 1, 1985 recorded on January 9, 1986, in Real Volume 2980, Page 578, as amended by the First Supplemental Lease Agreement dated September 5, 1986 recorded on September 5, 1986, in Real Volume 2980, Page 873; the Second Supplemental Lease Agreement dated September 1, 1987 recorded January 25, 1988 in Real Volume 3321, Page 56; the Third Supplemental Lease Agreement dated November 1, 1988 recorded November 30, 1988 in Real Volume 3509, Page 862; the Fourth Supplemental Lease Agreement dated July 24, 1991 and the Fifth Supplemental Lease Agreement dated November 17, 1997; and all recorded in the Probate Office of Jefferson County, Alabama as set forth above (collectively the "Lease") between Parisian, Inc. and the Industrial Development Board of the City of Birmingham (the "IDB"); and

**WHEREAS**, on March 4, 2006 Parisian, Inc., an Alabama corporation assigned the lease to McRae's of Alabama, Inc., an Alabama corporation (formerly Pizitz, Inc.) which assignment was recorded on March 15, 2006 in Book LR 200605, Page 8336 in the Office of the Judge of Probate of Jefferson County, Alabama; and

**WHEREAS**, on March 6, 2006 McRae's of Alabama, Inc., an Alabama corporation amended its Articles of Incorporation to change its name to Parisian Stores, Inc., an Alabama corporation which amendment was filed on March 11, 2006 in Book LR 200605, Page 325 in the Office of the Judge of Probate of Jefferson County, Alabama; and

**WHEREAS**, On October 2, 2006 Parisian Stores, Inc., an Alabama corporation merged with Belk, Inc. ("Seller") a Delaware corporation as evidenced by the Certificate of Merger filed on October 2, 2006 in the Office of the Secretary of State of the State of Alabama; and



**WHEREAS**, Seller is the lessee of that certain real estate located at 750 Lakeshore Parkway, in the City of Birmingham, Jefferson County, Alabama, consisting of an office building and warehouse facility, as more particularly described in the attached **Exhibit A** and identified on the attached **Exhibit A-1** (the “Real Property”); and

**WHEREAS**, Seller has an option to purchase the Real Property under the terms of the Lease (the “Purchase Option”); and

**WHEREAS**, Seller has agreed to exercise the Purchase Option and to convey its interest in the Real Property and the “Personal Property”, as hereinafter defined, to Purchaser, and Purchaser has agreed to purchase the same, upon the terms and conditions set forth in this Agreement.

**AGREEMENT:**

For and in consideration of the representations, covenants, and agreements herein contained, the parties hereto agree as follows:

**1. PURCHASE AND SALE.** Seller hereby agrees to sell, transfer, convey, assign and deliver to Purchaser, and Purchaser hereby agrees to purchase from Seller, on the “Closing Date”, as hereinafter defined, the following at the purchase price and upon the terms and conditions hereinafter set forth:

**(a)** The Real Property described in the attached **Exhibit A**, together with all buildings, improvements, walls, fences, signage, shrubbery, plantings and fixtures thereon, at the purchase price and upon the terms and conditions hereinafter set forth. The Real Property to be sold hereunder shall include all rights, ways, alleys, privileges, easements, appurtenances, and advantages thereto belonging or in any wise appurtenant.

**(b)** Any and all equipment, machinery, fixtures, tools, signs, systems, supplies, inventories, and other tangible personal property owned by Seller, including without limitation furniture, furnishings, fixtures, carpeting, heating, lighting, plumbing, water, sewer, ventilating, electrical, gas, heating, air conditioning, communication, fire protection, security and light/safety fixtures, equipment and systems, water heaters, furnaces, heating controls and motors, incinerating, disposal, cleaning, maintenance, janitorial, landscaping equipment, and other items located on the Real Property (collectively, the “Personal Property”). Notwithstanding the above, the list of property itemized in Schedule 1(b) shall not be included in the sale (the “Excluded Personal Property”).

**(c)** Any and all transferable licenses, permits, certificates, approvals, authorizations, variances and consents, if any, issued or granted by governmental or quasi-governmental bodies, respecting the ownership, use or operation of the Real Property (collectively, the “Licenses and Permits”).

**(d)** At the option of Purchaser, any and all management and leasing agreements, if any, service, supply, equipment rental, janitorial, security, landscaping and other contracts related to the ownership, operation, leasing or use of the Real Property or the Personal Property, as well as warranties for the improvements on the Real Property, including without limitation the mechanical systems, roofing and paving (collectively, the “Service Contracts”).

Collectively, the Real Property, Personal Property, Licenses and Permits and Service Contracts may hereinafter be referred to as the "Property".

In connection with the foregoing, Seller shall, at its expense, be responsible for properly exercising its Purchase Option prior to the Closing in order that it may subsequently convey fee simple title to the Property to Purchaser at the Closing.

**2. PURCHASE PRICE.** The "Purchase Price" of the Property shall be Twelve Million Fifty Thousand and 00/100 Dollars (\$12,050,000.00), to be paid as follows:

(a) Within ten (10) business days following last execution of this Agreement, Purchaser shall deposit with Lawyers Title Insurance Corporation (the "Escrow Agent") the sum of One Hundred Thousand and 00/100 Dollars (\$100,000.00) as earnest money (the "Earnest Money"), which Earnest Money shall be held in trust in an interest bearing account (in favor of Purchaser) and shall be applied to the Purchase Price at the Closing.

(b) The Purchase Price shall be paid to Seller at Closing, subject to adjustments as provided for herein, in cash or by cashier's or certified check or by wire transfer of funds.

**3. REPRESENTATIONS, WARRANTIES AND COVENANTS OF SELLER.** Seller hereby represents and warrants to Purchaser the following, which shall be true and correct at the time of Closing, which are material inducements for Purchaser entering into this Agreement, and which shall survive the Closing:

(a) Seller is a corporation duly organized, validly existing, and in good standing under the laws of the State of Delaware, is authorized to transact business and is in good standing under the laws of the State of Alabama.

(b) The execution, delivery and performance of this Agreement by Seller has been duly authorized by all requisite action on the part of Seller, and Seller shall at Closing have the full right and authority to enter into, perform and consummate its obligations under this Agreement, without any qualification, and without the necessity of any other consent.

(c) The obligations and undertakings of Seller under this Agreement do not and will not violate or conflict with any agreement to which Seller is a party or by which Seller or the Property is bound.

(d) Without warranting the completeness, conclusions or methodology of any documents produced by third parties, to the best of Seller's knowledge, all of the information and data delivered and to be delivered to Purchaser by Seller under this Agreement are, and at Closing will be, true and correct in all material respects.

(e) Other than the Personal Property located on or in the Property on February 13, 2008 (less the Excluded Personal Property), there is no other personal property owned by Seller relating to the Real Property.

(f) Seller will in accordance with Section 5 of this Agreement, provide Purchaser with true, correct and complete copies of all Licenses and Permits it currently has relating to the Property. Seller has no applicable Licenses or Permits other than those listed on Schedule 3(f) attached hereto. All amounts payable by Seller in connection with such Licenses and Permits have been paid through the last date due and there is no material default existing and continuing thereunder by Seller.

(g) Attached hereto as Schedule 3(g) is a list of all Service Contracts related to the ownership, operation, leasing or use of the Property. Seller has, or will in accordance with Section 5 of this Agreement, provide Purchaser with true, correct and complete copies of the Service Contracts listed in Schedule 3(g). All amounts payable by Seller under such contracts have been paid through the last date due and there is no material default existing and continuing thereunder by Seller, or to the best of Seller's knowledge, the other party thereto.

(h) Except for the Purchase Option, there are no recorded or unrecorded contracts and/or options pertaining to or affecting the sale of the Property, or any part thereof, among parties other than Seller and Purchaser.

(i) To the best of Seller's knowledge, there are no "Hazardous Materials," as hereinafter defined, located in, on, or under the Property. Seller is not a generator of any such Hazardous Materials and has conducted its activities on and from the Property in full compliance with all hazardous waste emission, reporting, and removal requirements imposed by applicable law. To the best of Seller's knowledge, there are not now, nor has there ever been, any underground or aboveground storage tanks located at or within the Property. Seller has not used or operated the Property in any manner for the storage, use, treatment, manufacture or disposal of any Hazardous Materials, and, to the best of Seller's knowledge and belief, the Property has never been used or operated for the storage, use, treatment, manufacture or disposal of any Hazardous Materials. For purposes hereof, "Hazardous Materials" shall mean any substance, material, waste, gas, or particulate matter which is regulated by any local governmental authority, the State of Alabama, or the United States Government, including, without limitation, any material or substance which is (i) defined as a "contaminant," "pollutant," "hazardous waste," "hazardous material," "hazardous substance," "extremely hazardous waste," or "restricted hazardous waste" under any provision of Alabama law; (ii) petroleum products; (iii) asbestos; (iv) polychlorinated biphenyl; (v) radioactive material; (vi) designated as a "hazardous substance" pursuant to Section 311 of the Clean Water Act, 33 U.S.C. §1251 et seq. (33 U.S.C. §1317); (vii) defined as a "hazardous waste" pursuant to Section 1004 of the Resource Conservation & Recovery Act, 42 U.S.C. §6901 et seq. (42 U.S.C. §6903); or (viii) defined as a "hazardous substance" pursuant to Section 101 of the Comprehensive Environmental Response, Compensation, and Liability Act, 42 U.S.C. §9601 et seq. (42 U.S.C. §9601).

(j) Seller is the present owner of the leasehold interest created under the Lease, and there are no parties in possession of the Property other than Seller. The IDB is the present fee simple titleholder of the Property.

**(k)** Seller has performed all obligations required to be performed by it and is not in default under the Lease or any indenture, mortgage, security agreement or other agreement to which Seller is or has been subject as a party with respect to the Property.

**(l)** Except as disclosed in Section 10 below and as set forth in Schedule 3(g), no contract or agreement of any kind including, without limitation, real estate leasing and brokerage contracts, and contracts for servicing, operating or managing the Property, will be effective and binding upon the Property or Purchaser.

**(m)** To the best of Seller's knowledge, there is no threatened impairment of the sewer, water, electric and telephone services provided to the Property.

**(n)** To the best of Seller's knowledge, there are no unpaid improvement liens, special assessments or library or fire dues affecting the Property, and there are no actions, suits or proceedings, governmental or otherwise, including without limitation condemnation or eminent domain proceedings, pending or threatened against or affecting the Property, or affecting Seller's ability to perform its obligations under this Agreement, and there are no such actions, suits or proceedings pending, contemplated or threatened by Seller in connection with the Property; and from and after the date of this Agreement except for actions to enforce the terms of this Agreement, Seller shall not commence or allow to be commenced, on its behalf, any action, suit or proceeding with respect to the Property without the prior written consent of Purchaser, which consent shall not be unreasonably withheld or delayed.

**(o)** Seller is not a "foreign person" as that term is defined in Section 1445 of the Internal Revenue Code, and Seller shall execute an affidavit to such effect in the form to be provided by Purchaser, failing which Purchaser may proceed with the withholding provisions as provided by applicable law. Seller shall indemnify Purchaser and its agents against any liability or cost, including reasonable attorneys' fees, in the event that this representation or the affidavit provided by Seller at the Closing is false.

**(p)** [Intentionally Deleted]

**(q)** Seller has not made a general assignment for the benefit of creditors, filed any voluntary petition in bankruptcy or, to the best of Seller's knowledge, suffered the filing of an involuntary petition by Seller's creditors, suffered the appointment of a receiver to take possession of all, or substantially all, of Seller's assets, suffered the attachment or other judicial seizure of all, or substantially all, of Seller's assets, admitted in writing its inability to pay its debts as they generally come due or made an offer of settlement, extension or composition to its creditors generally.

**(r)** There are no leases or other occupancy rights granted by Seller relating to or affecting the Property.

**(s)** Seller has not filed, and has not retained anyone to file, notices of protest against, or to commence actions to review ad valorem tax assessments against the Real Property which are currently pending. During the term of this Agreement, Seller will not settle or compromise any of foregoing without the prior written consent of Purchaser, not to be unreasonably withheld, conditioned or delayed.

**(t)** Seller shall keep and maintain, at its sole cost and expense, until the earlier of the Closing or the termination of this Agreement, the following insurance with respect to the Real Property (including the improvements thereon): **(i)** property and casualty insurance in an amount not less than the Purchase Price, and **(ii)** public liability insurance in a commercially reasonable amount. All policies of insurance required to be carried by Seller hereunder shall be issued by responsible insurance companies which are licensed to do business in the State of Alabama and have a Best's rating of at least "A".

**(u)** Seller shall not remove any Personal Property other than the Excluded Property from the Real Property prior to the Closing, except for the replacement of items of at least equal value, which replacement items shall be included in this sale.

**(v)** From and after the date this Agreement is fully executed, Seller will:

- (i)** except as may be required by law, not perform any grading, excavation, construction, or remove any improvements or personal property (other than the Excluded Personal Property), or make any other change or improvement upon or about the Property;
- (ii)** not create or incur, or suffer to exist, any mortgage, lien, pledge, or other encumbrances in any way affecting the Property other than the Permitted Exceptions;
- (iii)** not commit any waste or nuisance upon the Property;
- (iv)** not violate any laws, ordinances, regulations, and restrictions affecting the Property and its use;
- (v)** not execute any leases affecting the Property without the prior written approval of Purchaser;
- (vi)** not default under the Lease;
- (vii)** through Closing maintain, preserve and protect the Property in the same condition existing as of the date of this Agreement; and
- (viii)** promptly notify Purchaser in writing of any event or circumstance of which Seller becomes aware which materially affects Seller's ability to timely perform its covenants, or materially affects the truth of any representation or warranty made by Seller under this Agreement.

**(w)** At or prior to Closing, Seller shall satisfy any and all claims for mechanics' or materialmen's liens against the Property or any part thereof incurred or suffered by Seller, and shall indemnify and hold harmless and protect the Purchaser from any and all loss or liability from such claims, including, without limitation, reasonable attorney's fees and court costs.

(x) Seller shall cooperate in good faith with Purchaser in its application for all permits, licenses, approvals and other authorizations, including any rezoning (or zoning variance) and resubdivision, with regard to its purchase and proposed use of the Property.

(y) As used herein, the term “knowledge” with respect to any party shall mean the actual knowledge of such party.

#### **4. TITLE INSURANCE.**

(a) Within ten (10) days following Seller’s execution of this Agreement, Seller, at Seller’s expense, shall obtain and deliver to Purchaser a title commitment issued by Burr & Forman Title Company, as agent of Lawyers Title Insurance Corporation (the “Title Company”) for the issuance of an owner’s title policy, ALTA Owner’s Policy Form B dated October 17, 1992, in the amount of the Purchase Price (the “Title Commitment”), covering title to the Property at a date not earlier than the date hereof and showing fee simple title vested in Seller, subject only to taxes for the current tax year and those permitted exceptions approved by Purchaser (collectively the “Permitted Exceptions”). Purchaser shall review the Title Commitment and make its objections to title within the “Inspection Period” set forth in Section 5. Any matters of record which are not objected to within the Inspection Period shall be deemed Permitted Exceptions. If Seller is unable to cure any exception to title that is not a Permitted Exception or satisfy any title requirement within the earlier of (i) fourteen (14) days following written notice by Purchaser to Seller of such title matter, or (ii) the Closing Date, then Purchaser may (A) terminate this Agreement upon written notice to Seller, whereupon the Earnest Money plus interest shall be returned to Purchaser upon demand and the parties shall have no further rights or obligations hereunder, or (B) elect to purchase the Property without offset against the Purchase Price for any such exception.

(b) Any exceptions or requirements appearing on any updated title commitment which were not reflected in the initial Title Commitment shall be cured or satisfied by Seller, unless waived by Purchaser in writing.

#### **5. INSPECTION.**

(a) Within ten (10) days following Seller’s execution of this Agreement, Seller shall deliver to Purchaser copies, if any, of all existing agreements, leases, site plans, soils and environmental reports, traffic studies, title policies, surveys, as-built construction plans and specifications for any improvements located on the Property, governmental permits, notices of violations of law, a copy of the Property’s tax bill for the current year and any prior year, tests, and other reports relating to the Property, and reports or other documents of any kind or nature pertaining to the Property, which are in Seller’s possession or under Seller’s control (collectively, the “Due Diligence Material”). The “Inspection Period”, as hereinafter defined, shall be extended on a day per day basis for each day that Seller delays beyond such ten (10) day period in delivering the Due Diligence Material to Purchaser. Prior to Closing, Seller shall, upon request of Purchaser, provide such other documents and information relating to the Property as Purchaser may reasonably request and which are in Seller’s possession. Purchaser may rely on all reports and materials delivered by Seller under this Section 5.

**(b)** Purchaser's obligations under this Agreement are hereby conditioned upon, at its sole cost and expense (except as otherwise provided herein), satisfactory completion of inspections of the Property in order to determine the feasibility of the Property for its proposed use, including title, survey, structural and systems reports, environmental tests, examination of topography, local building restrictions, utility availability and soil conditions, engineering reports and preparation of plans and specifications and obtaining adequate financing and such other observations and inspections of the Property as are deemed necessary or appropriate by Purchaser. Seller agrees to provide to Purchaser, its contractors, agents and employees reasonable access to the Property until Closing for such purposes and acknowledges that such inspections and examination may involve soil borings and samplings and similar invasive procedures. Seller agrees to make available relevant personnel to answer any inquiries reasonably submitted by Purchaser concerning the Property.

**(c)** Purchaser shall have sixty (60) days from the date of last execution of this Agreement in order to make such inspections as set forth in Paragraph 5(b) above and to obtain any necessary permits with respect to its proposed use. Such sixty (60) day period is herein referred to as the "Inspection Period". In the event Purchaser is not satisfied with the results of such reports, tests, examinations, observations and inspections for any reason whatsoever, Purchaser may terminate this Agreement by giving written notice to Seller at or prior to the expiration of the Inspection Period, and the Earnest Money plus interest shall be returned to Purchaser upon demand, and the parties shall have no further rights or obligations hereunder.

**6. CONDITIONS OF CONTRACT.** This Agreement and the obligations of Purchaser to consummate the transaction contemplated hereby are conditioned and contingent upon the following:

**(a) Title.** Delivery to Purchaser of good, marketable and insurable title to Property such that the Title Company (by and through the Escrow Agent) will insure the same at standard rates on ALTA Owner's Policy Form B dated October 17, 1992, subject only to ad valorem taxes for the current year and the Permitted Exceptions. The standard exceptions within the policy for mechanics' and materialmen's liens, the survey exception and the gap coverage exception shall all be deleted.

**(b) Representations.** The truth and accuracy as of the date of Closing of each and every representation and warranty and the performance of each Seller covenant contained in this Agreement.

**(c) Condition of Property.** Seller shall not have caused or permitted any adverse change in the condition of the Property, ordinary wear and tear excepted.

**(d) Closing Documents.** The delivery to Purchaser of the Closing Documents listed in Section 8(c).

(e) [Intentionally Deleted]

(f) [Intentionally Deleted]

If any of the above conditions are not met on or before the Closing Date, Purchaser may elect to (i) waive the same, (ii) extend the Closing Date for up to sixty (60) days until all conditions have been met, or (iii) terminate and rescind this Agreement by giving written notice to Seller of its intention to rescind, whereupon this Agreement shall be null and void and of no further force and effect and the Earnest Money plus interest shall be returned to Purchaser upon demand.

7. **SURVEY.** Within ten (10) days following Seller's execution of this Agreement, Seller, at Seller's expense, shall obtain and deliver to Purchaser an ALTA survey of the Property (the "Survey"). If Purchaser shall disapprove of any survey matter, Purchaser may either (i) treat such objection as a title objection and request that it be cured as set forth in Section 4, or (ii) Purchaser shall have the right to terminate this Agreement, whereupon this Agreement shall be null and void and of no further force and effect and the Earnest Money plus interest shall be returned to Purchaser upon demand. At Purchaser's election, the legal description to be included in the "Deed", as hereinafter defined, shall be the legal description set forth on the Survey.

#### 8. **CLOSING.**

(a) The consummation of the sales transaction described in this Agreement is referred to herein as the "Closing".

(b) The "Closing Date" shall occur within thirty (30) days following the expiration of the Inspection Period set forth in Section 5 hereinabove, or on such earlier date as the parties may mutually agree.

(c) At the Closing, Seller shall deliver to Purchaser the following:

(i) A deed in Statutory Warranty or Special Warranty form (or such form as is used in connection with the conveyance of the Property by the IDB to Seller) fully executed and acknowledged by Seller conveying the Property to Purchaser (the "Deed").

(ii) A bill of sale in special or limited warranty form, fully executed and acknowledged by Seller, conveying title to all Personal Property, free and clear of all liens, charges and encumbrances.

(iii) An assignment in quitclaim form, fully executed and acknowledged by Seller, assigning all of Seller's right, title and interest in and to the Licenses and Permits (to the extent assignable), free and clear of all liens, charges and encumbrances.

(iv) At the option of Purchaser, an assignment in quitclaim form, fully executed and acknowledged by Seller, assigning all of Seller's right, title and interest in and to the Service Contracts, free and clear of all liens, charges and encumbrances;



provided, however, that Purchaser shall not be obligated to assume any of Seller's obligations under the Service Contracts, and Purchaser may elect not to accept an assignment of any one or all of the Service Contracts.

**(v)** A certificate stating that the representations and warranties of Seller set forth herein are true and correct as of Closing.

**(vi)** A Non-Foreign Affidavit.

**(vii)** An affidavit certifying that, as of the date of Closing, no improvements or repairs have been made in or to the Property nor any work done which has not been fully paid for, nor have any materials been furnished or delivered to the Property which have not been fully paid for, and that no contract has been made or entered into or anything done, suffered, or permitted in relation to the Property the consequences of which will cause or allow any lien or claim of lien to be made against the Property.

**(viii)** An affidavit that there are no judgments, liens or other claims against the Property, nor any claims or disputes concerning boundary lines, which would in any manner create an encumbrance upon the Property.

**(ix)** A signature counterpart to a settlement statement.

**(x)** Such other documents and affidavits reasonably required by the Title Company or Purchaser as may be necessary or customary to consummate the transactions contemplated herein.

**(d)** At the Closing, Purchaser shall deliver to Seller the following:

**(i)** The funds required to be delivered by it at Closing by wire transfer.

**(ii)** A signature counterpart to a settlement statement.

**(iii)** Such other documents and affidavits reasonably required by the Title Company or Seller as may be necessary or customary to consummate the transactions contemplated herein.

**(e)** Personal property and ad valorem real estate taxes (collectively, the "Taxes") shall be prorated at Closing based on the latest information available with the understanding that municipal taxes are paid in advance and county taxes in arrears. If the Taxes are prorated based on an estimate at the Closing, then Seller and Purchaser agree to readjust such proration at the request of either party upon the establishment of the actual amount by the applicable taxing authorities. Notwithstanding anything contained in this Agreement to the contrary, Seller and Purchaser agree that **(i)** Purchaser shall have no obligation or liability for payment of any so-called "rollback" taxes which may be payable by virtue of Alabama Code Section 40-7-25.3 on account of any present "current use" assessment of the Property; and **(ii)** if any such "rollback" taxes are levied or assessed on Seller, Purchaser or the Property, whether prior to the Closing or otherwise, Seller shall be solely responsible for and shall assume payment of same (and if Purchaser has paid same, Seller shall reimburse Purchaser for the amount paid by Purchaser). These obligations shall survive the Closing.

(f) Utilities shall not be prorated at Closing. Purchaser shall be responsible for establishing its own utility accounts as of the Closing Date. Seller shall be entitled to a refund of all existing utility deposits. Seller shall remain responsible for utility bills received post-Closing that relate to the period prior to the Closing Date, and Purchaser shall be responsible for all utility bills relating to the Closing Date and thereafter.

(g) Seller shall pay for the title insurance premium and all costs and expenses associated with the issuance of the Title Commitment and policy; provided, however, that in the event Purchaser requires a mortgagee title insurance policy in connection with the Closing, Purchaser and Seller shall each pay one-half (1/2) of the cost of the title insurance premium. Seller shall pay all costs and expenses associated with the Survey. Purchaser shall pay all costs and expenses relating to its inspection of the Property and the costs of recording the Deed. Seller and Purchaser shall each pay one-half (1/2) of any escrow fees payable in connection with the transactions contemplated by this Agreement.

**9. DEFAULT.**

(a) In the event all conditions to Purchaser's obligation to close have been satisfied and Purchaser fails to close the transaction, Seller may terminate this Agreement, whereupon the Earnest Money shall be forfeited as liquidated damages to Seller and the Seller shall have no other remedy or rights against Purchaser. The foregoing remedy shall be Seller's sole remedy in the event of Purchaser's default.

(b) In the event all conditions to Seller's obligation to close have been satisfied and Seller fails to close the transaction, Purchaser may at its sole discretion, either (i) enforce this Agreement and the sale and purchase provided for herein according to its terms by all means available at law or equity, including specific performance, or (ii) terminate this Agreement and receive a full refund of all Earnest Money, and Seller shall reimburse Purchaser for its reasonable out-of-pocket costs.

**10. BROKERAGE.** Seller and Purchaser acknowledge that EGS Commercial Real Estate, as a representative of Seller, and Graham & Company, as a representative of Purchaser (collectively, the "Brokers"), are the only brokers, agents, or sales persons involved in the transactions contemplated by this Agreement. Seller shall be responsible for paying any and all real estate commissions due to the Brokers, which commissions will be split equally between the Brokers and will be paid at Closing. Seller and Purchaser each agree to indemnify and defend and hold the other party harmless from and against any other real estate commission liability or claim including attorney's fees or expenses whether for negotiations, trial or appeal, including appellate fees or expenses incurred by either party as a result of the other party's breach of this representation and warranty made pursuant to this Section 10. Seller and Purchaser will execute and deliver an affidavit at Closing to satisfy the requirements of Alabama Code Section 35-11-450, et. seq. This provision shall survive closing.

## **11. RISK OF LOSS.**

(a) The risk of loss or damage to the Property and any improvements thereon shall remain with the Seller until the Closing shall have occurred. Seller shall maintain the Insurance Policies and shall otherwise insure the Property against fire, hazard and other casualty during the term hereof.

(b) In the event of a casualty, Seller shall repair or replace any damage caused to the Property by fire or other casualty prior to Closing; provided, however, that the Closing Date shall be extended for such reasonable time as shall allow such restoration, or at Purchaser's option, the transaction shall be closed and Seller shall assign to Purchaser all proceeds under its insurance policy and allow Purchaser a credit for the amount of the deductible. If Seller does not complete its restoration or repair within thirty (30) days of the casualty event, Purchaser shall be entitled to terminate this Agreement, receive a full refund of the Earnest Money and Seller shall reimburse Purchaser for its reasonable out-of-pocket costs.

**12. NOTICES.** All notices and other communications provided for herein shall be validly given, made or served if in writing and (i) delivered personally or (ii) sent by United States certified mail, return receipt requested, postage prepaid, or (iii) sent by a nationally recognized overnight courier service, addressed as set forth on the first page or to such other address as shall be furnished in writing by any party to the other parties. Notice shall be effective when received. Copies of all notices and other communications provided hereunder shall be sent to counsel for Seller and Purchaser as follows:

If to Seller's counsel:

W. Benjamin Johnson, Esq.  
Burr & Forman, LLP  
420 North 20<sup>th</sup> Street, Suite 3400  
Birmingham, Alabama 35203

If to Purchaser's counsel:

Matthew W. Grill, Esq.  
Maynard, Cooper & Gale, P.C.  
1901 Sixth Avenue North  
2400 Regions/Harbert Plaza  
Birmingham, Alabama 35203

**13. TAX-DEFERRED EXCHANGES.** Each party acknowledges that the other may wish to structure this transaction in such a manner so as to effectuate a tax-deferred exchange. Accordingly, notwithstanding anything to the contrary contained herein, each party shall have the right to assign its rights to a third party for the purpose of effectuating a tax-deferred exchange. The non-exchanging party shall cooperate in all reasonable respects with the

exchanging party to effectuate its tax-deferred exchange; provided, however, that **(i)** the Closing shall not be extended or delayed by reason of such exchange, and **(ii)** the non-exchanging party shall not be required to incur any additional cost or expense as a result of such exchange.

**14. CONFIDENTIALITY.** The terms and conditions of this Agreement and all writings, discussions, and negotiations in connection with the transaction contemplated by this Agreement (including, without limitation, the fact that discussions and negotiations have been conducted by the parties), shall remain strictly confidential and shall not be disclosed by either party without the prior written consent of the other party; except as may be required by law, attorneys, accountants and tax preparers. Seller acknowledges that Purchaser is seeking to obtain certain economic incentives from the City of Birmingham, Jefferson County and the State of Alabama relating to its purchase and use of the Property, and Seller agrees that disclosure to and by one or more of these governmental entities in connection therewith is expressly permitted under this Section 14.

**15. MISCELLANEOUS PROVISIONS.**

**(a) Assignment.** Purchaser shall have the right to assign this Agreement to any related corporation, limited liability company, partnership, person, persons or other entity in which Purchaser, or its principals, is a shareholder, member or partner. Such assignee may also include additional shareholders, members, or members in the discretion of Purchaser. Except as otherwise provided in the foregoing, any transfer to any third party shall require the written approval of Seller, which shall not be unreasonably withheld.

**(b) Governing Law.** This Agreement is being delivered and is intended to be performed in the State of Alabama and shall be construed and enforced in accordance with the laws of such State.

**(c) Binding Effect.** All the terms of this Agreement shall be binding upon and inure to the benefit of, and be enforceable by, the parties hereto and their respective heirs, executors, administrators, successors, and assigns.

**(d) Exhibits.** The Exhibits attached to this Agreement are incorporated herein and made a part hereof as though fully set out herein.

**(e) Survival.** All the terms and conditions of this Agreement not performed at Closing shall survive the Closing hereunder notwithstanding the delivery and acceptance of the Deed.

**(f) Construction.** The section and subsection captions and headings herein are for convenience only and shall not affect the construction of any of the terms and provisions of this Agreement.

**(g) Attorneys' Fees.** In the event of litigation, if either party receives a judgment, settlement, or award in its favor (the "Receiving Party") against the other party (the "Paying Party") regarding an action under this Agreement, the Paying Party will pay upon demand all of

the Receiving Party's costs, charges, and expenses, including reasonable attorneys' fees and expenses, associated with such legal action; provided, however, if, prior to commencement of a trial, the Paying Party offered to pay an amount equal to or in excess of such judgment, settlement, or award, then the Receiving Party shall not be entitled to any such costs, charges, expenses, or attorneys' fees associated with such legal action. Should either party employ an attorney or attorneys to enforce any of the provisions of this Agreement, or to protect its interest in any matter arising under this Agreement, or to specifically enforce or to recover the Earnest Money for breach of this Agreement, the party prevailing shall be entitled to recover from the other party all reasonable costs, charges and expenses, including attorneys' fees, expended or incurred in connection therewith, including fees and expenses incurred on appeal or in any bankruptcy action.

**(h) Entire Agreement.** This Agreement sets forth the entire agreement of the parties and it shall not be changed except by written instrument signed by Seller and Purchaser.

**(i) Facsimile or Email Signatures.** The parties agree that **(i)** this Agreement may be transmitted between them by facsimile or email, **(ii)** that this Agreement may be executed by facsimile signatures or email signatures in PDF format, **(iii)** that such facsimile or email signatures shall have the effect of original signatures relative to this Agreement, and **(iv)** they will circulate signature pages to be countersigned and attached within five (5) business days of the date of this Agreement.

**(j) Counterparts.** This Agreement may be executed in one or more counterparts and shall become effective when one or more counterparts have been signed by all of the parties, and each counterpart shall be deemed an original but all counterparts shall constitute a single instrument.

**[Signatures appear on the following page]**

IN WITNESS WHEREOF, the parties have executed this Agreement on the respective dates set out below, effective as of the date first set forth above.

**SELLER:**

**ATTEST:**

**BELK, INC.**

/s/ L.T. Moore

By: /s/ William L. Wilson

Name: William L. Wilson

Its: Executive Vice President

Date of Execution: March 11, 2008

**PURCHASER:**

**ATTEST:**

**BROOKWOOD PHARMACEUTICALS, INC.**

/s/ John C. Middleton

By: /s/ Arthur J. Tipton

Name: Arthur J. Tipton

Its: President

Date of Execution: March 11, 2008

**EXHIBIT A**

(Description of Real Property)

A-1

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**EXHIBIT A-1**

(Survey of Real Property)

A-2

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**Schedule 3(f)**

(List of Licenses and Permits)

Schedule 3(f)

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**Schedule 3(g)**

(List of Service Contracts)

Schedule 3(g)

**CERTIFICATION PURSUANT TO SECTION 302  
OF SARBANES-OXLEY ACT OF 2002**

I, Bruce J Barclay, certify that:

1. I have reviewed this quarterly report on Form 10-Q of SurModics, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 9, 2008

Signature: /s/ Bruce J Barclay  
Bruce J Barclay  
President, Chief Executive Officer and Director  
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO SECTION 302  
OF SARBANES-OXLEY ACT OF 2002**

I, Philip D. Ankeny, certify that:

1. I have reviewed this quarterly report on Form 10-Q of SurModics, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 9, 2008

Signature: /s/ Philip D. Ankeny

Philip D. Ankeny  
Senior Vice President and Chief Financial Officer  
(Principal Financial Officer)

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of SurModics, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2008, as filed with the Securities and Exchange Commission (the "Report"), I, Bruce J Barclay, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 9, 2008

/s/ Bruce J Barclay  
\_\_\_\_\_  
Bruce J Barclay  
President, Chief Executive Officer and Director (Principal  
Executive Officer)

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of SurModics, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2008, as filed with the Securities and Exchange Commission (the "Report"), I, Philip D. Ankeny, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 9, 2008

/s/ Philip D. Ankeny

Philip D. Ankeny  
Senior Vice President and Chief Financial Officer  
(Principal Financial Officer)