AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON DECEMBER 24, 1997
REGISTRATION NO. 333-

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM SB-2

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

SURMODICS, INC.

(Exact name of registrant as specified in its charter)

MINNESOTA	2899	41-1356149
(State or jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code)	(I.R.S. Employer Identification Number)

SURMODICS, INC.
9924 WEST 74TH STREET
EDEN PRAIRIE, MINNESOTA 55344
(612) 829-2700

(Address and telephone number
of principal executive offices and principal place of business)

DALE R. OLSETH, CHIEF EXECUTIVE OFFICER
SURMODICS, INC.
9924 WEST 74TH STREET
EDEN PRAIRIE, MINNESOTA 55344
(612) 829-2700
(Name, address and telephone number of agent for service)

COPIES TO:

DAVID R. BUSCH, ESQ. MELODIE R. ROSE, ESQ. Fredrikson & Byron, P.A. 900 Second Avenue South, Suite 1100 Minneapolis, Minnesota 55402 (612) 347-7000	D. WILLIAM KAUFMAN, ESQ. MICHAEL J. KOLAR, ESQ. Oppenheimer Wolff & Donnelly 45 South Seventh Street, Suite 3400 Minneapolis, Minnesota 55402 (612) 607-7000

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC:
AS SOON AS PRACTICABLE AFTER THIS REGISTRATION STATEMENT BECOMES EFFECTIVE.

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

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

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

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box: / /

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED(1)	PROPOSED MAXIMUM OFFERING PRICE PER SHARE(2)	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(2)	AMOUNT OF REGISTRATION FEE
Common Stock, $0.05 per share par value.....	2,300,000 shares	$8.50	$19,550,000	$5,768

(1) Includes 300,000 shares purchasable by the Underwriters to cover over-allotments.

(2) Estimated solely for the purpose of calculating the registration fee in

accordance with Rule 457(a) under the Securities Act of 1933, as amended.

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

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SUBJECT TO COMPLETION, DATED DECEMBER 24, 1997

2,000,000 SHARES

[LOGO]

COMMON STOCK

All of the shares of Common Stock offered hereby are being sold by SurModics, Inc. Prior to this offering, there has been no public market for the Common Stock. It is currently estimated that the initial public offering price will be between $7.50 and $8.50 per share. See "Underwriting" for the factors considered in determining the initial public offering price. The Company has applied for quotation of the Common Stock on the Nasdaq National Market under the symbol "SMDX."

THE COMMON STOCK OFFERED HEREBY INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" BEGINNING ON PAGE 6.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	PRICE TO PUBLIC	UNDERWRITING DISCOUNT AND COMMISSIONS (1)	PROCEEDS TO COMPANY (2)
Per Share	$	$	$
Total (3)	$	$	$

(1) The Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended. See "Underwriting."

(2) Before deducting expenses payable by the Company estimated at $350,000.

(3) The Company has granted the Underwriters a 30-day option to purchase up to 300,000 additional shares solely to cover over-allotments, if any. If such option is exercised in full, the total Price to Public, Underwriting Discounts and Commissions, and Proceeds to Company will be $, $ and $, respectively. See "Underwriting."

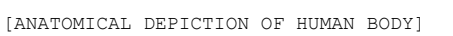
The shares of Common Stock are offered by the several Underwriters subject to prior sale, when, as and if delivered to and accepted by them, and are subject to the right of the Underwriters to withdraw, cancel or modify such offer and to reject any order in whole or in part. It is expected that delivery of the shares of Common Stock will be made on or about , 1998.

JOHN G. KINNARD AND COMPANY, INCORPORATED

The date of this Prospectus is , 1998

[LOGO]

Providing surface modification solutions
to optimize medical device
performance



NEUROLOGICAL
guide catheters
infusion catheters
guidewires
hydrocephalic shunts

CARDIOVASCULAR
stents
guidewires
guide catheters
angioplasty catheters
heart valves
vascular grafts

CARDIAC RHYTHM MANAGMENT
pacemaker leads
electrophysiology catheters

SURGICAL DEVICES
endoscopy devices
chest wound drains

UROGENITAL
urinary catheters
penile implants
incontinence devices
ureteral stents

PERIPHERAL VASCULAR
vascular grafts
stents
catheters
guidewires

ORTHOPEDIC
bone repair
cartilage repair

The following are registered trademarks of the Company: "PhotoLink-Registered Trademark-", "StabilCoat-Registered Trademark-" and "StabilZyme-Registered Trademark-". The Company's applications for the federal registration of its trademarks "SurModics-TM-", "StabilGuard-TM-" and "StabilZyme Select-TM-" are pending.

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN, OR OTHERWISE AFFECT THE PRICE OF THE COMMON STOCK, INCLUDING OVER-ALLOTMENT, STABILIZING AND SHORT-COVERING TRANSACTIONS IN SUCH SECURITIES, AND THE IMPOSITION OF PENALTY BIDS. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "UNDERWRITING."

PhotoLink-Registered Trademark-

[ILLUSTRATION OF PHOTOLINK COATING PROCESS
BONDING BIOMOLECULES TO A SURFACE]
BIOMOLECULE
IMMOBILIZATION

PhotoLink is a versatile, easily applied light-activated coating technology that can impart a variety of performance-enhancing characteristics to the surface of medical devices.

[PHOTOGRAPH OF UNCOATED MATERIAL WITH NON-ABSORBED LIQUID
AND COATED MATERIAL WITH ABSORBED LIQUID]
WETTABILITY

[PHOTOGRAPH OF UNCOATED MATERIAL WITH BLOOD CELL ATTACHMENT
AND COATED MATERIAL WITHOUT SUCH ATTACHMENT]
HEMOCOMPATIBILITY

[MICROSCOPIC PHOTOGRAPH OF BONE REGENERATION]
TISSUE ENGINEERING SURFACES

[ILLUSTRATION OF DRUG MOLECULES TRAPPED WITHIN A MATRIX OF POLYMERS BONDED TO A SURFACE OF A STENT]
DRUG DELIVERY

[PHOTOGRAPH OF LIQUID BEADS ON AN UNCOATED SURFACE AND NO LIQUID BEADS ON A COATED SURFACE]
LUBRICITY

[MICROSCOPIC PHOTOGRAPHS OF UNCOATED MATERIAL COVERED WITH BACTERIA AND COATED MATERIAL WITH ALMOST NO BACTERIA]

INFECTION RESISTANCE

PROSPECTUS SUMMARY

THIS SUMMARY IS QUALIFIED IN ITS ENTIRETY BY, AND SHOULD BE READ IN CONJUNCTION WITH, THE MORE DETAILED INFORMATION AND FINANCIAL STATEMENTS AND THE NOTES THERETO APPEARING ELSEWHERE IN THIS PROSPECTUS. UNLESS OTHERWISE INDICATED, THE INFORMATION IN THIS PROSPECTUS (I) ASSUMES NO EXERCISE OF THE UNDERWRITERS' OVER-ALLOTMENT OPTION, (II) ASSUMES PRO FORMA CONVERSION OF ALL OUTSTANDING SHARES OF SERIES A CONVERTIBLE PREFERRED STOCK INTO 1,507,312 SHARES OF COMMON STOCK TO BE EFFECTED UPON THE CLOSING OF THIS OFFERING AND (III) REFLECTS A 4-FOR-1 STOCK SPLIT OF THE COMMON STOCK EFFECTED ON DECEMBER 22, 1997. SEE "DESCRIPTION OF CAPITAL STOCK" AND "UNDERWRITING."

THE COMPANY

SurModics, Inc. ("SurModics" or the "Company") is a leading provider of surface modification solutions to the medical device industry. The Company's primary focus is the commercialization of its patented PhotoLink process through third-party licensing arrangements. PhotoLink is a versatile, easily applied, light-activated coating technology that modifies medical device surfaces by creating covalent bonds between those surfaces and a variety of chemical agents. Through the PhotoLink process, these chemical agents can impart many performance-enhancing characteristics, such as lubricity, hemocompatibility, infection resistance and drug delivery, onto the surface of a medical device without materially changing the dimensions or physical properties of the device. The Company believes that medical device manufacturers who utilize the Company's technology are able to significantly improve the performance of their products and, in many cases, differentiate their products in a highly competitive marketplace.

The Company focuses on providing high value-added surface modification solutions to a variety of medical device markets and product categories. Examples of products in the market or under development that incorporate the PhotoLink technology include interventional cardiology catheters, vascular stents, interventional neurology catheters, guide wires and shunts, cardiac rhythm management devices, and urological and gynecological devices. The surface properties created by the PhotoLink technology have greatly reduced treatment times in catheter-based vascular procedures and have shown the potential to enhance the long-term performance of implantable devices by improving infection resistance and promoting host cell attachment, growth and subsequent tissue integration. The Company believes further opportunities exist to commercialize its PhotoLink technology for other market applications, such as biomolecule immobilization for use in the emerging field of DNA-based diagnostics.

SurModics believes its PhotoLink technology has many advantages over other competing surface modification technologies. First, the PhotoLink technology can be applied to many different kinds of surfaces, which allows manufacturers a high degree of flexibility in designing their products. Second, the PhotoLink technology can immobilize a variety of chemical, pharmaceutical and biological agents, thereby imparting many different performance-enhancing characteristics to the device being coated. Third, the PhotoLink technology provides the medical device manufacturer with the ability to combine multiple surface-enhancing characteristics on the same device. Finally, the PhotoLink process is relatively simple and does not subject the medical devices to harsh chemical, pressure or temperature conditions during the coating process as is the case with some competing technologies. PhotoLink coatings are compatible with all generally accepted sterilization processes and the PhotoLink process does not require expensive, specialized manufacturing equipment. In addition, SurModics' customer service includes free proof-of-concept studies for potential applications, coating optimization for specific licensee applications, transfer of the technology to licensee manufacturing facilities, and assistance during the FDA approval process for PhotoLink coated devices.

The Company has commercialized its PhotoLink technology through licensing arrangements with medical device manufacturers which apply the PhotoLink coatings to their own products. The Company believes this approach allows it to focus its resources on further development of its technology and expansion of its licensing activities, while leveraging the established manufacturing, sales and marketing

capabilities of its licensees. Revenues from these arrangements include initial license fees, minimum royalties and earned royalties based on a percentage of licensees' product sales. The Company currently has license agreements with 32 companies covering 106 different applications, of which 58 are generating royalty revenues for the Company. Licensees of the PhotoLink technology include Cook Incorporated, Cordis Corporation (a Johnson & Johnson company), Medtronic PS Medical, Pacesetter, Inc. (a St. Jude Medical, Inc. company), Perclose, Inc., Sulzer Carbomedics (a division of Sulzer Medica USA Inc.) and Target Therapeutics, Inc. (a subsidiary of Boston Scientific Corporation).

In addition to licensing its PhotoLink technology, the Company also licenses certain diagnostic technology to Abbott Laboratories for use with rapid point-of-care diagnostic tests, such as pregnancy and strep tests. The Company also manufactures and sells the chemical reagents used in the PhotoLink process and stabilization products used to extend the shelf-life of immunoassay diagnostic tests.

The Company was incorporated under the laws of the State of Minnesota in June 1979. The Company's executive offices are located at 9924 West 74th Street, Eden Prairie, Minnesota 55344, its telephone number is (612) 829-2700 and its Internet address is www.surmodics.com.

THE OFFERING

Common Stock offered.....	2,000,000 shares
Common Stock to be outstanding after this offering.....	6,908,180 shares (1)
Use of Proceeds.....	The Company intends to use proceeds from this offering for research and development, sales and marketing and upgrades to its manufacturing equipment, to strengthen its patent protection and for working capital and general corporate purposes. See "Use of Proceeds."
Proposed Nasdaq National Market symbol.....	SMDX

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(1) Includes 84,000 shares of Common Stock issued pursuant to restricted stock agreements as of the date of this Prospectus. Excludes, as of the date of this Prospectus, 1,239,800 shares of Common Stock issuable upon exercise of outstanding stock options at a weighted average exercise price of $4.61 per share. See "Management--Stock Options" and "Description of Capital Stock."

SUMMARY FINANCIAL DATA
(IN THOUSANDS, EXCEPT PER SHARE AND LICENSE DATA)

	FISCAL YEAR ENDED SEPTEMBER 30,				
	1993	1994	1995	1996	1997
STATEMENTS OF OPERATIONS DATA:					
Total revenues	$ 4,630	$ 4,618	$ 5,956	$ 6,182	$ 7,582
Operating costs and expenses	5,391	5,703	6,411	6,597	7,545
Income (loss) from operations	(761)	(1,085)	(455)	(415)	37
Other income (expense), net	244	(17)	133	221	199
Net income (loss)	$ (517)	$ (1,102)	$ (322)	$ (194)	$ 236
Net income (loss) per common and common equivalent share (pro forma) (1)	$ (.13)	$ (.26)	$ (.07)	$ (.04)	$ .04
Weighted average common and common equivalent shares outstanding (pro forma) (1)	4,085	4,304	4,789	4,851	5,393

	SEPTEMBER 30,			
	1993	1994	1995	1996
SELECTED LICENSE DATA:				
Number of licensees	15	19	26	28
Number of licensed applications	34	44	77	101
Number of licensed applications generating royalties	14	20	23	45

	1997
SELECTED LICENSE DATA:	
Number of licensees	32
Number of licensed applications	106
Number of licensed applications generating royalties	58

	SEPTEMBER 30,	
	ACTUAL	AS ADJUSTED(2)
BALANCE SHEET DATA:		
Cash, cash equivalents and investments	$ 3,822	$ 18,272
Total assets	6,450	20,900
Total liabilities	1,348	1,348
Total stockholders' equity	5,102	19,552

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(1) See Note 2 to Financial Statements for an explanation of the determination of weighted average common and common equivalent shares outstanding (pro forma).

(2) Adjusted to reflect the sale of the 2,000,000 shares of Common Stock offered by the Company hereby at an assumed offering price of $8.00 per share, and the application of the estimated net proceeds therefrom. See "Use of Proceeds."

RISK FACTORS

THE COMMON STOCK OFFERED HEREBY INVOLVES A HIGH DEGREE OF RISK. THIS PROSPECTUS INCLUDES CERTAIN FORWARD-LOOKING STATEMENTS WHICH REFLECT THE COMPANY'S PLANS, ESTIMATES AND BELIEFS. THE COMPANY'S ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE DISCUSSED IN THE FORWARD-LOOKING STATEMENTS. FACTORS THAT COULD CAUSE OR CONTRIBUTE TO SUCH DIFFERENCES ARE DISCUSSED IN THE FOLLOWING RISK FACTORS AND ELSEWHERE IN THIS PROSPECTUS. IN EVALUATING AN INVESTMENT IN THE COMMON STOCK, PROSPECTIVE INVESTORS SHOULD CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS AND OTHER INFORMATION CONTAINED IN THIS PROSPECTUS.

DEPENDENCE ON ROYALTY REVENUES

The principal element of the Company's strategy is to enter into licensing arrangements with medical device companies that manufacture products incorporating the Company's technology. For the fiscal years ended September 30, 1997 and 1996, the Company derived approximately 38.4% and 37.9% of its revenues, respectively, from royalties. The Company does not currently manufacture, market or sell its own medical devices nor does it intend to do so in the foreseeable future. Thus, the Company's prospects are substantially dependent on the receipt of royalties from licensees of its technology. The amount and timing of such royalties are, in turn, dependent on the ability of the Company's licensees to successfully gain regulatory approval for, market and sell products incorporating the Company's technology. Failure of certain licensees to gain regulatory approval or market acceptance for such products could have a material adverse effect on the Company's business, financial condition and results of operations. Although the Company believes that its licensees have an economic motivation to market products containing the Company's technology, the amount and timing of resources to be devoted by them to marketing and the ultimate commercial success of such medical devices are not within the control of the Company. Hence, the amount and timing of royalty payments received by the Company will fluctuate, and such fluctuations could have a material adverse effect on the Company's business, financial condition and results of operations.

Under the Company's standard license agreements, licensees can abandon the Company's technology for any reason upon prior written notice, typically required at least 90 days before termination. Existing and potential licensees have no obligation to deal exclusively with the Company in obtaining surface modification technology and may pursue parallel development or licensing of competing surface modifications, on their own or with third parties. A decision by a licensee to abandon or terminate one or more of its products coated through the PhotoLink process or to otherwise terminate its relationship with the Company could materially adversely affect the Company's business, financial condition and results of operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business--Current Licensing Arrangements."

NEED TO EXPAND LICENSING BASE; UNCERTAINTY OF MARKET ACCEPTANCE

The Company intends to continue pursuing a strategy of licensing its technology to a diversified base of medical device manufacturers, thereby expanding its licensing base for the PhotoLink technology. The Company's success will depend, in part, on its ability to attract new licensees and to enter into agreements for additional applications with existing licensees. There can be no assurance that the Company can successfully expand its licensing base or that such expansion will result in increased commercialization of licensed applications. While certain applications of SurModics' PhotoLink technology have gained acceptance in some segments of the medical device industry, the Company is in the early stages of adapting the technology for a broader base of medical applications with additional performance-enhancing characteristics. The Company's ability to expand its licensing base will depend, in part, on its ability to develop and market new applications for its PhotoLink technology in its target markets. However, certain of the Company's existing licenses are exclusive with respect to certain medical devices, which could restrict the Company's ability to license the same technology to another entity for a similar or competitive purpose. There can be no assurance that the Company will be able to identify, develop and adapt its PhotoLink

technology for new applications in a timely and cost effective manner, that new applications will be licensed by the Company on favorable terms, that such applications will be accepted by manufacturers in the Company's target markets, or that products incorporating new applications will gain regulatory approval, be commercialized or gain market acceptance. Delays in developing new or enhancing existing PhotoLink applications or the failure of such applications or potential licensees' products to gain market acceptance could have an adverse effect on the Company's business, financial condition and results of operations. See "Business--Strategy," "Business--Research and Development" and "Business--Government Regulation."

COMPETITION AND RISK OF TECHNOLOGICAL OBSOLESCENCE

The Company operates in a highly competitive and rapidly evolving field and new developments are expected to continue at a rapid pace. The Company's success depends, in part, upon its ability to maintain a competitive position in the development of technologies and products in its areas of focus. The Company's PhotoLink technology competes with technologies developed by Biocompatibles International plc, Carmeda (a division of Norsk Hydro USA, Inc.), Specialty Coatings Systems, Spire Corporation and STS Biopolymers Inc., among others. In addition, many medical device manufacturers have developed or are engaged in efforts to develop surface modification technologies generally for use on their own products. Competition may also result from development efforts by existing and potential licensees who have no obligation to deal exclusively with the Company in utilizing or developing surface modification technologies. Many of the Company's existing and potential competitors (including medical device manufacturers pursuing coating solutions through their own research and development efforts) have substantially greater financial and technical resources and production and marketing capabilities than the Company. There can be no assurance that the Company will be able to compete effectively with such competitors. Furthermore, there can be no assurance that new products or technologies developed by others, or the emergence of new industry standards, will not render the Company's products or technologies or licensees' products incorporating the Company's technologies noncompetitive or obsolete. Any new technologies which make the Company's PhotoLink technology less competitive or obsolete would have a material adverse effect on the Company's business, financial condition and results of operations. See "Business--Competition."

HISTORY OF LOSSES AND ACCUMULATED DEFICIT

The Company has incurred net losses in each year since inception, except for the year ended September 30, 1997, during which the Company recorded operating income of $37,000 and net income of $236,000. As of September 30, 1997, the Company had an accumulated deficit of $8.2 million. Losses have resulted principally from costs incurred in connection with the Company's research and development activities and from general and administrative costs associated with the Company's operations. Historically, operations have been predominately funded with government grants and equity offerings. The Company's revenues may fluctuate from quarter to quarter and year to year primarily as a result of fluctuations in the recognition of initial license fees and royalty revenue. The Company's ability to generate significant revenues and maintain profitability will depend, in large part, on the ability of the Company to enter into additional license agreements and on the ability of its licensees to successfully commercialize products incorporating the Company's technologies. No assurance can be given that the Company will generate significant revenue growth or maintain profitability. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

DEPENDENCE ON PATENTS AND PROPRIETARY RIGHTS

The Company's success depends, in large part, on its ability to obtain and maintain patents, maintain trade secret protection, operate without infringing on the proprietary rights of third parties and protect its proprietary rights against infringement by third parties. The Company has been granted U.S. and foreign

patents and has U.S. and foreign patent applications pending related to its PhotoLink technology. There can be no assurance that any pending patent application will be approved, that the Company will develop additional proprietary technology that is patentable, that any patents issued to the Company will provide the Company with competitive advantages or will not be challenged or invalidated by any third parties or that the patents of others will not prevent the commercialization of products incorporating the Company's technology. Furthermore, there can be no assurance that others will not independently develop similar technology, duplicate any of the Company's technology or design around the Company's patents. There can also be no assurance that the Company's trade secrets or confidentiality agreements with potential licensees or other parties will provide meaningful protection for the Company's unpatented proprietary information.

The commercial success of the Company also will depend, in part, on its ability to avoid infringing patent or other intellectual property rights of third parties. There has been substantial litigation regarding patent and other intellectual property rights in the medical device industry, and intellectual property litigation may be used against the Company as a means of gaining a competitive advantage. Intellectual property litigation is complex, time-consuming and expensive, and the outcome of such litigation is difficult to predict. If the Company were found to be infringing any third-party patent or other intellectual property right, the Company could be required to pay significant damages, alter its products or processes, obtain licenses from others or cease commercialization of its products and processes. If the Company is required to obtain any licenses, there can be no assurance that the Company will be able to do so on commercially favorable terms, if at all. The Company's failure to obtain any such license on commercially favorable terms could have a material adverse effect on the Company's business, financial condition and results of operations.

Patent litigation may also be necessary to enforce any patents issued or licensed to the Company or to determine the scope and validity of third-party proprietary rights. If patent applications are filed in the U.S. that claim technology also claimed by the Company, the U.S. Patent and Trademark office may declare an interference proceeding to determine priority of invention which could result in substantial cost to the Company, even if the eventual outcome is favorable to the Company. An adverse outcome of any such litigation or interference proceeding could subject the Company to significant liabilities to third parties, require disputed rights to be licensed from third parties or require the Company to cease using its technology. Any action to defend or prosecute intellectual property would be costly and result in significant diversion of the efforts of the Company's management and technical personnel, regardless of outcome, and could have a material adverse effect on the Company's business, financial condition and results of operations. See "Business--Patents and Proprietary Rights" and "Use of Proceeds."

DEPENDENCE ON KEY LICENSEE AND GOVERNMENT FUNDING

Abbott Laboratories ("Abbott") and certain U.S. government agencies accounted for 21% and 16% of the Company's revenues, respectively, for fiscal 1997 and 24% and 21% of the Company's revenues, respectively, for fiscal 1996. The revenues from Abbott primarily represent royalties received by SurModics in connection with an exclusive license granted to Abbott of the Company's patent rights in a particular diagnostic format. This license currently expires in 2008, subject to extension or renewals of the life of the licensed patents, but can be terminated earlier at any time by Abbott upon 90 days' prior written notice. However, Abbott would then have no right to use such technology in any of its diagnostic tests. There can be no assurance that revenues from Abbott or any customer will continue at their historical levels. Loss of one or more of the Company's current customers, particularly Abbott, could have a material adverse effect on the Company's business, financial condition and results of operations.

The revenues from government agencies represent grants from such agencies under the federal government's Small Business Innovative Research ("SBIR") program. While the Company intends to continue to seek government grants to fund some of its research and development efforts, there can be no assurance that the Company will be successful in obtaining any future government grants. Although

government grants have represented a significant percentage of revenues in the past, the Company believes that these revenues will decline slightly as an absolute number and more significantly as a percentage of total revenue as the Company continues its focus on commercializing its technology. See "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business--Other Products" and "Business--Research and Development."

PRODUCT LIABILITY AND INSURANCE

The development and sale of medical devices and component products involves an inherent risk of product liability claims. Although the Company expects that devices incorporating its technologies and products will be manufactured by others and sold under their own labels, there can be no assurance that product liability claims will not be filed against the Company for such devices or that such manufacturers will not seek indemnification or other relief from the Company for any such claims. In addition, there can be no assurance that product liability claims will not be filed directly against the Company with respect to its own products. The Company currently maintains product liability insurance in amounts which management believes are appropriate. There can be no assurance, however, that product liability insurance will continue to be available to the Company in the future on acceptable terms, if at all, or that, if available, the coverages will be adequate to protect the Company against any future product liability claims. Furthermore, the Company does not expect to be able to obtain insurance covering its costs and losses as a result of any recall of its products or devices incorporating the Company's technology due to alleged defects, whether such recall is instituted by a device manufacturer or the Company or required by a regulatory agency. A product liability claim, recall or other claim with respect to uninsured liabilities or in excess of insured liabilities could have a material adverse effect on the Company's business, financial condition or results of operations.

DEPENDENCE UPON KEY PERSONNEL AND ABILITY TO ATTRACT QUALIFIED PERSONNEL

The Company is highly dependent upon a number of key management and technical personnel. The Company is also dependent upon its ability to attract and retain additional highly qualified management and technical personnel. The Company faces intense competition for qualified personnel, many of whom could be subject to competing employment offers, and there can be no assurance that the Company will be able to attract and retain such personnel. The Company does not maintain key person insurance on any of its employees. The loss of the services of one or more key employees or the failure to attract and retain additional qualified personnel would have a material adverse effect on the Company's business, financial condition and results of operations. See "Business--Employees."

GOVERNMENT REGULATION

Although PhotoLink technology itself is not directly regulated by the U.S. Food and Drug Administration ("FDA"), the medical devices incorporating this technology are subject to FDA regulation. The burden of securing FDA approval for these medical devices rests with the Company's licensees (the medical device manufacturers). However, the Company has prepared Device Master Files which may be accessed by the FDA to assist it in its review of the applications filed by the Company's licensees. Historically, most medical devices incorporating the PhotoLink process have been subject to the FDA's 510(k) marketing approval process, which typically lasts about six to nine months. Supplemental or full pre-market approval ("PMA") reviews require a significantly longer period. Thus, significantly more time will be required to commercialize applications subjected to PMA review. Furthermore, sales of medical devices outside the U.S. are subject to international regulatory requirements that vary from country to country. The time required to obtain approval for sale internationally may be longer or shorter than that required for FDA approval. There can be no assurance that the Company's licensees will be able to obtain regulatory approval for devices incorporating PhotoLink technology on a timely basis, or at all. Regulatory approvals, if granted, may include significant limitations of the indicated uses for which the product may be

marketed. In addition, product approval could be withdrawn for failure to comply with regulatory standards or the occurrence of unforeseen problems following initial marketing. Changes in existing regulations or adoption of new governmental regulations or policies could prevent or delay regulatory approval of products incorporating PhotoLink technology or subject the Company to additional regulation. Failure or delay of licensees in obtaining FDA and other necessary regulatory approval or clearance or the loss of previously obtained approvals could have a material adverse effect on the Company's business, financial condition and results of operations.

Certain of the Company's activities are regulated by federal and state agencies in addition to the FDA. For example, activities in connection with industrial applications of PhotoLink technology and waste disposal are subject to regulation by the U.S. Environmental Protection Agency. Some PhotoLink reagents must be registered with the agency with basic information filed related to toxicity during the manufacturing process as well as the toxicity of the final product. Failure to comply with existing or future regulatory requirements could have a material adverse effect on the Company's business, financial condition and results of operations. See "Business--Government Regulation."

HAZARDOUS MATERIALS

The Company's research activities sometimes involve the controlled use of various hazardous materials. Although the Company believes that its safety procedures for handling and disposing of such materials comply with the standards prescribed by state and federal regulations, the risk of accidental contamination or injury from these materials cannot be completely eliminated. While the Company currently maintains insurance in amounts which it believes are appropriate in light of the risk of accident, the Company could be held liable for any damages that might result from any such event. Any such liability could exceed the Company's insurance and available resources and could have a material adverse effect on the Company's business, financial condition and results of operations. See "Business--Government Regulation."

NO PRIOR PUBLIC MARKET FOR COMMON STOCK; POSSIBLE VOLATILITY OF STOCK PRICE

Prior to this offering, there has been no public market for the Common Stock and there can be no assurance that an active public market for the Common Stock will develop or be sustained after the offering. The initial public offering price will be determined by negotiations between the Company and the Underwriters and is not necessarily indicative of the market price at which the Common Stock of the Company will trade after this offering. Market prices for securities of medical technology companies can be highly volatile, and the market has experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. Announcements of the status or results of licensing agreements, development projects or technological innovations by the Company or its competitors, developments concerning proprietary rights, including patents and litigation matters, government regulation, general market conditions, as well as quarterly fluctuations in the Company's revenues and financial results and other factors, may have a significant impact on the market price of the Common Stock. In particular, the realization of any of the risks described in the "Risk Factors" set forth in this Prospectus could have a dramatic and adverse impact on such market price. See "Underwriting."

POTENTIAL ADVERSE MARKET IMPACT OF SHARES ELIGIBLE FOR FUTURE SALE

Sales of substantial amounts of Common Stock (including shares issued upon the exercise of outstanding options) in the public market following this offering could have an adverse effect on the price of the Common Stock. Such sales may also make it more difficult for the Company to sell equity or equity-related securities in the future at a time and price that the Company would deem appropriate. Upon completion of this offering, the Company will have 6,908,180 shares of Common Stock issued and outstanding. The 2,000,000 shares offered hereby will be freely tradable following this offering, except for any shares purchased by an "affiliate" of the Company, which will be subject to the limitations of Rule 144 promulgated under the Securities Act of 1933, as amended ("Rule 144"). All officers and directors and

certain stockholders of the Company, owning an aggregate of 3,636,648 shares, have entered into "lock-up" agreements, agreeing not to sell, transfer or otherwise dispose of any shares of Common Stock without the consent of John G. Kinnard and Company, Incorporated, as the representative of the several Underwriters (the "Representative"), for a period of 180 days after the date of this Prospectus. The Representative may waive these restrictions at any time in its discretion. Taking such restrictions into account, in addition to the 2,000,000 shares of Common Stock offered hereby, (i) approximately 1,162,716 shares will be eligible for immediate sale on the date of this Prospectus in accordance with Rule 144; (ii) approximately 17,428 additional shares will become eligible for sale in the public market beginning 90 days after the date of this Prospectus in accordance with Rule 144; and (iii) approximately 3,599,668 additional shares will be eligible for sale beginning 180 days after the date of this Prospectus upon the expiration of the lock-up agreements, subject, in certain cases, to volume and manner of sale limitations under Rule 144. As of the date of this Prospectus, options to purchase an aggregate of 1,239,800 shares of Common Stock are outstanding, with 915,200 of the shares issuable upon exercise of such options subject to vesting requirements and lock-up agreements. The remaining 324,600 shares issuable upon exercise of outstanding options will become available for exercise and sale upon vesting and effectiveness of Registration Statements on Form S-8, which the Company intends to file following the expiration of the lock-up agreements referenced above. Following the completion of this offering, the holders of an aggregate of 1,507,312 shares will also be entitled to registration rights with respect to such shares. See "Shares Eligible for Future Sale."

ADVERSE EFFECT OF UNDESIGNATED STOCK AND ANTI-TAKEOVER PROVISIONS

The authorized capital of the Company includes 5,000,000 shares of undesignated stock. The Company's Board of Directors has the power to issue any or all of the shares of undesignated stock, including the authority to establish one or more series and to fix the powers, preferences, rights and limitations of such class or series, without seeking stockholder approval. The rights of the holders of Common Stock will be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that may be created and issued in the future. Furthermore, as a Minnesota corporation, the Company is subject to provisions of the Minnesota Business Corporations Act ("MBCA") that could have an anti-takeover effect on the Company. The Company may also consider adopting additional anti-takeover measures. The authority of the Board to issue undesignated stock and the anti-takeover provisions of the MBCA, as well as any future anti-takeover measures adopted by the Company, may, in certain circumstances, delay, deter or prevent takeover attempts and other changes in control of the Company not approved by management and the Board of Directors. As a result, the Company's stockholders may lose opportunities to dispose of their shares at a premium over prevailing prices in the event of a change in control, and the market price, voting and other rights of the holders of Common Stock may also be affected. See "Description of Capital Stock."

DILUTION

Purchasers of shares in this offering will incur immediate and substantial dilution in the pro forma net tangible book value per share of their purchased shares. Investors may also experience additional dilution as a result of the exercise of outstanding stock options, or the issuance by the Company of additional equity securities. See "Dilution."

ABSENCE OF DIVIDENDS

The Company has not declared or paid any cash dividends on its Common Stock since its inception and does not anticipate declaring or paying any such cash dividends in the foreseeable future. See "Dividend Policy."

USE OF PROCEEDS

The net proceeds to the Company from the sale of the 2,000,000 shares of Common Stock offered to the public hereby are estimated to be $14.5 million ($16.7 million if the Underwriters' over-allotment option is exercised in full), assuming an initial public offering price of $8.00 per share, and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by the Company.

The Company currently intends to use approximately $5.5 million of such proceeds to fund improvements to existing PhotoLink applications and the development of new technological initiatives, primarily focused on additional PhotoLink applications, including the hiring of additional technical personnel to support such initiatives. An additional $1.5 million of the net proceeds is intended to be used to upgrade its technical and production equipment over the next two years. Further, the Company plans to use approximately $2.0 million of the net proceeds to expand its sales and marketing capabilities by hiring additional marketing personnel, and to support market development of new PhotoLink applications. Finally, an estimated $1.0 million will be reserved to strengthen SurModics' patent protection in additional worldwide markets and to seek patent protection for new technology.

The balance of the net proceeds will be used for working capital and general corporate purposes. A portion of the net proceeds may also be used to acquire technologies or products that complement the Company's current business. The Company does not currently have any agreements, arrangements or understandings, and is not involved in any negotiations, with respect to any such acquisitions, and no portion of the net proceeds has been allocated for any specific acquisition.

Pending their use, the net proceeds will be invested in investment grade, interest-bearing securities.

DIVIDEND POLICY

The Company has not declared or paid cash dividends on its Common Stock since its inception. The Company currently intends to retain any earnings for use in the operation and expansion of its business and therefore does not anticipate declaring or paying any cash dividends in the foreseeable future.

CAPITALIZATION

The following table sets forth as of September 30, 1997 (i) the capitalization of the Company, (ii) the pro forma capitalization of the Company giving effect to the conversion of all outstanding shares of Series A Convertible Preferred Stock into 1,507,312 shares of Common Stock and (iii) such pro forma capitalization as adjusted to reflect the sale by the Company of the 2,000,000 shares offered hereby at an assumed price of $8.00 per share and the anticipated receipt and application of the estimated net proceeds therefrom, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by the Company. The information set forth below should be read in conjunction with the Financial Statements and Notes thereto included elsewhere in this Prospectus. See "Use of Proceeds."

	SEPTEMBER 30, 1997(1)		
	ACTUAL	PRO FORMA	AS ADJUSTED
	(IN THOUSANDS)		
STOCKHOLDERS' EQUITY:			
Series A Convertible Preferred Stock, $0.05 per share par value; convertible into Common Stock upon the closing of an initial public offering; 450,000 shares authorized and 376,828 shares issued and outstanding (actual); no shares authorized, issued and outstanding (pro forma and as adjusted)	$ 19	$ --	$ --
Common Stock, $0.05 per share par value; 15,000,000 shares authorized; 3,400,868 shares issued and outstanding (actual); 4,908,180 shares issued and outstanding (pro forma); 6,908,180 shares issued and outstanding (as adjusted)	170	245	345
Additional paid-in capital	13,492	13,436	27,786
Unearned compensation	(259)	(259)	(259)
Stock purchase notes receivable	(160)	(160)	(160)
Accumulated deficit	(8,160)	(8,160)	(8,160)
Total stockholders' equity and capitalization	$ 5,102	$ 5,102	$ 19,552

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(1) Includes 126,400 shares of Common Stock issued pursuant to restricted stock agreements. Excludes 1,204,800 shares of Common Stock issuable upon exercise of outstanding stock options at a weighted average exercise price of $4.60 per share. See "Management--Stock Options" and "Description of Capital Stock."

DILUTION

The pro forma net tangible book value of the Company's Common Stock at September 30, 1997 was $4.8 million or $.98 per share. "Net tangible book value" represents the tangible assets less total liabilities of the Company, and "pro forma net tangible book value per share" was determined by dividing the net tangible book value of the Company by the pro forma number of shares of Common Stock outstanding on September 30, 1997. See "Capitalization." "Pro forma net tangible book value dilution per share" represents the difference between the initial public offering price per share and the pro forma net tangible book value per share after this offering. Without taking into account any changes in the Company's pro forma net tangible book value per share after September 30, 1997, other than to give effect to the sale of the 2,000,000 shares offered hereby at an assumed initial offering price of $8.00 per share (net of underwriting discounts and commissions and estimated offering expenses), the pro forma net tangible book value of the Company at September 30, 1997 would have been $19.2 million or $2.79 per share. This represents an immediate increase in pro forma net tangible book value to the existing stockholders of $1.81 per share and an immediate pro forma net tangible book value dilution to purchasers of the shares of $5.21 per share, as illustrated by the following table:

Assumed initial public offering price per share.....		$ 8.00
Pro forma net tangible book value per share at September 30, 1997.....	$ .98	
Increase per share attributable to new investors.....	1.81	
Pro forma net tangible book value per share after this offering.....		2.79
Pro forma net tangible book value dilution per share to new investors.....		$ 5.21

The following table summarizes as of September 30, 1997, on a pro forma basis, the difference between the number of shares of Common Stock purchased from the Company by existing stockholders and by new investors in this offering, the total consideration paid to the Company and the average price paid per share. The table assumes that no shares are purchased in this offering by existing stockholders. To the extent existing stockholders purchase shares in this offering, their percentage ownership, total consideration and average consideration per share will be greater than is shown.

	SHARES PURCHASED		TOTAL CONSIDERATION(1)		AVERAGE CONSIDERATION
	NUMBER	PERCENT	AMOUNT	PERCENT	PER SHARE
Existing stockholders.....	4,908,180	71.0%	$ 13,891,861	46.5%	$ 2.83
New investors.....	2,000,000	29.0%	16,000,000	53.5%	8.00
Total.....	6,908,180	100.0%	$ 29,891,861	100.0%	

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(1) Does not reflect any deductions for commissions or expenses paid or incurred in connection with the issuance of such shares.

The foregoing tables and calculations, as of September 30, 1997, include 126,400 shares of Common Stock issued pursuant to restricted stock agreements, and excludes 1,204,800 shares of Common Stock issuable upon exercise of outstanding stock options at a weighted average exercise price of $4.60 per share. See "Management--Stock Options," "Description of Capital Stock" and Note 4 to the Financial Statements.

SELECTED FINANCIAL DATA

The statement of operations data for the years ended September 30, 1995, 1996 and 1997 and the balance sheet data at September 30, 1996 and 1997 are derived from and are qualified by reference to, and should be read in conjunction with the more detailed Financial Statements of the Company and the Notes thereto, which have been audited by Arthur Andersen LLP, independent public accountants, whose report is included elsewhere in this Prospectus, and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" which follows this section. The statement of operations data for the years ended September 30, 1993 and 1994 and the balance sheet data at September 30, 1993, 1994 and 1995 are derived from audited financial statements not included in this Prospectus.

	FISCAL YEAR ENDED SEPTEMBER 30,				
	1993	1994	1995	1996	1997
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
STATEMENTS OF OPERATIONS DATA:					
Revenues:					
Royalties	$ 1,123	$ 1,697	$ 2,082	$ 2,340	$ 2,913
License fees	606	350	857	382	540
Product sales	573	898	1,429	1,641	2,159
Research and development	2,238	1,673	1,588	1,819	1,970
Total revenues	4,630	4,618	5,956	6,182	7,582
Operating costs and expenses:					
Product	415	562	1,258	1,214	1,432
Research and development	3,229	3,043	2,966	3,317	3,597
Sales and marketing	588	951	1,061	912	1,098
General and administrative	1,159	1,147	1,126	1,154	1,418
Total operating costs and expenses	5,391	5,703	6,411	6,597	7,545
Income (loss) from operations	(761)	(1,085)	(455)	(415)	37
Other income (expense), net	244	(17)	133	221	199
Net income (loss)	$ (517)	$ (1,102)	$ (322)	$ (194)	$ 236
Net income (loss) per common and common equivalent share (pro forma) (1)	$ (.13)	$ (.26)	$ (.07)	$ (.04)	$ .04
Weighted average common and common equivalent shares outstanding (pro forma) (1)	4,085	4,304	4,789	4,851	5,393

	SEPTEMBER 30,				
	1993	1994	1995	1996	1997
	(IN THOUSANDS)				
BALANCE SHEET DATA:					
Cash, cash equivalents and investments	$ 2,866	$ 4,730	$ 3,192	$ 3,845	$ 3,822
Total assets	4,654	7,169	5,849	6,046	6,450
Total liabilities	2,041	2,580	1,192	1,306	1,348
Accumulated deficit	(6,777)	(7,879)	(8,201)	(8,395)	(8,160)
Total stockholders' equity	2,613	4,589	4,657	4,740	5,102

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(1) See Note 2 to Financial Statements for determination of weighted average common and common equivalent shares outstanding.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

SurModics, Inc. was formed in 1979 to conduct biomedical research for government agencies and private industry. Historically, the Company relied heavily on revenues from research grants from U.S. government agencies to fund its operations. Since 1990, SurModics has focused its efforts on commercializing its technologies.

As indicated in the table below, the Company's revenues come from four primary sources: fees from licensing its patented technology to customers; royalties received from licensees; the sale of photo-reactive chemical compounds to licensees and stabilization products to the diagnostics industry; and research and development fees generated on projects for commercial customers and pursuant to government grants. The Company expects that revenue generated from government grants will continue to decline slightly as an absolute number but more significantly as a percentage of total revenue in the future. The table below reports each revenue category as a percentage of total revenues.

	FISCAL YEAR ENDED SEPTEMBER 30,		
	1995	1996	1997
Royalties	35.0%	37.9%	38.4%
License fees	14.4%	6.2%	7.1%
Product sales	24.0%	26.5%	28.5%
Research and development	26.6%	29.4%	26.0%
Total	100.0%	100.0%	100.0%

As indicated above, a significant portion of the Company's revenues are derived from license fees and royalties. Generally, the Company's license agreements provide for a term of 15 years or the life of the Company's patents covering the licensed applications, whichever is longer, although the agreement may be terminated earlier upon notice. These worldwide licenses can be either exclusive or nonexclusive for a particular device, but over 75% of the Company's licensed applications are nonexclusive. SurModics requires the payment of a non-refundable license fee which has historically ranged from $25,000 to $500,000 and quarterly royalties of 2% to 6% on sales of products incorporating SurModics' technology. The amount of license fees and royalties are based on whether the arrangement is exclusive or nonexclusive and the perceived value of the PhotoLink application to the device. Certain nonrefundable license and research and development fees are recoverable by the licensees as offsets against a percentage of future earned royalties.

The Company has attempted to diversify its revenue base by entering into license agreements with many companies covering multiple product applications. SurModics currently has license agreements with 32 companies covering 106 applications, of which 58 are generating royalty revenues for the Company. Most of SurModics' agreements provide for the quarterly payment of the greater of a minimum royalty or an "earned" royalty based on actual product sales. Many of the licensed products incorporating SurModics' technology are still in the early phase of their development, and the Company will not receive earned royalties on these products until the licensees receive the necessary regulatory approvals and commercialize these products, if at all. SurModics anticipates that the Company's royalty revenues will continue to grow in the future as its licensees succeed in bringing their licensed products to market.

With the exception of the most recently completed fiscal year, the Company has reported annual losses since inception. During fiscal 1997, the Company recorded operating income of $37,000 and net income of $236,000. The Company's accumulated deficit was $8.2 million as of September 30, 1997.

Historically, most of the Company's expenses were incurred in connection with its research and development activities. As additional products incorporating the PhotoLink technology are commercialized by the manufacturers of such products and consequently generate earned royalties for the Company, management anticipates that the Company will be able to leverage its expense base into increased profitability. The Company's licensing strategy should allow it to grow its revenue without corresponding expense growth. However, as stated in "Use of Proceeds," the Company does intend to further invest in sales, marketing and technical resources in order to further penetrate its target markets and to develop additional PhotoLink applications.

RESULTS OF OPERATIONS

YEARS ENDED SEPTEMBER 30, 1997 AND 1996

REVENUES. The Company's revenues were $7.6 million for fiscal 1997, an increase of $1.4 million, or 22.6%, over fiscal 1996. Between years, royalty revenue increased 24.5%, product sales increased 31.6% and license fees increased 41.1%. Research and development revenue increased 8.3%, with a 41.0% increase in customer-funded research and development revenue, partially offset by a 5.0% decrease in government-sponsored research and development revenue. In general, these increases were due to greater customer development activity and increased market penetration of products incorporating SurModics' technology.

PRODUCT COSTS. The Company's product costs were $1.4 million in fiscal 1997, an increase of $217,000, or 17.9%, compared to fiscal 1996. Product margins increased to 33.7% in fiscal 1997 from 26.0% in fiscal 1996, primarily due to manufacturing efficiencies achieved in producing reagent chemicals.

RESEARCH AND DEVELOPMENT EXPENSE. Research and development expense was $3.6 million in fiscal 1997, an increase of $280,000, or 8.5%, over fiscal 1996. The change was primarily due to increased patent-related costs, additional research studies at external laboratories and additional technical personnel.

SALES AND MARKETING EXPENSE. Sales and marketing expense was $1.1 million in fiscal 1997, an increase of $186,000, or 20.5%, over fiscal 1996. This increase was primarily due to additional marketing personnel and increased customer activities, which resulted in more travel and promotional spending.

GENERAL AND ADMINISTRATIVE EXPENSE. General and administrative expense was $1.4 million in fiscal 1997, an increase of $263,000, or 22.8%, compared to fiscal 1996. The increase was primarily due to incentive compensation.

OTHER INCOME (EXPENSE), NET. The Company's net other income was $198,000 in fiscal 1997, a decrease of $23,000 or 10.2% from fiscal 1996. This decrease was due primarily to a reduced level of interest income from investments.

YEARS ENDED SEPTEMBER 30, 1996 AND 1995

REVENUES. The Company's revenues were $6.2 million for fiscal 1996, an increase of $227,000, or 3.8%, over fiscal 1995. Due to an overall increase in customer activity, royalty revenue increased 12.4%, product sales increased 14.8% and research and development revenue increased 14.5%, which was comprised of a 28.9% increase in customer-funded research and development revenue and a 9.6% increase in government-sponsored research and development revenue. License fees declined $475,000, or 55.4%, to $383,000 in fiscal 1996 due to the timing of finalizing new license arrangements. Fiscal 1995 included large fees associated with two license agreements.

PRODUCT COSTS. The Company's product costs were $1.2 million for fiscal 1996, a decrease of $43,000, or 3.4%, compared to fiscal 1995. Product margins increased to 26.0% in fiscal 1996 from 12.0% in fiscal 1995. This improvement was primarily due to manufacturing efficiencies achieved in producing reagent chemicals.

RESEARCH AND DEVELOPMENT EXPENSE. Research and development expense was $3.3 million for fiscal 1996, an increase of $351,000, or 11.8%, over fiscal 1995. The increase was primarily due to additional compensation-related expense and research studies at external laboratories, offset by lower patent-related costs.

SALES AND MARKETING EXPENSE. Sales and marketing expense was $912,000 for fiscal 1996, a decrease of $149,000, or 14.0%, compared to fiscal 1995. This decrease was primarily attributable to lower compensation costs due to personnel turnover and lower legal fees associated with the review of new license agreements.

GENERAL AND ADMINISTRATIVE EXPENSE. General and administrative expense was $1.2 million for fiscal 1996, an increase of $29,000, or 2.6%, over fiscal 1995. The increase was primarily due to higher compensation costs offset by slightly lower general legal costs.

OTHER INCOME (EXPENSE), NET. The Company's net other income was $221,000 for fiscal 1996, an increase of $88,000, or 66.2%, compared to fiscal 1995. The primary reason for the increase was the improved performance of the Company's investment portfolio. Performance of the Company's investment portfolio in fiscal 1996 included losses of $55,000 on certain investments compared to losses of $218,000 on these same investments in fiscal 1995. The Company completely liquidated these investments in the second quarter of fiscal 1996.

NEW ACCOUNTING PRONOUNCEMENTS

See Notes 2 and 4 of Notes to Financial Statements for a discussion of Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," SFAS No. 128, "Earnings Per Share," SFAS No. 130, "Reporting Comprehensive Income" and SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information."

NET OPERATING LOSS CARRYFORWARDS

In accordance with Section 382 of the Internal Revenue Code of 1986, as amended, a change in equity ownership of the Company of greater than 50% within a three-year period results in an annual limitation on the Company's ability to utilize its net operating loss ("NOL") carryforwards which accrued during the tax periods prior to the change in ownership. As of September 30, 1997, the Company had an NOL carryforward of approximately $6.4 million, which expires in varying amounts through 2011. The sale of the shares of Common Stock in this offering will not directly result in such limitation; however, the NOL carryforwards may become subject to such a limitation due to subsequent changes in the equity ownership of the Company.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 1997, the Company had working capital of approximately $2.1 million. Historically, the Company has primarily funded its operations through government research grants and equity offerings, the most recent of which occurred in the third quarter of fiscal 1994. For the last three fiscal years, the Company has generated positive cash flow from operations.

As of September 30, 1997, the Company had cash, cash equivalents and investments totaling approximately $3.8 million. The Company's funds are currently invested in short-term money market funds and investment grade, interest-bearing securities with maturity dates of less than two years. As of September 30, 1997, the Company had no debt, nor did it have any credit agreements. The Company believes that its existing capital resources, including the net proceeds from this offering, will be adequate to fund the Company's operations into the foreseeable future.

GENERAL

SurModics is a leading provider of surface modification solutions to the medical device industry. The Company's primary focus is the commercialization of its patented PhotoLink process through third-party licensing arrangements. PhotoLink is a versatile, easily applied, light-activated coating technology that modifies medical device surfaces by creating covalent bonds between those surfaces and a variety of chemical agents. Through the PhotoLink process, these chemical agents can impart many performance-enhancing characteristics, such as lubricity, hemocompatibility, infection resistance and drug delivery, onto the surface of a medical device without materially changing the dimensions or physical properties of the device. The Company believes that medical device manufacturers who utilize the Company's technology are able to significantly improve the performance of their products and, in many cases, differentiate their products in a highly competitive marketplace.

The Company focuses on providing high value-added surface modification solutions to a variety of medical device markets and product categories. Examples of products in the market or under development that incorporate the PhotoLink technology include interventional cardiology catheters, vascular stents, interventional neurology catheters, guide wires and shunts, cardiac rhythm management devices, and urological and gynecological devices. The surface properties created by the PhotoLink technology have greatly reduced treatment times in catheter-based vascular procedures and have shown the potential to enhance the long-term performance of implantable devices by improving infection resistance and promoting host cell attachment, growth and subsequent tissue integration. The Company believes further opportunities exist to commercialize its PhotoLink technology for other market applications, such as biomolecule immobilization for use in the emerging field of DNA-based diagnostics.

The Company has commercialized its PhotoLink technology through licensing arrangements with medical device manufacturers which apply the PhotoLink coatings to their own products. The Company believes this approach allows it to focus its resources on further development of its technology and expansion of its licensing activities, while leveraging the established manufacturing, sales and marketing capabilities of its licensees. Revenues from these arrangements include initial license fees, minimum royalties and earned royalties based on a percentage of licensees' product sales. The Company currently has license agreements with 32 companies covering 106 different applications, of which 58 are generating royalty revenues for the Company. In addition to licensing its PhotoLink technology, the Company also licenses certain diagnostic technology to Abbott Laboratories for use with rapid point-of-care diagnostic tests, such as pregnancy and strep tests. The Company also manufactures and sells the chemical reagents used in the PhotoLink process and stabilization products used to extend the shelf-life of immunoassay diagnostic tests.

MARKETS AND NEED FOR SURFACE MODIFICATION

Recent trends in healthcare toward improved patient outcomes and reduced total costs have resulted in intense competition for the development of medical devices that demonstrate superior product performance, reduced procedure times, improved outcomes and overall cost effectiveness. In the highly competitive medical device industry, many medical device manufacturers may offer similar competing products for a single medical application. As a result, product differentiation is critical to marketing success, and medical device manufacturers are continually seeking new methods of distinguishing their products from those of their competitors.

Medical device manufacturers have attempted to address these competitive pressures by developing innovative medical devices manufactured from a wide variety of synthetic materials, including many new, expensive and exotic materials. In an effort to further differentiate their products through improved product performance, a growing number of medical device manufacturers are turning to the emerging field of surface modification technology. Surface modification technology enables device manufacturers to

provide medical devices with desired surface characteristics including improved lubricity, hemocompatibility and infection resistance, as well as the ability to deliver drugs and promote cell growth and tissue integration.

Although it is an emerging field, surface modification technology has been used to improve medical devices in many different industry segments. The table below identifies several of these market segments and the surface properties the Company believes are desired by each segment.

MARKET SEGMENT SERVED	DESIRED SURFACE PROPERTY AND EXAMPLES OF APPLICATIONS
Interventional cardiology and vascular access	LUBRICITY: catheters, guide wires HEMOCOMPATIBILITY: vascular stents, catheters, guide wires THERAPEUTIC DRUG DELIVERY AND RELEASE: vascular stents, catheters INFECTION RESISTANCE: catheters, implantable ports
Cardiac rhythm management	LUBRICITY: pacemaker and defibrillator leads, electrophysiology devices HEMOCOMPATIBILITY: electrophysiology devices
Cardiothoracic surgery	INFECTION RESISTANCE: heart valves HEMOCOMPATIBILITY: minimally invasive bypass devices, vascular grafts, ventricular assist devices CELL GROWTH AND TISSUE INTEGRATION: heart valves, vascular grafts
Interventional neurology and neurosurgery	LUBRICITY: catheters, guide wires INFECTION RESISTANCE: catheters, shunts
Urology and gynecology	LUBRICITY: urinary catheters, incontinence devices, ureteral stents, fertility devices INFECTION RESISTANCE: urinary catheters, incontinence devices, ureteral stents, fertility devices, penile implants
Orthopedics	CELL GROWTH AND TISSUE INTEGRATION: bone regeneration

In addition to the above-identified market segments, the Company believes that one of the next areas of growth for surface modification technology will be the diagnostic test market. Diagnostic tests utilizing biomolecules, such as DNA, can be used to screen for new drugs, to sequence unknown portions of the human genome, or to search for signs of viruses. The Company believes manufacturers of these diagnostic tests may benefit from surface modification technology to provide biomolecule immobilization and wettability properties.

THE PHOTOLINK SOLUTION

PhotoLink is a versatile, easily applied, light-activated coating technology that modifies medical device surfaces by creating covalent bonds between those surfaces and a variety of chemical agents. The PhotoLink process can impart many performance-enhancing characteristics, such as lubricity, hemocompatibility, infection resistance and drug delivery, onto the surface of a wide variety of medical devices without significantly changing the dimensions or physical properties of the device.

The PhotoLink solution to surface modification involves the utilization of proprietary, light sensitive (photochemical) reagents. These reagents can consist of advanced polymers or active biomolecules having desired surface characteristics and an attached light-reactive chemical compound (photogroup). As illustrated in the following diagram, when the reagent is exposed to a direct light source, typically ultraviolet, a photochemical reaction creates a covalent bond between the photogroup and the surface of the medical device, thereby imparting the desired property to the surface. A covalent bond is a very strong chemical bond which results from the sharing of electrons between carbon molecules of the substrate and the applied coating.

[illustration of the PhotoLink coating process in which a polymer attached to a photogroup is bonded to a surface when exposed to ultraviolet light]

SurModics' proprietary PhotoLink reagents work on most polymer-based (E.G., plastic) substrates, biological substrates (latex rubber, cellulose, tissue and natural fibers), and metal and glass substrates. Metal and glass substrates generally require pretreating with polymers to make a carbon-molecule available for bonding prior to the application of the PhotoLink reagents. The reagents are easily applied to a clean material surface by dipping, spraying, roll coating, ink jetting or brushing. SurModics continues to develop proprietary photochemical reagents providing new product features while expanding the number and type of substrates on which the reagents can be applied.

ADVANTAGES

The Company believes that its proprietary PhotoLink process provides its licensees with a number of benefits.

- FLEXIBILITY. PhotoLink coatings can be applied to many different kinds of surfaces and can immobilize a variety of chemical, pharmaceutical and biological agents, which allows licensees to be innovative in the design of their products without significantly changing their dimensions or physical properties.

- VARIETY OF SURFACE PROPERTIES. The PhotoLink process can be tailored to provide SurModics' licensees with the ability to improve the performance of their devices by choosing the specific coating properties desired for particular applications. The PhotoLink technology also provides the medical device manufacturer with the ability to combine multiple surface-enhancing characteristics on the same device.

- EASE OF USE. The PhotoLink coating process is a relatively simple process that does not require expensive special equipment or the use of hazardous materials and does not subject the coated products to harsh chemical, pressure or temperature conditions. Further, PhotoLink coatings are compatible with all the generally accepted sterilization processes, so the surface attributes are not lost when the medical device is sterilized prior to usage.

SURFACE PROPERTIES

SurModics' PhotoLink process has been used by manufacturers of pacemaker leads, drug infusion catheters, laser and balloon angioplasty catheters, urinary drainage catheters, vascular closure devices, wound drains, guide wires, angiography catheters, ureteral stents and hydrocephalic shunts, among other devices. The PhotoLink process can be used to provide medical device manufacturers with the following surface properties to improve product performance:

- LUBRICITY. Low friction or lubricious coatings reduce the force and time required for insertion, navigation and removal of devices in vascular, neurological and urogenital applications. Lubricity also reduces tissue irritation and damage caused by products such as catheters, guide wires and endoscopy devices. Based on Company and licensee testing, when compared to uncoated surfaces, the PhotoLink process has reduced the friction on surfaces by as much as 85% to 95%, depending on the substrate being coated.

- HEMOCOMPATIBILITY. Hemocompatible coatings help reduce adverse reactions that may be created when a device is inserted into the body and comes in contact with blood. Heparin has been used for decades as an injectable drug to reduce blood clotting in patients. SurModics can immobilize heparin on the surface of blood-contacting medical devices thereby inhibiting blood clotting on the device surface, minimizing patient risk and enhancing the performance of the device. PhotoLink heparin coatings have been shown in Company and licensee testing to reduce blood clotting by greater than 90% compared to uncoated surfaces. SurModics has immobilized several other chemical agents in addition to heparin that have also demonstrated improved hemocompatibility.

- INFECTION RESISTANCE. Antimicrobial coatings are advantageous for most implantable medical devices where risk of infection is a concern. PhotoLink technology can apply passive coatings which significantly reduce bacterial adhesion to the device or active coatings incorporating antimicrobial agents which kill bacteria around the device. Testing by the Company has demonstrated that the PhotoLink process reduces the adherence of microorganisms to biomaterial surfaces by 97% to over 99% depending on the base material of the device. In addition, when compared to uncoated products, the PhotoLink process has been shown to increase the uptake of antimicrobial agents applied to the device just prior to implantation and prolong the release of these agents.

- DRUG DELIVERY. PhotoLink technology can be used to crosslink polymers and create reservoirs to entrap drugs on the surface of medical devices. These drugs can then be released from the surface on a controlled basis by tailoring the polymers, by adjusting the extent of crosslinking, or by using a barrier coating to control diffusion. For example, SurModics has developed a PhotoLink coating that would allow a coronary stent manufacturer to incorporate a drug onto the stent directed at reducing the incidence of restenosis (the re-narrowing of the artery).

- WETTABILITY. PhotoLink hydrophilic coatings have been shown in tests by the Company and its licensees to accelerate liquid flow rates on normally hydrophobic (water repelling) materials by 75%. Rapid point-of-care diagnostic tests, such as home monitoring or physician monitoring of glucose levels in diabetics, are currently done by pricking a patient's finger and carefully placing a drop of blood onto a polymer strip which is then inserted into a blood glucose reader. The Company believes that the time it takes for the blood to flow up the strip to provide the patient with a readout can be dramatically reduced and the consistency can be greatly improved with PhotoLink technology.

- CELL GROWTH, TISSUE INTEGRATION AND OTHER TISSUE ENGINEERING. Studies have shown that attachment of extracellular matrix proteins and peptides onto surfaces of implantable medical devices improves host cell attachment, growth and subsequent tissue integration. PhotoLink technology has been used to coat biomedical devices with photoreactive collagens and other proteins upon which cells normally grow within the body. Company studies have shown that biomedical devices (such as vascular grafts and ocular implants) coated with such proteins, have improved attachment, growth of cells and acceptance by surrounding tissues. In addition, the Company is also using its PhotoLink technology to produce three-dimensional scaffolds to promote bone regeneration.

- BIOMOLECULE IMMOBILIZATION. During a DNA gene analysis, typically hundreds of different probes need to be placed in a pattern on a surface, called a DNA array. These arrays can be used by the pharmaceutical industry to screen for new drugs, by genome mappers to sequence unknown portions of the human genome, or by diagnostic companies to search a patient sample for disease-causing bacteria or viruses. However, DNA does not readily adhere to most surfaces that are important for DNA assays. The Company has demonstrated a versatile method for the immobilization of DNA on various surfaces.

STRATEGY

The Company's goal is to be the leading provider of surface modification solutions to companies in the medical device industry. To achieve this goal, SurModics intends to implement the following key strategies:

- FURTHER PENETRATE AND EXPAND ITS LICENSING BASE. The Company intends to continue to focus on commercializing its technology through application-by-application licensing agreements with medical device manufacturers. Under this strategy, SurModics intends to continue to license its PhotoLink technology to multiple licensees within the same market, thereby increasing SurModics' revenue potential.

- FURTHER DEVELOP APPLICATIONS FOR THE PHOTOLINK TECHNOLOGY. The PhotoLink process is extremely flexible, which provides the Company with many potential useful applications in the medical device industry. The Company intends to devote research and development efforts to further enhance the lubricious, hemocompatible and infection resistant properties of its existing PhotoLink applications, and to further develop applications involving controlled drug delivery and release, DNA immobilization and cell growth and tissue integration.

- EXPAND SALES AND MARKETING RESOURCES. Because of the technical nature of the Company's operations, SurModics' marketing strategy is to utilize a technically sophisticated direct sales force, which works closely with both the Company's and its customers' development staff. The Company intends to increase its direct sales resources to increase market awareness of the Company's technological capabilities and developments. The Company also intends to improve its market research capabilities to investigate new PhotoLink applications.

- SEEK JOINT DEVELOPMENT PROGRAMS. The Company intends to aggressively pursue opportunities with medical device companies to expand its technology, internal expertise and revenue base while reducing developmental risks by sharing them with others. SurModics is engaged in several such joint development programs, including one regarding controlled drug delivery and release and another involving DNA immobilization.

- EXPAND THE COMPANY'S PRODUCT PORTFOLIO. SurModics believes that it can utilize its know-how and expertise in surface modified devices, photoreactive crosslinking and bonding, and reagent chemistry to develop additional proprietary products that SurModics can directly sell, rather than license, to the medical marketplace. The Company may acquire technologies and products which are closely related to or utilize its technology, thereby allowing the Company to leverage its existing presence in the medical marketplace.

CURRENT LICENSING ARRANGEMENTS

The Company has commercialized its PhotoLink technology through licensing arrangements with medical device manufacturers who apply the PhotoLink coatings to their own products. The Company believes this approach allows it to focus its resources on further developing its technology and expanding its licensing activities, while leveraging the established manufacturing, sales and marketing capabilities of its licensees for the marketing of the specific medical device utilizing the PhotoLink technology. The Company believes its licensees generally find the licensing arrangement to be beneficial for them because it is designed to allow manufacturers to incorporate the PhotoLink process into their own manufacturing processes without the need to send product outside their facility, resulting in tighter quality control and reduced investment in work-in-process inventory.

SurModics currently has license agreements with 32 companies covering 106 applications. The following table identifies selected licensees of SurModics' PhotoLink technology, some of the medical devices that incorporate SurModics' technology and the surface characteristics sought by the licensee.

SELECTED LICENSEES	SELECTED MEDICAL DEVICE(1)	DESIRED SURFACE PROPERTY
Cook Incorporated	Angiography catheters* Urinary catheters* Guide catheters Intravascular stents Guide wires Balloon dilitation catheters	Hemocompatibility Lubricity
Cordis Corporation (a Johnson & Johnson company)	Intravascular stents	Hemocompatibility Therapeutic drug release
Medtronic PS Medical	Hydrocephalic shunts* Central venus access catheter*	Lubricity
Pacesetter, Inc. (a St. Jude Medical, Inc. company)	Implantable pacemaker components* Implantable defibrillator components	Infection resistance Lubricity
Perclose, Inc.	Vascular closure device*	Lubricity
Sulzer Carbomedics (a division of Sulzer Medica USA, Inc.)	Sewing rings for biologically derived and synthetic heart valves Synthetic heart valve components	Hemocompatibility
Target Therapeutics, Inc. (a subsidiary of Boston Scientific Corporation)	Neurovascular infusion catheters* Neurovascular guide wires* Neurovascular guide catheters*	Lubricity

(1) The devices marked with an asterisk are currently generating earned royalties for SurModics based on the respective licensee's sale of the medical device incorporating SurModics' technology. The devices not marked with an asterisk are in the development stage and may never generate earned royalties for the Company.

The licensing process begins with the medical device manufacturer specifying the surface characteristics it desires. Because each surface is unique, the Company routinely conducts a feasibility study at no charge to the customer to qualify each new potential product application by SurModics. Once the feasibility has been proven, the customer typically funds further development by SurModics to optimize the coating formulation to meet the customer's technical and financial needs. A license agreement is then executed and SurModics' technical personnel assist the licensee in incorporating the PhotoLink process into its manufacturing facility. SurModics provides ongoing assistance in reagent handling, capital equipment recommendations, process control and trouble shooting. The Company also manufactures and sells the chemical reagents used in the PhotoLink process, thus creating another source of revenue.

The term of a license agreement is generally for a period of 15 years or the life of SurModics' patents covering the licensed application, whichever is longer, although an agreement may be terminated for any reason upon prior written notice, typically required at least 90 days before termination. The worldwide license can be either exclusive or nonexclusive for a particular medical device, but over 75% of the Company's licensed applications are nonexclusive. SurModics requires the payment of a non-refundable

license fee which has historically ranged from $25,000 to $500,000 and quarterly "earned" royalties of 2% to 6% on the sales of products incorporating SurModics' technology. The amount of license fees and royalties are based on whether the arrangement is exclusive or nonexclusive and the perceived value of the PhotoLink application to the device. Certain nonrefundable license and research and development fees are recoverable by the licensees as offsets against a percentage of future earned royalties. Most of SurModics' agreements incorporate a minimum royalty to be paid by the licensee while the medical devices are developed, tested and commercialized. In certain cases, payment of these minimum royalties may not commence until several months after the execution of an agreement for a particular application.

OTHER PRODUCTS

STABILIZATION PRODUCTS

Although the primary focus of the Company is the development and marketing of its PhotoLink technology, the Company also develops and markets stabilization products for use by manufacturers of immunoassay diagnostic tests. SurModics' StabilCoat and StabilZyme Stabilizers are designed to maintain the activity of biological components of the immunoassays, resulting in a longer shelf-life. These products offer SurModics' customers the benefit of product differentiation and improvement while providing the ultimate end users the benefit of a faster test with fewer steps and fewer errors. In fiscal 1997, SurModics generated $1.7 million of revenue from its stabilization products.

DIAGNOSTIC FORMATS

The Company also licenses a format for IN VITRO diagnostic tests developed during the early years of the Company. This format has found broad application in the expanding area of rapid point-of-care diagnostic testing, such as pregnancy and strep tests, and generated $1.5 million of royalty revenue for the Company in fiscal 1997 pursuant to the license agreement with Abbott. Although this revenue is expected to grow in the future with the increased sales of licensed products, limited additional SurModics-funded research and development is being undertaken in this area.

INDUSTRIAL APPLICATIONS

While it is not the Company's primary focus, the Company occasionally pursues industrial applications for its PhotoLink technology. The Company only pursues those applications that are perceived to be high-value applications in a market that is not considered to be price sensitive. To date, revenue associated with industrial applications has been immaterial and is not expected to be significant in the foreseeable future.

RESEARCH AND DEVELOPMENT

SurModics' research and development department supports the marketing staff in performing feasibility studies, providing technical assistance to potential licensees, optimizing the coating methodologies for specific licensee applications, assisting in training licensees and integrating the Company's technology and know-how into licensee manufacturing processes. In addition, the research and development department works to enhance and expand the PhotoLink technology through the development of new reagents and new applications.

As medical devices become more sophisticated and complex, the Company believes the requirements for optimized surface properties will grow. The Company intends to continue its development efforts to allow its PhotoLink technology to provide additional optimized surface properties to meet these needs. The Company's technical strategy is to target selected coating characteristics for further development prior to licensing, in order to facilitate and shorten the license cycle. The Company has begun to perform research into applications for future products both on its own and in conjunction with some of its licensees. Some of the identified research and development opportunities include coatings designed to improve the characteristics of long-term implants, site-specific drug release, orthopedic repair materials and devices, long-term blood compatibility and DNA immobilization methods. In addition to expanding the number of medical applications that may use PhotoLink technology, the Company intends to broaden the spectrum of

surfaces on which reagents can be applied, improve the coating process for metals and glass, develop a process for coating the interior diameter of medical devices, expand the portfolio of PhotoLink reagents, and develop additional proprietary products in which PhotoLink reagents serve as the end product.

The technical staff of the Company consists of 46 scientists, including seven with Ph.D. degrees, four with Masters degrees and 31 with Bachelor degrees, with expertise in chemistry, biomedical engineering, biology, microbiology, cell biology and biochemistry. The technical staff is organized into five areas of specialization: hydrophilicity, microbiology, hemocompatibility, biochemistry and tissue engineering. In addition, a chemistry group supports the synthesis of new reagents needed by the other five groups. SurModics intends to use a portion of the net proceeds from this offering to hire additional technical personnel.

In fiscal 1996 and 1997, the Company's research and development expenses were $3.3 million and $3.6 million, respectively. The Company's research and development efforts are often funded by commercial licensees and government agencies. Such research and development revenues during these periods were $1.8 million and $2.0 million, respectively.

Since its founding, the Company has actively participated in the federal government's Small Business Innovative Research ("SBIR") program to fund development efforts. Since 1979, 136 research contracts resulting in revenues of over $23 million have been awarded to SurModics, primarily under the SBIR program. Grant proposals are generally directed toward the commercial strategies of the Company. The Company retains commercial rights to discoveries and technologies resulting from the research and development efforts funded by these grants. Where possible, licensees' products or substrates are used when performing research under the grant; thus the results are often directly applicable to SurModics' licensees. Grant funding has also allowed SurModics to maintain a larger and more technologically diverse employee base than would otherwise be possible.

PATENTS AND PROPRIETARY RIGHTS

The Company believes that it has protected its PhotoLink technology through a series of patents covering a variety of coating methods, reagents and formulations, as well as particular medical device applications, based on or employing the Company's proprietary photoreactive chemistry. The series of patents related to the PhotoLink technology includes 12 issued and three allowed U.S. patents and seven pending U.S. patent applications, with similar protection being sought in 28 pending and seven issued patents in various foreign countries. The Company generally files international patent applications in parallel with most U.S. applications. The Company generally files in Australia, Canada, Europe, Japan and Mexico. In addition to the series of patents regarding PhotoLink technology, SurModics has three issued U.S. patents, with similar protection being sought in nine pending and 13 issued patents in various foreign countries, related to its diagnostic technology. There can be no assurance that any of the pending patent applications will be approved.

The commercial success of the Company will depend, in part, on its ability to protect its existing patents, to obtain patent protection for newly developed technology, and to avoid infringing patents issued to others, of which there can be no assurance. Furthermore, there can be no assurance that others will not independently develop similar products, duplicate any of the Company's products or, if patents are issued to the Company, design around, circumvent or challenge the Company's patents. There can also be no assurance that the Company's trade secrets or confidentiality agreements with potential licensees or other parties will provide meaningful protection for the Company's unpatented proprietary information. Litigation, which could result in substantial costs to the Company and substantial diversion of the efforts of its management and technical personnel, may be necessary to protect the Company's intellectual property rights or to determine the scope and validity of third-party proprietary rights.

The Company also relies heavily upon trade secrets and unpatented proprietary technology. The Company seeks to maintain the confidentiality of such information by requiring employees, consultants and other parties to sign confidentiality agreements and by limiting access by parties outside the Company

to such information. There can be no assurance, however, that these measures will prevent the unauthorized disclosure or use of this information or that others will not be able to independently develop such information. Additionally, there can be no assurance that any agreements regarding confidentiality and non-disclosure will not be breached, or, in the event of any breach, that adequate remedies would be available to the Company.

MARKETING AND SALES

The Company markets its PhotoLink process throughout the world using a direct sales force consisting of four licensing managers who focus on specific markets such as cardiology devices, diagnostic products and urology products. This specialization fosters an in-depth knowledge of the issues faced by SurModics' licensees within these markets such as technology changes, biomaterial changes and the regulatory environment.

Because the sales cycle can take several months from feasibility demonstration to the execution of a license agreement, the Company focuses its sales efforts on potential licensees with established market positions rather than those with only development stage products which may never come to market. Generally, the PhotoLink technology is licensed to medical device manufacturers for use on specific products. This strategy enables the Company to license the PhotoLink technology to multiple licensees in the same market. SurModics also targets selling new applications to existing licensees. The Company believes the sales cycle is much faster in these situations because the licensee is already familiar with the technology and the general terms of the license have already been negotiated. The Company intends to use a portion of the net proceeds from this offering to increase the size of its direct sales staff and to expand its market research capabilities to investigate new PhotoLink applications.

As part of its marketing strategy, the Company publishes technical literature on each surface capability of the PhotoLink technology (I.E., lubricity, hemocompatibility, etc.). In addition, the Company participates at major trade shows and technical meetings, advertises in trade journals and through its website, and conducts direct mailings to appropriate target markets.

The Company also offers ongoing customer service and technical support throughout a licensee's relationship with SurModics. As part of this service and support, SurModics performs initial coating feasibility studies on the licensee's device at no charge, optimizes the licensee's application before final release, educates and trains the licensee on the technology to successfully transfer the process to its manufacturing facility, and assists the licensee with FDA submissions for coated product approval.

COMPETITION

Competition in the medical device industry has resulted in an increase in competition in the surface modification market. The Company's PhotoLink technology competes with technologies developed by Biocompatibles International plc, Carmeda (a division of Norsk Hydro, Inc.), Specialty Coatings Systems, Spire Corporation and STS Biopolymers Inc., among others. In addition, many medical device manufacturers have developed or are engaged in efforts to develop surface modification technologies for use on their own products. Most competitors marketing surface modification to the outside marketplace are divisions of organizations with businesses in addition to surface modification. Overall, the Company believes the worldwide market is very fragmented with no competitor marketing to third parties having more than a 10% market share. Many of the Company's existing and potential competitors (including medical device manufacturers pursuing coating solutions through their own research and development efforts) have substantially greater financial, technical and marketing resources than the Company.

SurModics attempts to differentiate itself from its competition by providing what it believes is a high value-added solution to surface modification. The Company believes that the primary factors customers consider in choosing a particular surface modification technology are performance, ease of manufacturing, ability to produce multiple properties from a single process, compliance with manufacturing regulations, customer service and pricing. The Company believes that its PhotoLink process competes favorably with respect to these factors, enabling it to charge a premium price. The Company believes that the cost and

time required to obtain the necessary regulatory approvals significantly reduces the likelihood of a manufacturer changing the coating process it uses once a device has been approved for marketing.

Because a significant portion of the Company's revenue is dependent on the receipt of royalties based on sales of medical devices incorporating PhotoLink coatings, the Company is also affected by competition within the markets for such devices. The Company believes that the intense competition within the medical device markets creates opportunities for the Company's coating technology as medical device manufacturers seek to differentiate their products through new enhancements or to remain competitive with enhancements offered by other manufacturers. Because the Company seeks to license its technology on a non-exclusive basis, the Company may further benefit from competition within the medical device markets by offering its PhotoLink technology to multiple competing manufacturers of a device. However, competition in the medical device markets could also have an adverse affect on the Company. While the Company seeks to license its products to established manufacturers, in certain cases the Company's licensees may compete directly with larger, dominant manufacturers with extensive product lines and greater sales, marketing and distribution capabilities. The Company also is unable to control other factors that may impact commercialization of PhotoLink-coated devices, such as the marketing and sales efforts of its licensees or competitive pricing pressures within the particular device market. There can be no assurance that products coated with the PhotoLink technology will be successfully commercialized by the Company's licensees or that such licensees will otherwise be able to effectively compete.

The primary competition for SurModics' stabilization products is its customers' internally developed formulations. The consolidation of the diagnostic industry increases the availability of internally developed stabilizers to the market. There are several direct competitors that have recently emerged, of which Pierce Medical Products, Inc. and Medix, Inc. are the two largest. The Company believes that quick market penetration is the best strategy for addressing these threats. As in the coating market, the Company also believes that once its stabilization products are accepted in an FDA-approved diagnostic test, the likelihood of change is reduced because of the cost and time required to qualify a new component. SurModics' marketing strategy for its stabilization products is to develop a strong market presence by offering superior product performance and technical service.

MANUFACTURING

In accordance with its licensing strategy, the Company does not perform the actual coating of its licensees' medical devices, nor does it manufacture any of these devices. The Company has, however, adopted a strategy of developing and manufacturing the reagents itself, allowing it to maintain the quality of the reagents and their proprietary nature, while providing an additional source of revenue. PhotoLink reagents are specialty photoreactive chemicals that are prepared using a proprietary formula in small batch processes (as contrasted with commodity chemicals prepared by large continuous methods). Generally, all PhotoLink reagents share a similar production process: a water soluble polymer is synthesized in a glass reactor; reactive photochemical groups are attached to the polymer; the solution is purified and freeze-dried, thus removing the water and creating a solid; and the PhotoLink reagents are packaged in standard quantities in light- and moisture-proof packaging. The reagents are sold dry, requiring the licensee, in most cases, to simply add water or a water and isopropyl alcohol mix before application. The Company has developed proprietary testing and quality assurance standards for manufacturing the reagents and does not disclose the reagent formulas or manufacturing methods. Although licensees may purchase the requisite chemical reagents from any source, all have elected to purchase them from the Company.

The Company also manufactures its stabilization products. These products are a group of sterile-filtered liquids that generally share a three-step production process. A standard recipe of chemicals is mixed in high purity water, these liquids are sterile-filtered into specific container sizes under aseptic conditions, and the resultant finished goods are packaged and labeled.

The Company maintains multiple sources of supply for the key raw materials used to manufacture reagents and stabilization products. The Company does, however, purchase some raw materials from single sources, but it believes that additional sources of supply are readily available.

Although not required to follow Good Manufacturing Practice quality procedures, SurModics does follow such procedures in part to respond to requests of licensees to establish compliance with their criteria. The Company has not yet sought ISO 9001 certification but may do so in the future.

GOVERNMENT REGULATION

Although PhotoLink technology itself is not directly regulated by the FDA, the medical devices incorporating this technology are subject to FDA regulation. The burden of demonstrating safety and efficacy of such medical devices, the ultimate criteria applied by the FDA, rests with the Company's licensees (the medical device manufacturers). Medical products incorporating the PhotoLink technology may generally be marketed only after 510(k) or PMA applications have been submitted and approved by the FDA, which process can take anywhere from six months for a 510(k) application and to two or three years for a PMA application. These applications are prepared by the manufacturer and contain results of extensive laboratory toxicity, mutagenicity and clinical evaluations on animals and humans conducted by the manufacturer.

The Company maintains confidential Device Master Files at the FDA regarding the nature, chemical structure and biocompatibility of the PhotoLink reagents. Although the Company's licensees do not have access to these files, the licensees may, with the permission of the Company, reference these files in any medical device submission to the FDA. This process allows the FDA to understand in confidence the details of the PhotoLink technology without the Company having to share this highly confidential information with its licensees.

Recent U.S. legislation allows device manufacturers, prior to obtaining FDA approval to market a medical device in the U.S., to manufacture such medical device in the U.S. and export it for sale in international markets, which could allow SurModics to realize earned royalties sooner. However, sales of medical devices outside the U.S. are subject to international requirements that vary from country to country. The time required to obtain approval for sale internationally may be longer or shorter than that required by the FDA.

EMPLOYEES

As of December 1, 1997, SurModics had 85 employees of whom 52 were engaged in development or manufacturing positions, with the remainder in marketing, quality or administrative positions. Of SurModics' employees, seven hold Ph.D. degrees and nine hold Masters degrees. The Company is not a party to any collective bargaining agreements and believes that its employee relations are good.

Management believes that the future success of the Company will depend in part on its ability to attract and retain qualified technical, management and marketing personnel. Such experienced personnel are in high demand, and the Company must compete for their services with other firms which may be able to offer more favorable benefits.

FACILITIES

SurModics leases approximately 35,000 square feet of office/warehouse space in Eden Prairie, Minnesota under a lease that expires at the end of 1999. SurModics has an option to extend this lease

through the end of 2001. The lease commitment for fiscal 1998 is approximately $210,000. Of the total leased space, approximately 15,000 square feet is office space, 13,000 square feet is laboratory space and 7,000 square feet is manufacturing space. Approximately 6,000 square feet of the manufacturing space is a HEPA-filtered, highly controlled environment, but not certified as a "clean room" under FDA standards. The Company believes that projected capacity of the manufacturing area is adequate to service the needs of its licensees for the foreseeable future.

LEGAL PROCEEDINGS

The Company is not a party to nor is any of its property subject to any material pending legal proceedings.

DIRECTORS AND EXECUTIVE OFFICERS

The directors and executive officers of the Company are as follows:

NAME	AGE	POSITION
Dale R. Olseth.....	67	Chairman of the Board, President and Chief Executive Officer
Stephen C. Hathaway.....	42	Vice President and Chief Financial Officer
Patrick E. Guire, Ph.D.....	61	Senior Vice President of Research and Technology and Director
James C. Powell.....	48	Vice President of Technical Operations
Andrew B. Summerville.....	52	Vice President of Marketing
Walter H. Diers, Jr.....	46	Vice President of Corporate Development
Marie J. Versen.....	36	Vice President of Quality Management and Regulatory Compliance
Donald S. Fredrickson, M.D. (2).....	73	Director
James J. Grierson (1)(2).....	55	Director
Kenneth H. Keller, Ph.D. (1)(2).....	63	Director
David A. Koch (1)(2).....	67	Director
Kendrick B. Melrose (1)(2)....	57	Director

(1) Member of Audit Committee

(2) Member of Compensation Committee

DALE R. OLSETH joined the Company in 1986 as its President, Chief Executive Officer and a director of the Company and has served as Chairman of the Board since 1988. Mr. Olseth also serves on the Board of Directors of The Toro Company and Graco, Inc. He served as Chairman or President and Chief Executive Officer of Medtronic, Inc. from 1976 to 1986. From 1971 to 1976, Mr. Olseth served as President and Chief Executive Officer of Tonka Corporation. Mr. Olseth received a B.B.A. degree from the University of Minnesota in 1952 and an M.B.A. degree from Dartmouth College in 1956.

STEPHEN C. HATHAWAY joined the Company as its Vice President and Chief Financial Officer in September 1996. Prior to joining SurModics, he served as Director of Finance for Ceridian Employer Services, Ceridian Corporation from 1995 to 1996. Prior to that, Mr. Hathaway was Vice President-- Finance & Operations for Wilson Learning Corporation from 1988 to 1995. He also spent ten years with Arthur Andersen LLP. Mr. Hathaway received a B.S. degree in accounting in 1977 from Miami University and became a Certified Public Accountant in 1980.

PATRICK E. GUIRE, PH.D. is a co-founder of the Company and has served as Senior Vice President of Research and Technology and a director since 1980. Dr. Guire is responsible for the research affairs of the Company. Prior to founding SurModics, Dr. Guire was employed by Kallestad Laboratories, Inc. as a senior scientist from 1978 to 1979 and was a researcher at the Midwest Research Institute, Inc. in Kansas City, Missouri from 1972 to 1978. He received a B.S. degree in Chemistry from the University of Arkansas, Fayetteville in 1958 and a Ph.D. in biochemistry from the University of Illinois in 1963.

JAMES C. POWELL joined the Company in 1987, and in 1992 became its Vice President of Technical Operations. He was employed at Precision-Cosmet Company, Inc., a manufacturer of contact and intraocular lenses, from 1978 until he joined SurModics. Mr. Powell received a B.S. degree in wood

sciences from Texas A&M University in 1972 and an M.S. degree in polymer science in 1975 from the University of Washington.

ANDREW B. SUMMERVILLE joined the Company in 1994, and in 1995 became its Vice President of Marketing. He held various sales and marketing positions with Graco, Inc. from 1986 until joining SurModics. Prior to that, Mr. Summerville held similar positions with 3M Company. Mr. Summerville received a B.A. degree in applied science and a B.S. degree in material science from Lehigh University in 1968 and an M.B.A. degree from Dartmouth College in 1970.

WALTER H. DIERS, JR. joined the Company in 1988 and currently serves as Vice President of Corporate Development. He served as a consultant to several small, high technology companies from 1984 until he joined SurModics. Prior to that, he was the Controller of the Laserdyne division of Data Card Corporation. Mr. Diers received a B.S. degree in economics and a B.S. degree in business in 1977 and an M.B.A. degree in finance in 1979 from the University of Minnesota.

MARIE J. VERSEN joined the Company in 1987, and in 1996 became its Vice President of Quality Management and Regulatory Compliance. She was previously employed at Precision-Cosmet Company, Inc. from 1983 to 1986. Ms. Versen received a B.S. degree in chemical engineering from the University of Minnesota in 1983.

DONALD S. FREDRICKSON, M.D. was elected a director of the Company in February 1991. He has served as President and Chief Executive Officer of D.S. Fredrickson Associates, Inc., an international medical research and biomedical consulting firm since 1987. Dr. Fredrickson served as Vice President, President and Chief Executive Officer during his tenure at the Howard Hughes Medical Institute in Washington D.C. from 1983 to 1987. During 1982 and 1983, he served as a scholar-in-residence at the National Academy of Sciences of the United States of America. From 1975 to 1981, he served as the Director of the National Institutes of Health. Dr. Fredrickson received his medical degree from the University of Michigan.

JAMES J. GRIERSON was elected a director of the Company in 1988. He served as Vice President of Business Development for Honeywell, Inc. from 1992 until his retirement in 1996. He was Vice President of Finance of Honeywell from 1987 to 1992 and its Vice President and Treasurer from 1982 to 1987.

KENNETH H. KELLER, PH.D. was elected a director of the Company in 1997. He has served as Professor of Science and Technology Policy in the Hubert H. Humphrey Institute of Public Affairs at the University of Minnesota since 1996. Dr. Keller was a Senior Fellow at the Council on Foreign Relations from 1989 to 1997. Dr. Keller joined the Chemical Engineering and Materials Science faculty of the University of Minnesota in 1964, and through the years assumed increasing administrative responsibilities, including serving as the twelfth President of the University in 1985, a position he held until 1988, when he moved to Princeton University as a Visiting Fellow. Dr. Keller received a B.A. degree in liberal arts and a B.S. degree in chemical engineering from Columbia University in 1956 and 1957, respectively, and his M.S.E. and Ph.D. degrees in 1963 and 1964, respectively, from The Johns Hopkins University.

DAVID A. KOCH was elected a director of the Company in 1988. He has served as the Chairman of Graco, Inc. since 1985, as its Chief Executive Officer from 1962 to 1996 and as its President and Chief Executive Officer from 1962 to 1985. Mr. Koch is also a director of ReliaStar Financial Corporation and is Chair of the Federal Reserve Bank of Minneapolis.

KENDRICK B. MELROSE was elected a director of the Company in 1988. He has served as Chairman of the Board and Chief Executive Officer of The Toro Company since 1987, served as its Chief Executive Officer from 1983 to 1987 and as its President from 1981 to 1983. Mr. Melrose is also a director of Donaldson Company, Inc., Valspar Corporation and Jostens, Inc.

The number of directors is determined by the stockholders at their annual meeting, subject to the right of the stockholders to change such number between annual meetings and to the right of the Board to increase such number between annual meetings. All directors hold office until the next annual meeting of

stockholders or until their successors have been duly elected and qualified. Executive officers of the Company are appointed by and serve at the discretion of the Board of Directors. The Board of Directors has a Compensation Committee which provides recommendations concerning salaries and other compensation to be paid to executive officers of the Company and administers the Company's employee stock plans. The Board also has an Audit Committee which is responsible for reviewing the Company's audit process.

The non-employee directors hold non-qualified options to purchase an aggregate of 200,000 shares of Common Stock. In addition, Messrs. Grierson and Fredrickson are reimbursed for their expenses incurred in attending meetings of the Board of Directors. See "Principal Stockholders."

EXECUTIVE COMPENSATION

COMPENSATION SUMMARY. The following table sets forth certain information regarding compensation earned or awarded to the President and Chief Executive Officer and each of the other four most highly compensated executive officers (the "Named Executive Officers") during the Company's fiscal year ended September 30, 1997.

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	FISCAL YEAR	ANNUAL COMPENSATION SALARY($)	ANNUAL COMPENSATION BONUS($)	ALL OTHER COMPENSATION($)(1)
Dale R. Olseth, President and Chief Executive Officer	1997	$ 109,598	$ 20,408	$ 2,100
Stephen C. Hathaway, Vice President and Chief Financial Officer	1997	$ 90,000	$ 22,493	$ 618
Patrick E. Guire, Ph.D., Senior Vice President of Research and Technology	1997	$ 86,250	$ 16,327	$ 1,680
James C. Powell, Vice President of Technical Operations	1997	$ 96,246	$ 18,463	$ 1,830
Andrew B. Summerville, Vice President of Marketing	1997	$ 89,160	$ 16,523	$ 1,675

(1) Represents contributions made by the Company under its 401(k) plan.

OPTION GRANTS. The following table sets forth information regarding stock options granted during the fiscal year ended September 30, 1997 to the Named Executive Officers.

OPTION GRANTS
(INDIVIDUAL GRANTS)

NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED(#)	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL 1997	EXERCISE OR BASE PRICE ($/SH)	EXPIRATION DATE
Dale R. Olseth	--	--	--	--
	14,000	9.2%	$ 5.00	1/1/02
	30,000	19.8%	$ 5.00	11/18/01
	30,000	19.8%	$ 5.00	11/18/03
Stephen C. Hathaway				
Patrick E. Guire, Ph.D	20,000	13.2%	$ 5.00	1/1/02
James C. Powell	--	--	--	--
Andrew B. Summerville	16,000	10.6%	$ 5.00	1/1/02

AGGREGATE OPTION EXERCISES AND YEAR-END OPTION VALUES. The following table sets forth certain information regarding options exercised and the number and value of exercisable and unexercisable options to purchase shares of Common Stock held as of the end of the Company's 1997 fiscal year by the Named Executive Officers.

AGGREGATE OPTION EXERCISES AND YEAR-END OPTION VALUES

NAME	SHARES ACQUIRED ON EXERCISE(#)	VALUE REALIZED(1)	NUMBER OF UNEXERCISED OPTIONS AT FY-END(#) EXERCISABLE/UNEXERCISABLE	VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT FY-END($) EXERCISABLE/UNEXERCISABLE(1)
Dale R. Olseth.....	--	--	112,000/128,000	$96,000/$64,000
Stephen C. Hathaway.....	--	--	8,800/65,200	$0/$0
Patrick E. Guire, Ph.D.....	--	--	24,400/49,600	$14,400/$9,600
James C. Powell.....	14,000	$ 14,000	38,000/56,000	$7,200/$4,800
Andrew B. Summerville.....	--	--	31,600/42,400	$0/$0

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(1) Based on the difference between the fair market value as of September 30, 1997 ($5.00 per share as determined by the Board of Directors) and the option exercise price.

STOCK OPTIONS

On January 27, 1997, the Board of Directors and stockholders of the Company adopted the 1997 Incentive Stock Option Plan (the "Plan") in order to provide for the granting of stock purchase options to employees and officers of the Company. The Plan permits the granting of incentive stock options meeting the requirements of Section 422A of the Internal Revenue Code of 1986. The Company has reserved 600,000 shares of its Common Stock for issuance upon exercise of options granted under the Plan. As of the date of this Prospectus, the Company has outstanding options to purchase an aggregate of 30,200 shares under the Plan. The Company also has outstanding options, granted pursuant to the Company's 1987 Incentive Stock Option Plan, which plan expired on January 18, 1997, to purchase an aggregate of 302,800 shares. In addition, the Company has outstanding non-qualified options, granted outside of either of the foregoing plans, to purchase an aggregate of 906,800 shares of Common Stock.

CERTAIN TRANSACTIONS

In August 1997, the Company adopted a plan pursuant to which an employee of the Company could borrow amounts from the Company to fund option exercises. Any loan made pursuant to this plan is required to provide for: a five-year term, subject to automatic acceleration to the earlier of three months after termination of employment or six months after the shares purchased become eligible for sale in the public market; interest payable annually at the prime rate in effect at the time of the loan, paid annually; principal payable at maturity; and a pledge of the shares of Common Stock acquired with the proceeds of the loan as security. The Board has the authority to terminate this plan at any time and will do so upon completion of this offering. Under the terms of this loan program, (i) Walter H. Diers, Jr., Vice President of Corporate Development for the Company, borrowed an aggregate of $80,000 on September 19, 1997, at an interest rate of 8.5%, to exercise an option to purchase an aggregate of 20,000 shares of Common Stock at $4.00 per share and (ii) James C. Powell, Vice President of Technical Operations for the Company, borrowed an aggregate of $56,000 on September 19, 1997, at an interest rate of 8.5% to exercise an option to purchase an aggregate of 14,000 shares of Common Stock at $4.00 per share.

PRINCIPAL STOCKHOLDERS

The following table sets forth as of December 1, 1997, and as adjusted to reflect the sale of the shares offered hereby, certain information regarding beneficial ownership of the Company's Common Stock by (i) each person known by the Company to be the beneficial owner of more than 5% of the outstanding Common Stock, (ii) each director of the Company, (iii) each of the Named Executive Officers and (iv) all executive officers and directors of the Company as a group.

NAME OF BENEFICIAL OWNER	NUMBER OF SHARES BENEFICIALLY OWNED(1)	PERCENTAGE OF OUTSTANDING SHARES	
		BEFORE OFFERING	AFTER OFFERING
Dale R. Olseth (2)(3)	546,000	10.8%	7.7%
Stephen C. Hathaway (2)(4)	17,600	*	*
Patrick E. Guire, Ph.D. (2)(5)	207,867	4.2%	3.0%
James C. Powell (2)(6)	87,600	1.8%	1.3%
Andrew B. Summerville (2)(4)	34,800	*	*
Donald S. Fredrickson, M.D. (2)(4)	52,000	1.1%	*
James J. Grierson (2)(7)	75,000	1.5%	1.1%
Kenneth H. Keller, Ph.D. (2)(4)	4,000	*	*
David A. Koch (2)(8)	441,400	8.9%	6.4%
Kendrick B. Melrose (2)(7)	142,000	2.9%	2.0%
Seven Hundred Company (9)	522,000	10.6%	7.6%
All executive officers and directors as a group (12 persons) (10)	1,692,547	34.0%	24.3%

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* Less than one percent.

(1) Shares not outstanding but deemed beneficially owned by virtue of the individual's right to acquire them as of December 1, 1997, or within 60 days of such date, are treated as outstanding when determining the percent of the class owned by such individual and when determining the percent owned by the group. For purposes of calculating the percent of class owned after this offering, it was assumed that the officers, directors and principal stockholders will not be purchasing shares in this offering. Unless otherwise indicated, each person named or included in the group has sole voting and investment power with respect to the shares of Common Stock set forth opposite his name.

(2) The address of the directors and executive officers of the Company is 9924 West 74th Street, Eden Prairie, Minnesota 55344.

(3) Includes 144,000 shares purchasable upon exercise of options.

(4) Represents shares purchasable upon exercise of options.

(5) Includes 33,200 shares purchasable upon exercise of options.

(6) Includes 47,600 shares purchasable upon exercise of options.

(7) Includes 32,000 shares purchasable upon exercise of options.

(8) Includes 32,000 shares purchasable upon exercise of options and 16,000 shares held of record by an affiliate of Mr. Koch's wife.

(9) The address of the Seven Hundred Company is 5140 Norwest Center, 90 South Seventh Street, Minneapolis, MN 55402.

(10) Includes 462,480 shares purchasable upon exercise of options.

DESCRIPTION OF CAPITAL STOCK

Upon completion of this offering, assuming approval by the stockholders of the amendment to the Company's Restated Articles of Incorporation, as amended, which is discussed below, the authorized capital stock of the Company will consist of 20,000,000 shares of capital stock, $0.05 per share par value, of which 15,000,000 shares are Common Stock and 5,000,000 shares are undesignated.

COMMON STOCK

As of December 1, 1997, the Company had approximately 200 shareholders of record holding 3,400,868 shares of issued and outstanding Common Stock, including 84,000 shares issued pursuant to restricted stock agreements. The holders of the Common Stock: (i) have equal ratable rights to dividends from funds legally available therefor, when, as and if declared by the Board of Directors of the Company; (ii) are entitled to share ratably in all the assets of the Company available for distribution to holders of the Common Stock upon liquidation, dissolution or winding up of the affairs of the Company; and (iii) are entitled to one vote per share on all matters which stockholders may vote on at all meetings of stockholders. All shares of Common Stock now outstanding are fully paid and nonassessable and the shares of Common Stock to be issued upon completion of this offering will be fully paid and nonassessable. There are no redemption, sinking fund, conversion or preemptive rights with respect to the shares of Common Stock.

The holders of the Common Stock do not have cumulative voting rights. Subject to the rights of any future series of preferred stock, the holders of more than 50 percent of such outstanding shares voting for the election of directors can elect all of the directors of the Company to be elected, if they so choose. In such event, the holders of the remaining shares will not be able to elect any of the Company's directors.

SERIES A CONVERTIBLE PREFERRED STOCK

Upon the closing of this offering, the 376,828 shares of outstanding Series A Convertible Preferred Stock, held of record by approximately 70 shareholders, will be converted automatically into an aggregate of 1,507,312 shares of Common Stock. The Board of Directors has approved an amendment to the Company's Restated Articles of Incorporation, as amended, subject to stockholder approval at their annual meeting in January 1998, to provide that, upon completion of this offering and the concurrent automatic conversion of outstanding shares of Series A Convertible Preferred Stock into Common Stock, the Board shall take the necessary steps to cancel the class of and eliminate the shares authorized as Series A Convertible Preferred Stock.

UNDESIGNATED STOCK

Under governing Minnesota law and the Company's Restated Articles of Incorporation, as amended, no action by the Company's stockholders is necessary, and only action of the Board of Directors is required, to authorize the issuance of any of the undesignated stock. The Board of Directors is empowered to establish and to designate each class or series of the undesignated shares and to set the terms of such shares (including terms with respect to redemption, sinking fund, dividend, liquidation, preemptive, conversion and voting rights and preferences). Accordingly, the Board of Directors, without stockholder approval, may issue such undesignated shares in one or more series of preferred stock having rights, preferences, privileges or restrictions, including voting rights, that may be greater than the rights of holders of Common Stock.

It is not possible to state the actual effect of the issuance of any shares of preferred stock upon the rights of holders of the Common Stock until the Board of Directors determines the specific rights of the holders of such preferred stock. However, the effects might include, among other things, restricting dividends on the Common Stock, diluting the voting power of the Common Stock, impairing the liquidation rights of the Common Stock and delaying or preventing a change in control of the Company

without further action by the stockholders. The Company has no present plans to issue any shares of preferred stock.

MINNESOTA BUSINESS CORPORATION ACT

Certain provisions of Minnesota law described below could have an anti-takeover effect. These provisions are intended to provide management flexibility and to enhance the likelihood of continuity and stability in the composition of the Company's Board of Directors and in the policies formulated by the Board and to discourage an unsolicited takeover of the Company, if the Board determines that such a takeover is not in the best interests of the Company and its stockholders. However, these provisions could have the effect of discouraging certain attempts to acquire the Company which could deprive the Company's stockholders of opportunities to sell their shares of Common Stock at prices higher than prevailing market prices.

Section 302A.671 of the Minnesota Statutes applies, with certain exceptions, to any acquisition of voting stock of the Company (from a person other than the Company, and other than in connection with certain mergers and exchanges to which the Company is a party) resulting in the beneficial ownership of 20 percent or more of the voting stock then outstanding. Section 302A.671 requires approval of any such acquisitions by a majority vote of the stockholders of the Company prior to its consummation. In general, shares acquired in the absence of such approval are denied voting rights and are redeemable at their then fair market value by the Company within 30 days after the acquiring person has failed to give a timely information statement to the Company or the date the stockholders voted not to grant voting rights to the acquiring person's shares.

Section 302A.673 of the Minnesota Statutes generally prohibits any business combination by the Company, or any subsidiary of the Company, with any stockholder which purchases 10 percent or more of the Company's voting shares (an "interested stockholder") within four years following such interested stockholder's share acquisition date, unless the business combination is approved by a committee of all of the disinterested members of the Board of Directors of the Company serving before the interested stockholder's share acquisition date.

CERTAIN LIMITED LIABILITY AND INDEMNIFICATION PROVISIONS

The Company's Restated Articles of Incorporation, as amended, limit the personal liability of its directors. Specifically, directors of the Company will not be personally liable to the Company or its stockholders for monetary damages for any breach of their fiduciary duty as directors, except to the extent that the elimination or limitation of liability is in contravention of the MBCA, as amended. This provision will generally not limit liability under state or federal securities law.

Section 302A.521 of the MBCA provides that a Minnesota business corporation shall indemnify any director, officer, employee or agent of the corporation made or threatened to be made a party to a proceeding, by reason of the former or present official capacity (as defined) of the person, against judgments, penalties, fines, settlements and reasonable expenses incurred by the person in connection with the proceeding if certain statutory standards are met. "Proceeding" means a threatened, pending or completed civil, criminal, administrative, arbitration or investigative proceeding, including one by or in the right of the corporation. Section 302A.521 contains detailed terms regarding such right of indemnification and reference is made thereto for a complete statement of such indemnification rights.

Section 5.1 of the Company's Bylaws provides that each director, officer and employee of the Company shall be indemnified by the Company in accordance with, and to the fullest extent permissible by, applicable law.

The Company is in the process of obtaining an insurance policy covering director and officer liability.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or controlling persons of the Company pursuant to the foregoing provisions, the Company has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

TRANSFER AGENT AND REGISTRAR

The Transfer Agent and Registrar with respect to the Company's Common Stock will be Firstar Trust Company.

SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there has been no public market for the Common Stock. Future sales of substantial amounts of Common Stock in the open market may adversely affect the market price of the Common Stock offered hereby and the ability of the Company to raise equity capital in the future.

Upon consummation of the offering, the Company will have outstanding an aggregate of 6,908,180 shares of Common Stock (assuming no exercise of the Underwriters' over-allotment option). Of the aggregate number of outstanding shares of Common Stock, the 2,000,000 shares of Common Stock sold in this offering will be freely tradable without restriction or further registration under the Securities Act, unless purchased by an "affiliate" of the Company, as that term is defined by Rule 144 promulgated under the Securities Act (an "Affiliate"), whose sales would be subject to certain volume limitations and other restrictions described below. The remaining 4,908,180 shares of Common Stock originally issued and sold by the Company in private transactions in reliance upon exemptions from the Securities Act held by stockholders upon the consummation of this offering will be "restricted securities" as that term is defined in Rule 144 under the Securities Act, and may be sold in the public market only if registered or if they qualify for an exemption from registration under Rule 144, 144(k) or 701 or otherwise.

All officers and directors and certain stockholders of the Company, owning an aggregate of 3,636,648 shares, have entered into "lock-up" agreements, agreeing not to, directly or indirectly, sell, assign, transfer, encumber, offer to sell, grant any option for the sale of, or otherwise dispose of, any shares of Common Stock without the consent of the Representative for a period of 180 days after the date of this Prospectus. The Representative may waive these restrictions at any time in its discretion. Taking such restrictions into account, in addition to the 2,000,000 shares of Common Stock offered hereby, (i) approximately 1,162,716 shares will be eligible for immediate sale on the date of this Prospectus in accordance with Rule 144; (ii) approximately 17,428 additional shares will become eligible for sale in the public market beginning 90 days after the date of this Prospectus in accordance with Rule 144; and (iii) approximately 3,599,668 additional shares will be eligible for sale beginning 180 days after the date of this Prospectus upon the expiration of the lock-up agreements, subject, in the case of Affiliates, to volume and manner of sale limitations under Rule 144.

In general, under Rule 144 as currently in effect, a person (or persons whose shares are aggregated) who beneficially owns shares last acquired privately from the Company or an Affiliate at least one year previously is entitled to sell, in "brokers' transactions" or to market makers, within any three-month period commencing 90 days after the date of this Prospectus, a number of shares that does not exceed the greater of (i) 1% of the then outstanding shares of Common Stock (approximately 69,000 shares immediately after the offering); or (ii) the average weekly trading volume in the Common Stock during the four calendar weeks preceding the required filing of a Form 144 with respect to such sale. Sales under Rule 144 are generally subject to the availability of current public information about the Company. Under Rule 144(k), a person who is not deemed to have been an Affiliate of the Company at any time during the 90 days preceding a sale, and who beneficially owns shares last acquired from the Company or an Affiliate at least two years previously, is entitled to sell such shares without complying with the manner of sale, public

information, volume limitation or notice provisions of Rule 144. Unless otherwise restricted, "144(k) shares" may therefore be sold immediately upon the consummation of this offering.

Any employee, officer or director of or consultant to the Company who purchased his or her shares pursuant to a written compensatory plan or contract is entitled to rely on the resale provisions of Rule 701, which permits non-Affiliates to sell their Rule 701 shares without complying with the public information, holding period, volume limitation or notice provisions of Rule 144 and which permits Affiliates to sell their Rule 701 shares without complying with the Rule 144 holding period restrictions, in each case commencing 90 days after the date of this Prospectus.

The Company intends to file, after expiration of the lockup agreements referenced above, Registration Statements on Form S-8 under the Securities Act to register shares of Common Stock reserved for issuance upon exercise of stock options, thus permitting the resale of such shares by non-Affiliates in the public market without restrictions under the Securities Act and by Affiliates subject to volume and manner of sale limitations under Rule 144. As of the date of this Prospectus, options to purchase 1,239,800 shares of Common Stock were outstanding, with 915,200 of the shares issuable upon exercise of such options subject to vesting requirements extending beyond the terms of the lock-up agreements. The remaining 324,600 shares issuable upon exercise of such options will become available for exercise and sale upon vesting and effectiveness of such Registration Statements on Form S-8.

REGISTRATION RIGHTS

The Company has entered into Registration Rights Agreements with certain holders of Series A Convertible Preferred Stock granting them participatory and demand registration rights with respect to the shares of Common Stock issuable to them upon conversion of their shares of Series A Convertible Preferred Stock. The participatory or "piggyback" rights provide that if the Company determines to register for public sale with the U.S. Securities and Exchange Commission certain of the Company's securities, the Company will use its best efforts to cause the Common Stock acquired upon conversion of the Series A Convertible Preferred Stock by such stockholders to be included in the offering for the benefit of the investors desiring to sell such shares. The piggyback registration rights relate to certain public offerings of the Company, if any, occurring during a three-year period beginning on the closing of this offering. Such registration rights are subject to various limitations, including the right of the managing underwriter of a subsequent offering to determine that marketing factors require a limitation on the number of shares of Common Stock that can be sold by the selling stockholders participating in the registered sales and the requirement that the selling stockholders pay their own selling expenses (including selling commissions and stock transfer taxes) in connection with any exercise of these piggyback rights.

The demand registration rights provide that on a one-time basis only, during a two and one-half year period beginning six months after the effective date of this offering, upon the request of the holders of a majority in interest thereof, the Company will promptly take all necessary action to register or qualify for immediate sale, under the Securities Act and the securities laws of such states as the holders may reasonably request, the Common Stock obtained upon conversion. Selling stockholders will also be required to pay their own selling expenses (including selling commissions and stock transfer taxes) in connection with these demand rights.

UNDERWRITING

The Underwriters named below, for which John G. Kinnard and Company, Incorporated is acting as representative (the "Representative"), have severally agreed, subject to the terms and conditions of the Underwriting Agreement with the Company to purchase from the Company the 2,000,000 shares of Common Stock offered hereby. The number of shares that each Underwriter has agreed to purchase is set forth opposite its name below:

UNDERWRITER	NUMBER OF SHARES
John G. Kinnard and Company, Incorporated.....	
Total.....	2,000,000

The Underwriting Agreement provides that the several Underwriters will be obligated to purchase all of the shares offered hereby, if any are purchased. The obligation of the Underwriters to purchase the shares is several and not joint meaning that, subject to the terms of the Underwriting Agreement, each Underwriter is obligated to purchase only the number of shares set forth opposite its name.

The Underwriters propose to offer the shares to the public at the Price to Public set forth on the cover page of this Prospectus and to dealers at such price less a concession not in excess of $ per share. The Underwriters may allow, and such dealers may reallow, a concession not in excess of $ per share to certain other brokers and dealers. After the initial public offering, the Price to Public, concession and reallowance may be changed by the Representative.

The Company has granted the Underwriters an option, exercisable within 30 days after the date of this Prospectus, to purchase up to an additional 300,000 shares at the Price to Public, less the Underwriting Discount and Commission shown on the cover page of this Prospectus. The Underwriters may exercise such option only for the purpose of covering any over-allotments in the sale of the shares offered hereby.

The Representative has informed the Company that the Underwriters do not intend to confirm sales to any account over which they exercise discretionary authority.

The Underwriting Agreement provides for reciprocal indemnification between the Company, the Underwriters and their controlling persons against civil liabilities in connection with the offering, including liabilities under the Securities Act. Insofar as indemnification for liabilities arising under the Securities Act may be permitted pursuant to the foregoing provisions, the Company has been informed that, in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in such Act and is therefore unenforceable.

In order to facilitate the offering of Common Stock, the Underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of Common Stock. Specifically, the Underwriters may over-allot Common Stock in connection with the offering, creating a short position in Common Stock for their own account. In addition, to cover over-allotments or to stabilize the price of Common Stock, the Underwriters may bid for, and purchase, shares of Common Stock in the open market. The Underwriters

may also reclaim selling concessions allowed to an underwriter or dealer for distributing Common Stock in the offering, if the Underwriters repurchase previously distributed Common Stock in transactions to cover their short positions, in stabilization transactions or otherwise. Finally, the Underwriters may bid for, and purchase, shares of Common Stock in market making transactions and impose penalty bids. These activities may stabilize or maintain the market price of Common Stock above the market level that may otherwise prevail. The Underwriters are not required to engage in these activities and may end any of these activities at any time.

Prior to this offering, there has been no public trading market for the Common Stock. The initial public offering price of the shares has been determined by negotiations between the Company and the Representative. Among the factors considered in such negotiations were the prevailing market conditions, estimates of the business potential of the Company, the results of operations of the Company in recent periods and other factors deemed to be relevant.

The foregoing is a brief summary of the material provisions of the Underwriting Agreement and does not purport to be a complete statement of their terms and conditions. The Underwriting Agreement has been filed as an exhibit to the Registration Statement of which this Prospectus is a part.

LEGAL MATTERS

The validity of the Common Stock offered hereby will be passed upon for the Company by Fredrikson & Byron, P.A., Minneapolis, Minnesota. Certain legal matters for the Underwriters will be passed upon by Oppenheimer Wolff & Donnelly, Minneapolis, Minnesota.

EXPERTS

The financial statements of SurModics, Inc. as of September 30, 1996 and 1997 and for each of the three years in the period ended September 30, 1997, included in this Prospectus and elsewhere in the registration statement, have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their report with respect thereto, and are included herein in reliance upon the authority of said firm as experts in giving said report.

AVAILABLE INFORMATION

The Company has filed with the Commission a Registration Statement under the Securities Act with respect to the sale of the shares. This Prospectus does not contain all of the information set forth in the Registration Statement, certain portions of which have been omitted as permitted by the rules and regulations of the Commission. For further information with respect to the Company and the shares being offered hereby, reference is made to the Registration Statement, including the exhibits thereto. Statements contained in this Prospectus as to the contents of any contract or other document referred to are not necessarily complete, and in each instance reference is made to the copy of such contract or other document filed as an exhibit to the Registration Statement. The Registration Statement may be inspected by anyone without charge at the principal office of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, or at one of the Commission's regional offices: 500 West Madison, Suite 1400, Chicago, Illinois 60661-2511 and 7 World Trade Center, 13th Floor, New York, New York, 10048. Copies of all or any part of such material may be obtained upon payment of the prescribed fees from the Public Reference Section of the Commission at 450 Fifth Street, N.W. Washington, D.C. The Commission maintains a World Wide Website at http://www.sec.gov containing reports, proxy and information statements and other information regarding registrants that file electronically with the Commission, including the Company.

Prior to this offering, the Company has not been subject to the reporting requirements of the Securities Exchange Act of 1934. After completion of this offering, the Company intends to comply with such requirements, including distributing to its stockholders an annual report containing audited financial statements.

SURMODICS, INC.

FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To SurModics, Inc.:

We have audited the accompanying balance sheets of SurModics, Inc. (a Minnesota corporation) as of September 30, 1996 and 1997, and the related statements of operations, stockholders' equity and cash flows for each of the three years in the period ended September 30, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SurModics, Inc. as of September 30, 1996 and 1997, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 1997, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Minneapolis, Minnesota,
November 14, 1997 (except for
Note 3, as to which the date
is December 22, 1997)

SURMODICS, INC.

BALANCE SHEETS

AS OF SEPTEMBER 30

	1996	1997	PRO FORMA 1997
			(UNAUDITED; SEE NOTE 8)
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	$ 2,012,906	$ 491,624	$ 491,624
Short-term investments	1,831,910	1,455,976	1,455,976
Accounts receivable, net	627,819	922,466	922,466
Inventories	260,768	264,008	264,008
Prepaids and other	61,423	74,124	74,124
Total current assets	4,794,826	3,208,198	3,208,198
PROPERTY AND EQUIPMENT:			
Laboratory fixtures and equipment	1,901,828	2,027,940	2,027,940
Office furniture and equipment	727,563	834,222	834,222
Leasehold improvements	1,038,609	1,049,802	1,049,802
Less--Accumulated depreciation and amortization	(2,452,609)	(2,846,954)	(2,846,954)
Property and equipment, net	1,215,391	1,065,010	1,065,010
LONG-TERM INVESTMENTS	--	1,874,118	1,874,118
OTHER ASSETS, net	36,265	302,930	302,930
	$ 6,046,482	$ 6,450,256	$ 6,450,256
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable	$ 52,663	$ 280,467	$ 280,467
Accrued liabilities--			
Compensation	162,108	400,861	400,861
Other	111,635	91,807	91,807
Deferred revenues	518,786	308,143	308,143
Total current liabilities	845,192	1,081,278	1,081,278
DEFERRED REVENUES AND OTHER, less current portion	460,850	266,973	266,973
Total liabilities	1,306,042	1,348,251	1,348,251
COMMITMENTS AND CONTINGENCIES (Note 6)			
STOCKHOLDERS' EQUITY:			
Series A Convertible Preferred Stock-- $.05 par value, 450,000 shares authorized; 376,828 shares issued and outstanding (none pro forma)	18,841	18,841	--
Voting Common Stock-- $.05 par value, 15,000,000 shares authorized; 3,311,480 and 3,400,868 shares issued and outstanding (4,908,180 pro forma)	165,576	170,044	245,408
Additional paid-in capital	13,093,961	13,491,665	13,435,142
Unearned compensation	(142,720)	(259,000)	(259,000)
Stock purchase notes receivable	--	(160,000)	(160,000)
Accumulated deficit	(8,395,218)	(8,159,545)	(8,159,545)
Total stockholders' equity	4,740,440	5,102,005	5,102,005
	$ 6,046,482	$ 6,450,256	$ 6,450,256

The accompanying notes are an integral part of these balance sheets.

SURMODICS, INC.

STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED SEPTEMBER 30

	1995	1996	1997
REVENUES:			
Royalties	$ 2,082,176	$ 2,340,187	$ 2,913,119
License fees	857,500	382,500	540,000
Product sales	1,428,951	1,641,226	2,158,572
Research and development	1,587,607	1,818,739	1,970,174
Total revenues	5,956,234	6,182,652	7,581,865
OPERATING COSTS AND EXPENSES:			
Product	1,258,327	1,214,526	1,431,675
Research and development	2,966,489	3,316,767	3,597,061
Sales and marketing	1,060,728	911,622	1,098,316
General and administrative	1,125,494	1,154,412	1,417,524
Total operating costs and expenses	6,411,038	6,597,327	7,544,576
INCOME (LOSS) FROM OPERATIONS	(454,804)	(414,675)	37,289
OTHER INCOME (EXPENSE):			
Investment income and other, net	350,465	275,849	198,384
Loss on investments	(217,840)	(54,901)	--
Other income (expense), net	132,625	220,948	198,384
NET INCOME (LOSS)	$ (322,179)	$ (193,727)	$ 235,673
NET INCOME (LOSS) PER COMMON AND COMMON EQUIVALENT SHARE (PRO FORMA) (Note 2)	$ (.07)	$ (.04)	$ .04
WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING (PRO FORMA) (Note 2)	4,788,963	4,851,123	5,393,031

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

SURMODICS, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED SEPTEMBER 30, 1995, 1996 AND 1997

	CONVERTIBLE PREFERRED STOCK		VOTING COMMON STOCK		NONVOTING COMMON STOCK		ADDITIONAL PAID-IN	UNEARNED
	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMOUNT	CAPITAL	COMPENSATION
BALANCE, September 30, 1994	376,828	$ 18,841	3,158,380	$ 157,920	26,232	$ 1,312	$12,688,813	$(151,680)
Common stock options exercised	--	--	36,040	1,800	--	--	90,860	--
Restricted stock granted	--	--	24,000	1,200	--	--	118,800	(120,000)
Amortization of unearned compensation	--	--	--	--	--	--	--	50,560
Net realized loss on investments	--	--	--	--	--	--	--	--
Unrealized gain on investments	--	--	--	--	--	--	--	--
Net loss	--	--	--	--	--	--	--	--
BALANCE, September 30, 1995	376,828	18,841	3,218,420	160,920	26,232	1,312	12,898,473	(221,120)
Common stock options exercised	--	--	71,628	3,584	--	--	214,448	--
Conversion of nonvoting common stock to voting common stock	--	--	26,232	1,312	(26,232)	(1,312)	--	--
Restricted stock canceled	--	--	(4,800)	(240)	--	--	(18,960)	3,840
Amortization of unearned compensation	--	--	--	--	--	--	--	74,560
Unrealized loss on investments	--	--	--	--	--	--	--	--
Realized loss on investments	--	--	--	--	--	--	--	--
Net loss	--	--	--	--	--	--	--	--
BALANCE, September 30, 1996	376,828	18,841	3,311,480	165,576	--	--	13,093,961	(142,720)
Common stock options exercised	--	--	45,388	2,268	--	--	179,904	--
Restricted stock granted	--	--	44,000	2,200	--	--	217,800	(220,000)
Amortization of unearned compensation	--	--	--	--	--	--	--	103,720
Net income	--	--	--	--	--	--	--	--
BALANCE, September 30, 1997	376,828	18,841	3,400,868	170,044	--	--	13,491,665	(259,000)
Effects of conversion of Series A Convertible Preferred Stock to common stock (Note 8) (unaudited)	(376,828)	(18,841)	1,507,312	75,364	--	--	(56,523)	--
BALANCE, pro forma, September 30, 1997 (unaudited)	--	$ --	4,908,180	$ 245,408	--	$ --	$13,435,142	$(259,000)

	STOCK PURCHASE NOTES RECEIVABLE	UNREALIZED INVESTMENT LOSS	ACCUMULATED DEFICIT	TOTAL STOCKHOLDERS' EQUITY
BALANCE, September 30, 1994	$ --	$(246,390)	$(7,879,312)	$4,589,504
Common stock options exercised	--	--	--	92,660
Restricted stock granted	--	--	--	--
Amortization of unearned compensation	--	--	--	50,560
Net realized loss on investments	--	217,840	--	217,840
Unrealized gain on investments	--	28,550	--	28,550
Net loss	--	--	(322,179)	(322,179)
BALANCE, September 30, 1995	--	--	(8,201,491)	4,656,935
Common stock options exercised	--	--	--	218,032
Conversion of nonvoting common stock to voting common stock	--	--	--	--
Restricted stock canceled	--	--	--	(15,360)
Amortization of unearned compensation	--	--	--	74,560
Unrealized loss on investments	--	(54,901)	--	(54,901)
Realized loss on investments	--	54,901	--	54,901
Net loss	--	--	(193,727)	(193,727)
BALANCE, September 30, 1996	--	--	(8,395,218)	4,740,440
Common stock options exercised	(160,000)	--	--	22,172
Restricted stock granted	--	--	--	--
Amortization of unearned compensation	--	--	--	103,720
Net income	--	--	235,673	235,673
BALANCE, September 30, 1997	(160,000)	--	(8,159,545)	5,102,005
Effects of conversion of Series A Convertible Preferred Stock to common stock (Note 8) (unaudited)	--	--	--	--
BALANCE, pro forma, September 30,				

1997 (unaudited).....	$(160,000)	$ --	$(8,159,545)	$5,102,005

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

SURMODICS, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30

	1995	1996	1997
OPERATING ACTIVITIES:			
Net income (loss)	$ (322,179)	$ (193,727)	$ 235,673
Adjustments to reconcile net income (loss) to net cash provided by operating activities--			
Depreciation and amortization	449,746	427,274	460,039
Realized loss on investments	217,840	54,901	--
Amortization of unearned compensation, net	50,560	59,200	103,720
Change in deferred rent	8,812	2,174	(11,104)
Change in assets and liabilities:			
Accounts receivable	(29,250)	(67,849)	(294,647)
Inventories	(100,318)	(3,945)	(3,240)
Accounts payable and accrued liabilities	113,170	(9,962)	446,729
Deferred revenue	(311,968)	138,268	(393,416)
Prepaids and other	2,230	(33,303)	(12,701)
Net cash provided by operating activities	78,643	373,031	531,053
INVESTING ACTIVITIES:			
Purchases of property and equipment, net	(190,323)	(201,580)	(298,388)
Purchases of short-term investments	(933,428)	(1,497,290)	(2,049,066)
Sales of short-term investments	--	2,659,520	2,425,000
Purchases of long-term investments	(334,620)	--	(1,874,118)
Issuance of stock purchase notes receivable	--	--	(160,000)
Other	(15,000)	--	(277,935)
Net cash provided by (used in) investing activities	(1,473,371)	960,650	(2,234,507)
FINANCING ACTIVITIES:			
Issuance of common stock, net of offering costs	92,660	218,032	182,172
Borrowings (repayments) under line of credit, net	(1,151,263)	--	--
Repayment of long-term debt and capital lease obligations	(46,206)	(16,917)	--
Net cash provided by (used in) financing activities	(1,104,809)	201,115	182,172
Net increase (decrease) in cash and cash equivalents	(2,499,537)	1,534,796	(1,521,282)
CASH AND CASH EQUIVALENTS:			
Beginning of year	2,977,647	478,110	2,012,906
End of year	$ 478,110	$ 2,012,906	$ 491,624
SUPPLEMENTAL CASH FLOW INFORMATION:			
Interest paid	$ 13,462	$ 2,254	$ 1,700

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

1. DESCRIPTION:

SurModics, Inc. (the Company) (formerly BSI Corporation) develops, manufactures and markets innovative surface modifications for medical, industrial and diagnostic products. The Company also produces and markets a line of proprietary biomolecule stabilization products. Its revenues are derived from the following: the licensing of its surface modification and diagnostic technologies to major manufacturers, resulting in both license fees and ongoing royalty streams; the sale of reagents and diagnostic products; and contracts with the United States government and private industry to conduct biomedical research.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist principally of money market instruments with original maturities of three months or less and are stated at cost which approximates fair value.

INVESTMENTS

Short-term and long-term investments consist of corporate debt securities and are classified as available-for-sale as of September 30, 1996 and 1997. Investments classified as available-for-sale are reported at fair value with unrealized gains and losses excluded from operations and reported as a separate component of stockholders' equity, except for other-than-temporary impairments, which are reported as a charge to current operations and result in a new cost basis for the investment. As of September 30, 1996 and 1997, the investments' amortized cost approximated fair value.

INVENTORIES

Inventories are 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 as of September 30:

	1996	1997
Raw materials	$ 85,197	$ 67,099
Finished products	175,571	196,909
Total	$ 260,768	$ 264,008

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost and are depreciated using the straight-line method over five years, the estimated useful lives of the assets. Amortization of leasehold improvements is recorded on a straight-line basis over the estimated useful lives of the assets or the lease term, whichever is shorter.

OTHER ASSETS

Other assets consist principally of patents, which are amortized over seven to twelve years. Accumulated amortization is $12,000 and $23,000 as of September 30, 1996 and 1997, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

REVENUE RECOGNITION

Royalties are recognized as third-party licensees report sales of the product or as minimum royalties become due. Initial nonrefundable license fees are recognized as revenue upon execution of the license agreement. Certain nonrefundable license and research and development fees are recoverable by the licensees as offsets against a percentage of future earned royalties. Revenues on product sales are recognized as products are shipped and for research and development as performance progresses under the applicable government contract or commercial development agreement.

Cash received prior to performance is recorded as deferred revenues in the accompanying balance sheets. Deferred revenues also include advance payments from a third-party licensee to the Company. The advance payments are being applied as a reduction of amounts otherwise due for earned royalties up to $75,000 per quarter and are expected to be fully absorbed during fiscal 1998.

As of September 30, 1997, the Company had approximately $2.3 million of signed government contracts on which work is yet to be performed and revenue has yet to be earned.

MAJOR CUSTOMERS

Revenues from customers which exceed 10% of total revenues are as follows for the years ended September 30:

	1995	1996	1997
Government agencies	20%	21%	16%
Commercial:			
Company A	23%	24%	21%
Company B	12%	--	--

Accounts receivable from these customers were as follows as of September 30:

	1996	1997
Government agencies	$ 59,000	$ 78,000
Commercial:		
Company A	73,000	5,000

INCOME TAXES

The Company utilizes the liability method to account for income taxes, and deferred taxes are based on the estimated future tax effects of differences between the financial statement and tax bases of assets and liabilities given the provisions of the enacted tax laws.

NET INCOME (LOSS) PER COMMON AND COMMON EQUIVALENT SHARE (PRO FORMA)

Net income (loss) per common and common equivalent share (pro forma) was computed by dividing net income (loss) by the weighted average common and common stock equivalent shares outstanding (pro forma). Weighted average common and common stock equivalent shares outstanding includes common shares outstanding, the conversion of Series A Convertible Preferred Stock into common stock, common

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)
stock equivalents and common stock equivalents issued within the 12-month period prior to the proposed initial public offering at a price less than the proposed public offering price using the treasury stock method.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Ultimate results could differ from those estimates.

NEW ACCOUNTING PRONOUNCEMENTS

In March 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Share," which changes the way companies calculate their earnings per share (EPS). SFAS No. 128 replaces primary EPS with basic EPS. Basic EPS is computed by dividing reported earnings by weighted average shares outstanding, excluding potentially dilutive securities. Fully diluted EPS, termed diluted EPS under SFAS No. 128, is also to be disclosed. The Company is required to adopt SFAS No. 128 in fiscal 1998, at which time all prior year EPS are to be restated in accordance with SFAS No. 128. If the Company had adopted the pronouncement during fiscal 1997, the effect of this accounting change on reported EPS data would have been as follows for the years ended September 30:

	1995	1996	1997
Primary EPS as reported	$ (.07)	$ (.04)	$ .04
Effect of SFAS No. 128	--	--	.01
Basic EPS as restated	$ (.07)	$ (.04)	$ .05

Diluted EPS of the Company under SFAS No. 128 would be the same as primary EPS as reported.

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income," which establishes standards for reporting and displaying comprehensive income and its components in financial statements. The Company will adopt the provisions of SFAS No. 130 in fiscal 1999.

In June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," which establishes a new model for segment reporting, called the "management approach" and requires certain disclosures for each segment. The management approach is based on the way the chief operating decision maker organizes segments within a company for making operating decisions and assessing performance. The Company will be required to adopt the provisions of SFAS No. 131 in fiscal 1999.

3. STOCKHOLDERS' EQUITY:

AUTHORIZED SHARES

The authorized capital stock of the Company consists of 20,450,000 shares of capital stock, $0.05 per share par value, of which 15,000,000 shares are common stock, 450,000 shares are Series A Convertible Preferred Stock and 5,000,000 shares are undesignated.

STOCK SPLIT

On December 22, 1997, the Company's board of directors approved a 4-for-1 stock split of all the Company's outstanding common stock. All share and per share data have been restated for all periods presented to reflect the common stock split.

PREFERRED STOCK RIGHTS

The Series A Convertible Preferred Stock has certain preferential liquidation, conversion and dividend rights as follows:

a. In the event of liquidation of the Company, the holders of these shares are entitled to receive $13.50 per share unless a greater amount would be distributed or paid with respect to each common share assuming the conversion of all outstanding preferred shares.

b. Each preferred share is convertible, at the option of the holder, at any time into four shares of voting common stock, subject to adjustment, with automatic conversion upon the closing of a registered public offering meeting certain minimum parameters.

c. Holders of preferred stock are entitled to receive dividends if, as and when declared by the board of directors.

RESTRICTED STOCK AWARDS

The Company has entered into restricted stock agreements with certain key employees, covering the issuance of voting common stock (the Restricted Stock). The Restricted Stock will be released to the key employees if they are employed by the Company at the end of a five-year waiting period. Unearned compensation has been recognized for the estimated fair value of the applicable common shares, reflected as a reduction of stockholders' equity, and is being charged to operations over the five-year waiting period.

Transactions in restricted stock are as follows:

	SHARES
Outstanding at September 30, 1994	63,200
Granted	24,000
Outstanding at September 30, 1995	87,200
Canceled	(4,800)
Outstanding at September 30, 1996	82,400
Granted	44,000
Outstanding at September 30, 1997	126,400

3. STOCKHOLDERS' EQUITY: (CONTINUED)
STOCK PURCHASE NOTES RECEIVABLE

The Company established a loan program during fiscal 1997 to assist employees in purchasing shares of the Company's stock. The loans are collateralized by the employees' purchased shares and require annual interest payments at a rate equal to prime at the date of issuance, with principal and any unpaid interest due at the earlier of five years after the date of issuance, three months after termination of employment, or six months after the Company's common stock becomes available to the public. Employees may borrow up to 100% of the option price for the shares purchased or up to 100% of their previous investment in the Company's stock.

4. STOCK-BASED COMPENSATION PLANS:

Upon adoption of the Company's 1997 Incentive Stock Option Plan (the Plan), which replaced the 1987 Incentive Stock Option Plan, 600,000 shares of voting common stock were reserved for issuance to employees and officers. The Plan requires that the option price per share cannot be less than 100% of the fair market value of the common stock (as determined by the board of directors) on the date of the grant of the option or 110% with respect to optionees who own more than 10% of the total combined voting power of all classes of stock. Options expire in five years or upon termination of employment and are exercisable at a rate of 20% per year from the date of grant.

Nonqualified options have been granted to outside directors, employees and officers. The options have been granted at fair market value, as determined by the board of directors at the date of grant. Options expire in five to ten years and are exercisable at a rate of 20% per year from the date of grant or 20% per year commencing two years after the date of grant.

Information regarding stock options under all plans is summarized as follows:

	1995		1996		1997	
OPTIONS	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding, beginning of period	856,000	$ 3.81	1,396,280	$ 4.35	1,163,600	$ 4.52
Granted	592,400	5.00	5,400	5.00	157,400	5.00
Exercised	(36,040)	2.57	(71,628)	3.04	(45,388)	4.01
Canceled	(16,080)	3.55	(166,452)	3.78	(70,812)	4.51
Outstanding, end of period	1,396,280	$ 4.35	1,163,600	$ 4.52	1,204,800	$ 4.60
Exercisable, end of period	448,880	$ 3.84	436,760	$ 4.26	589,320	$ 4.42
Weighted average fair value of options granted			$ 3.23		$ 3.30	

The options outstanding at September 30, 1997 have exercise prices ranging between $2.50 and $5.00, with a weighted average exercise price of $4.60 and a weighted average remaining contractual life of 3.25 years.

4. STOCK-BASED COMPENSATION PLANS: (CONTINUED)

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 1996 and 1997, respectively: risk-free interest rates of 6.43% and 6.24%; expected lives of 5 and 5.57 years; and expected volatility of 73% for both years.

The Company accounts for the options under APB Opinion No. 25, under which no compensation cost has been recognized. Had compensation cost for the options been determined consistent with SFAS No. 123, "Accounting for Stock-Based Compensation," the Company's net income (loss) would have been the following pro forma amounts for the years ended September 30:

	1996	1997
Net income (loss):		
As reported	$ (193,727)	$ 235,673
Pro forma	(194,890)	155,541
Net income (loss) per common share:		
As reported	(.04)	.04
Pro forma	(.04)	.03

Because the SFAS No. 123 method of accounting has not been applied to options granted prior to October 1, 1995, the resulting pro forma information may not be representative of that to be expected in future periods.

5. INCOME TAXES:

Deferred income taxes consisted of the following as of September 30:

	1996	1997
Deferred tax assets	$ 3,025,000	$ 2,850,000
Less--Valuation allowance	(3,025,000)	(2,850,000)
Net deferred tax assets	$ --	$ --

These deferred tax assets result from differences in the recognition of transactions for income tax and financial reporting purposes. The principal temporary differences relate to certain financial reserves not deductible for tax purposes until paid, a capital loss carryforward and net operating loss carryforwards.

The Company's net operating loss carryforwards of approximately $6.4 million at September 30, 1997 expire in varying amounts through 2011. Certain restrictions under the Tax Reform Act of 1986, caused by the change in ownership resulting from sales of common and convertible preferred stocks, may limit annual utilization of the net operating loss carryforwards. The Company also has $519,000 of capital loss carryforwards at September 30, 1997, which expire in 2001. A valuation allowance for the full amount of the deferred tax asset has been established due to the uncertainty of realization.

During fiscal 1997, the Company utilized $64,000 of net operating loss carryforwards to offset the 1997 income tax liability.

6. COMMITMENTS AND CONTINGENCIES:

OPERATING LEASES

The Company leases its office and laboratory space under an operating lease that expires in fiscal 2000. The lease provides for base monthly payments, which increase annually, and additional amounts to cover the Company's share of common area expenses and property taxes. The Company is responsible for maintenance, insurance and other normal operating costs. Rental expense for the base monthly payments and additional costs was approximately $280,000, $290,000 and $290,000 for the years ended September 30, 1995, 1996 and 1997, respectively.

As of September 30, 1997, future commitments under the operating lease are as follows:

1998	$ 210,000
1999	216,000
2000	54,000
	$ 480,000

GOVERNMENT CONTRACTS

Under provisions contained in the government research contracts, representatives of the government agencies have the right to access and review the Company's underlying records of contract costs. The government retains the right to reject expenses considered unallowable under the terms of the contract. The Defense Contract Audit Agency has reviewed the contracts through 1989. In the opinion of management, future amounts due, if any, with respect to open contract years will not have a material impact on the financial position or results of operations of the Company.

7. DEFINED CONTRIBUTION PLAN:

The Company has a profit-sharing/401(k) retirement and savings plan for the benefit of qualified employees. Under the plan, qualified employees may elect to defer up to 15% of their compensation, subject to a maximum limit determined by the Internal Revenue Service. The Company, at the discretion of the board of directors, may elect to make an additional contribution. Contributions of approximately $67,000, $78,000 and $86,000 have been charged to operations for the years ended September 30, 1995, 1996 and 1997, respectively.

8. EVENTS SUBSEQUENT TO DATE OF REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS:

INITIAL PUBLIC OFFERING

The Company has filed a Registration Statement with the Securities and Exchange Commission for the sale of up to 2,000,000 shares (excluding the Underwriters' over-allotment option to purchase an additional 300,000 shares) of common stock (the Offering). The Company intends to use the net proceeds from the Offering (estimated to be approximately $14.5 million) for research and development, sales and marketing and upgrades to its manufacturing equipment, to strengthen its patent protection and for working capital and general corporate purposes.

8. EVENTS SUBSEQUENT TO DATE OF REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS: (CONTINUED)

PRO FORMA BALANCE SHEET AND STATEMENT OF STOCKHOLDERS' EQUITY AS OF SEPTEMBER 30, 1997

As discussed in Note 3, each share of the Series A Convertible Preferred Stock will be automatically converted into four shares of voting common stock upon the closing of the Offering and, subject to stockholder approval, the authorized shares of Series A Convertible Preferred Stock will be eliminated and this class of stock canceled. The Company's pro forma balance sheet and pro forma statement of stockholders' equity as of September 30, 1997 give effect to the conversion.

[PHOTOGRAPH OF THE MIXING OF THE REAGENTS]

PhotoLink is a simple, light-activated coating technology. Reagent is dissolved into solution applied to the device, and the device is exposed to a light source. The PhotoLink process is quick, uses cost-effective equipment, and is easily incorporated into existing manufacturing operations.

[PHOTOGRAPH OF DIPPING THE DEVICE INTO THE REAGENT]

[PHOTOGRAPH OF PREPARING THE COATED DEVICE FOR EXPOSURE TO DIRECT LIGHT]

[PHOTOGRAPH OF A COATED CATHETER]

[LOGO]

NO DEALER, SALESPERSON OR ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR MAKE ANY REPRESENTATIONS NOT CONTAINED IN THIS PROSPECTUS AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR ANY OF THE UNDERWRITERS. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER OF ANY SECURITIES OTHER THAN THOSE TO WHICH IT RELATES OR AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, TO ANY PERSON IN ANY JURISDICTION WHERE SUCH AN OFFER OR SOLICITATION WOULD BE UNLAWFUL. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO THE DATE HEREOF.

TABLE OF CONTENTS

UNTIL , 1998 (25 DAYS AFTER THE DATE OF THIS PROSPECTUS), ALL DEALERS EFFECTING TRANSACTIONS IN THE COMMON STOCK, WHETHER OR NOT PARTICIPATING IN THIS DISTRIBUTION, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS IS IN ADDITION TO THE OBLIGATIONS OF DEALERS TO DELIVER A PROSPECTUS WHEN ACTING AS UNDERWRITERS AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

2,000,000 SHARES

[LOGO]

COMMON STOCK

PROSPECTUS

J OHN G. KINNARD AND COMPANY, INCORPORATED

, 1998

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 24. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Section 302A.521, subd. 2, of the Minnesota Statutes requires the Company to indemnify a person made or threatened to be made a party to a proceeding by reason of the former or present official capacity of the person with respect to the Company, against judgments, penalties, fines, including, without limitation, excise taxes assessed against the person with respect to an employee benefit plan, settlements, and reasonable expenses, including attorneys' fees and disbursements, incurred by the person in connection with the proceeding with respect to the same acts or omissions if such person (1) has not been indemnified by another organization or employee benefit plan for the same judgments, penalties or fines; (2) acted in good faith; (3) received no improper personal benefit, and statutory procedure has been followed in the case of any conflict of interest by a director; (4) in the case of a criminal proceeding, had no reasonable cause to believe the conduct was unlawful; and (5) in the case of acts or omissions occurring in the person's performance in the official capacity of director or, for a person not a director, in the official capacity of officer, board committee member or employee, reasonably believed that the conduct was in the best interests of the Company, or, in the case of performance by a director, officer or employee of the Company involving service as a director, officer, partner, trustee, employee or agent of another organization or employee benefit plan, reasonably believed that the conduct was not opposed to the best interests of the Company. In addition, Section 302A.521, subd. 3, requires payment by the Company, upon written request, of reasonable expenses in advance of final disposition of the proceeding in certain instances. A decision as to required indemnification is made by a disinterested majority of the Board of Directors present at a meeting at which a disinterested quorum is present, or by a designated committee of the Board, by special legal counsel, by the stockholders, or by a court.

Provisions regarding indemnification of officers and directors of the Company are contained in Section 5.1 of the Bylaws (Exhibit 3.2 to this Registration Statement). The Company is in the process of obtaining a director and officer liability policy.

Under Section 6 of the Underwriting Agreement, filed as Exhibit 1.1 hereto, the Underwriters agree to indemnify, under certain conditions, the Company, its directors, certain of its officers and persons who control the Company within the meaning of the Securities Act against certain liabilities.

ITEM 25. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The following expenses will be paid by the Company in connection with the distribution of the securities registered hereby and do not include the underwriting discount to be paid to the Underwriters. All of such expenses, except for the SEC registration fee, NASD fee and Nasdaq listing fee, are estimated.

SEC Registration Fee	$ 5,768
NASD Fee	2,455
Nasdaq National Market Listing Fee	35,000
Legal Fees	100,000
Accountants' Fees and Expenses	70,000
Printing Expenses	50,000
Blue Sky Fees and Expenses	3,000
Transfer Agent Fees and Expenses	5,000
Miscellaneous	78,777
Total	$ 350,000

ITEM 26. RECENT SALES OF UNREGISTERED SECURITIES.

During the past three years, the Registrant has sold the securities listed below pursuant to exemptions from registration under the Securities Act. The information below is presented on a post stock split basis.

1. On January 6, 1995, the Company issued an aggregate of 18,000 shares of Common Stock to three directors at a price of $2.50 per share upon exercisable of non-qualified stock options.

2. On January 22, 1995, the Company issued 6,000 shares of Common Stock to an executive officer at a price of $2.50 per share upon exercise of an incentive stock option.

3. On March 13, 1995, the Company issued 1,120 shares of Common Stock to an employee at a price of $3.64 per share upon exercise of an incentive stock option.

4. On March 20, 1995, the Company issued 600 shares of Common Stock to an employee at a price of $2.50 per share upon exercise of an incentive stock option.

5. On May 31, 1995, the Company issued an aggregate of 9,200 shares of Common Stock to eight employees, including one executive officer, at a price of $2.50 per share upon exercise of incentive stock options.

6. On September 18, 1995, the Company issued an aggregate of 24,000 shares of Common Stock to six employees pursuant to restricted stock agreement at a price of $5.00 per share.

7. On October 31, 1995, the Company issued an aggregate of 1,120 shares of Common Stock to an employee at a price of $3.64 per share upon exercise of non-qualified stock options.

8. On October 31, 1995, the Company issued 3,200 shares and 1,400 shares of Common Stock to an employee at prices of $3.53 and 3.73 per share, respectively, upon exercise of incentive stock options.

9. On February 4, 1996, the Company issued an aggregate of 16,400 shares of Common Stock to eight employees at a price of $2.50 per share upon exercise of incentive stock options.

10. On February 4, 1996, the Company issued an aggregate of 12,000 shares of Common Stock to three directors at a price of $2.50 per share upon exercise of non-qualified stock options.

11. On June 21, 1996, the Company issued 88 shares of Common Stock to an employee at a price of $5.00 per share upon exercise of an incentive stock option.

12. On September 18, 1996, the Company issued an aggregate of 38,540 shares of Common Stock to 26 employees, including two executive officers, at a price of $3.38 per share upon exercise of incentive stock options.

13. On January 1, 1997, the Company issued 44,000 shares of Common Stock pursuant to restricted stock agreements to 14 employees at a price of $5.00 per share.

14. On April 29, 1997, the Company issued 600 shares of Common Stock to an employee at a price of $5.00 per share upon exercise of an incentive stock option.

15. On April 29, 1997, the Company issued 400 shares of Common Stock to an employee at a price of $4.00 per share upon exercise of an incentive stock option.

16. On May 5, 1997, the Company issued 20 shares of Common Stock to an employee at a price of $5.00 per share upon exercise of an incentive stock option.

17. On September 21, 1997, the Company issued 44,368 shares of Common Stock to 14 employees, including two executive officers, at a price of $4.00 per share upon exercise of stock options.

The sales of securities above were made in reliance upon Section 4(2) of the Securities Act, which provide exemptions for transactions not involving a public offering. The purchasers of securities described above acquired them for their own account and not with a view to any distribution thereof to the public. The certificates evidencing the securities bear legends stating that the shares are not to be offered, sold or transferred other than pursuant to an effective registration statement under the Securities Act, or an exemption from such registration requirements. No underwriting commissions or discounts were paid with respect to the sales of unregistered securities described above.

ITEM 27. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

EXHIBIT NUMBER	DESCRIPTION
1.1	Form of Underwriting Agreement
3.1	Restated Articles of Incorporation, as amended
3.2	Restated Bylaws
4.1	Restated Articles of Incorporation, as amended (filed as Exhibit 3.1)
4.2	Restated Bylaws (filed as Exhibit 3.2)
4.3	Specimen Stock Certificate (to be filed by amendment)
5.1	Opinion and Consent of Fredrikson & Byron, P.A.
10.1	Lease Agreement, dated November 18, 1991, relating to manufacturing and office space located at 9924 West 74th Street, Eden Prairie, Minnesota
10.2	Company's 1987 Incentive Stock Option Plan, including specimen of Incentive Stock Option Agreement
10.3	Company's 1997 Incentive Stock Option Plan, including specimen of Incentive Stock Option Agreement
10.4	Form of Restricted Stock Agreement
10.5	Form of Non-qualified Stock Option Agreement
10.6	Form of License Agreement
10.7*	License Agreement with Abbott Laboratories dated November 20, 1990, as amended
10.8	Form of Promissory Note from Walter H. Diers, Jr. and James C. Powell
11	Statement re computation of pro forma per share earnings
23.1	Consent of Fredrikson & Byron, P.A. (included in Exhibit 5.1)
23.2	Consent of Arthur Andersen LLP
24	Power of Attorney (included on signature page of the Registration Statement)
27	Financial Data Schedule

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* Portions of this document have been deleted and a confidentiality request regarding such portions has been filed with the SEC.

ITEM 28. UNDERTAKINGS.

The undersigned Registrant hereby undertakes to provide to the underwriter at the closing specified in the underwriting agreements certificates in such denominations and registered in such names as required by the underwriter to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or

otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

The undersigned Registrant further undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial BONA FIDE offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form SB-2 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Minneapolis, State of Minnesota, on December 23, 1997.

SURMODICS, INC.

By: /s/ DALE R. OLSETH
Dale R. Olseth
PRESIDENT AND CHIEF EXECUTIVE OFFICER

POWER OF ATTORNEY

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated. Each person whose signature to this Registration Statement appears below hereby constitutes and appoints Dale R. Olseth and Stephen C. Hathaway, and each of them, as his or her true and lawful attorney-in-fact and agent, with full power of substitution, to sign on his or her behalf individually and in the capacity stated below and to perform any acts necessary to be done in order to file all amendments and post-effective amendments to this Registration Statement, any registration statement filed pursuant to Rule 462(b) of the Securities Act of 1933, as amended, and any and all instruments or documents filed as part of or in connection with any of such amendments or registration statements, and each of the undersigned does hereby ratify and confirm all that said attorney-in-fact and agent, or his or her substitutes, shall do or cause to be done by virtue hereof.

SIGNATURES	TITLE	DATE
/s/ DALE R. OLSETH Dale R. Olseth	President, Chief Executive Officer and Chairman of the Board of Directors (principal executive officer)	December 23, 1997
/s/ STEPHEN C. HATHAWAY Stephen C. Hathaway	Vice President and Chief Financial Officer (principal financial and accounting officer)	December 23, 1997
/s/ PATRICK E. GUIRE Patrick E. Guire	Senior Vice President of Research and Technology and Director	December 23, 1997
/s/ DONALD S. FREDRICKSON Donald S. Fredrickson	Director	December 23, 1997

SIGNATURES	TITLE	DATE
/s/ JAMES J. GRIERSON James J. Grierson	Director	December 23, 1997
/s/ DAVID A. KOCH David A. Koch	Director	December 23, 1997
/s/ KENDRICK B. MELROSE Kendrick B. Melrose	Director	December 23, 1997
/s/ KENNETH H. KELLER Kenneth H. Keller	Director	December 23, 1997

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
SURMODICS, INC.
EXHIBIT INDEX TO FORM SB-2

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* Portions of this document have been deleted and a confidentiality request regarding such portions has been filed with the SEC.

2,000,000 SHARES

SURMODICS, INC.

COMMON STOCK
$0.05 PAR VALUE

UNDERWRITING AGREEMENT

_____, 1998

John G. Kinnard and Company, Incorporated
As Representative of the Several Underwriters
c/o John G. Kinnard and Company, Incorporated
920 Second Avenue South
Minneapolis, MN 55402

Ladies and Gentlemen:

SurModics, Inc., a Minnesota corporation (the "Company"), hereby confirms its agreement to issue and sell to the underwriters named in Schedule A attached hereto (the "Underwriters"), for which you are acting as the representative (the "Representative"), an aggregate of 2,000,000 shares (the "Firm Shares") of authorized common stock, $0.05 par value, of the Company (the "Common Stock"). The Company also hereby confirms its agreement to issue and sell to the Underwriters an aggregate of up to 300,000 additional shares of Common Stock upon the request of the Representative solely for the purpose of covering overallotments (the "Option Shares"). The Firm Shares and the Option Shares are collectively referred to as the "Shares."

The Company hereby confirms the arrangements with respect to the purchase of the Shares severally by each of the Underwriters. The Company has been advised and hereby acknowledges that John G. Kinnard and Company, Incorporated has been duly authorized to act as the representative of the Underwriters. As used in this Agreement, the term "Underwriter" refers to any individual member of the underwriting syndicate and includes any party substituted for an Underwriter under Section 9 hereof.

1. REPRESENTATIONS AND WARRANTIES OF THE COMPANY.

The Company represents and warrants to and agrees with each of the several Underwriters as follows:

(a) A registration statement on Form SB-2 (Registration No. _____) with respect to the Shares has been prepared by the Company in conformity with the requirements of the Securities Act of 1933, as amended (the "Act"), and the rules and regulations (the "Rules and Regulations") of the Securities and Exchange Commission (the "Commission") promulgated thereunder and has been filed with the Commission under the Act. If the Company has elected to rely upon Rule 462(b) under the Act to increase the size of the offering registered under the Act, the Company will prepare and file with the Commission a registration statement with respect to such increase pursuant to Rule 462(b). Copies of the registration statement as amended to date have been delivered by the Company to the Representative. Such registration statement, including a registration statement (if any) filed pursuant to Rule 462(b) under the Act and the information (if any) deemed to be part thereof pursuant to Rules 430A and 434(d) under the Act, and all prospectuses included as a part thereof, all financial statements included in such registration statement, and all schedules and exhibits thereto, as amended at the time when the registration statement shall become effective, are herein referred to as the "Registration Statement," and the term "Prospectus" as used herein shall mean the final prospectus included as a part of the Registration Statement on file with the Commission when it becomes effective (except that if a prospectus is filed by the Company pursuant to Rules 424(b) and 430A under the Act, the term "Prospectus" as used herein shall mean the prospectus so filed pursuant to Rules 424(b) and 430A (including any term sheet meeting the requirements of Rule 434 under the Act provided by the Company for use with a prospectus subject to completion within the meaning of Rule 434 in order to meet the requirements of Section 10(a) of the Act)). The term "Preliminary Prospectus" as used herein means any prospectus used prior to the Effective Date (as defined in Section 5(a) hereof) and included as a part of the Registration Statement, prior to the time it becomes or became effective under the Act and any prospectus subject to completion as described in Rules 430A or 434 under the Act. Copies of the Registration Statement, including all exhibits and schedules thereto, any amendments thereto and all Preliminary Prospectuses have been delivered to you.

(b) The Registration Statement has been declared effective, and at all times subsequent thereto up to each closing date, the Registration Statement and Prospectus and all amendments thereof and supplements thereto, will comply in all material respects with the provisions of the Act and the Rules and Regulations. Neither the Commission nor any state securities division has issued any order (i) preventing or suspending the use of any Preliminary Prospectus, (ii) issuing a stop order with respect to the offering of the Shares or (iii) requiring the recirculation of a Preliminary Prospectus. The Registration Statement (as amended, if the Company shall have filed with the Commission any post effective amendments thereto) does not and will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. Each Preliminary Prospectus, at the time of filing thereof, the Registration Statement as of the date declared effective and at all times subsequent thereto up to each closing date, and the Prospectus (as amended or supplemented, if the Company shall have filed with the Commission any amendment thereof or supplement thereto) conformed and conforms in all material respects to the requirements of the Act and the

Rules and Regulations and did not, does not and will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading; provided, however, that none of the representations and warranties in this Subsection 1(b) shall apply to statements in, or omissions from, the Registration Statement or the Prospectus or any amendment thereof or supplement thereto) which are based upon and conform to information furnished to the Company by the Underwriters in writing specifically for use in the preparation of the Registration Statement or the Prospectus or any such amendment or supplement. There is no contract or other document of the Company of a character required by the Act or the Rules and Regulations to be described in the Registration Statement or Prospectus or to be filed as an exhibit to the Registration Statement that has not been described or filed as required.

(c) The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Minnesota, with full corporate power and authority, to own, lease and operate its properties and conduct its business as described in the Registration Statement and Prospectus. The Company is duly qualified to do business as a foreign corporation in good standing in each jurisdiction in which the ownership or lease of its properties, or the conduct of its business, requires such qualification and in which the failure to be qualified or in good standing would have a material adverse effect on the condition (financial or otherwise), results of operations, shareholders' equity, business, property or prospects of the Company.

(d) The Company has no subsidiaries, is not affiliated with or owns any stock or other equity interest, or any other company or business entity.

(e) The Company has all necessary material authorizations, licenses, approvals, consents, permits, certificates and orders of and from all state, federal, foreign and other governmental or regulatory authorities to own its properties and to conduct its business as described in the Registration Statement and Prospectus, is conducting its business in substantial compliance with all applicable laws, rules and regulations of the jurisdictions in which it is conducting business, and has received no notice of nor has it knowledge of any basis for any proceeding or action for the revocation or suspension of any such authorizations, licenses, approvals, consents, permits, certificates or orders.

(f) The Company is not in violation of or in default under [AMENDED AND RESTATED] (i) its Articles of Incorporation or Bylaws, (ii) or in default in the performance or observance of any material obligation, agreement, covenant or condition contained in any bond, debenture, note or other evidence of indebtedness or in any contract, license, indenture, bond mortgage, loan agreement, joint venture or partnership agreement, lease, agreement or instrument to which the Company is a party or by which the Company or any of its properties are bound, (iii) any law, order, rule, regulation, writ, injunction or decree of any government, governmental instrumentality or court, domestic or foreign, which violation or default would have a material adverse effect on the condition (financial or otherwise), results of operations, shareholders'

equity, business, property or prospects of the Company or the ability of the Company to consummate the transactions contemplated hereby.

(g) The Company has full requisite power and authority to enter into this Agreement. This Agreement has been duly authorized, executed and delivered by the Company and will be a valid and binding agreement on the part of the Company, enforceable in accordance with its terms, if and when this Agreement shall have become effective in accordance with Section 8, except as enforceability may be limited by the application of bankruptcy, insolvency, moratorium or similar laws affecting the rights of creditors generally and by judicial limitations on the right of specific performance and other equitable remedies, and except as the enforceability of the indemnification or contribution provisions hereof may be affected by applicable federal or state securities laws. The performance of this Agreement and the consummation of the transactions herein contemplated will not result in a material breach or violation of any of the terms and provisions of or constitute a material default under (i) any bond, debenture, note or other evidence of indebtedness, or any contract, license, indenture, mortgage, loan agreement, joint venture or partnership agreement, lease, agreement or other instrument to which the Company is a party or by which the property of the Company is bound, (ii) the Company's [AMENDED AND RESTATED] Articles of Incorporation or Bylaws, or (iii) any statute or any order, rule or regulation of any court, governmental agency or body having jurisdiction over the Company. No consent, approval, authorization or order of any court, governmental agency or body is required for the consummation by the Company of the transactions on its part herein contemplated, except such as may be required under the Act or under state or other securities laws.

(h) There are no actions, suits or proceedings pending before any court or governmental agency, authority or body to which the Company is a party or of which the business or property of the Company is the subject which (i) might result in any material adverse change in the condition (financial or otherwise), shareholders' equity, results of operations, business or prospects of the Company, (ii) materially and adversely affect its properties or assets, or (iii) prevent consummation of the transactions contemplated by this Agreement. To the best of the Company's knowledge, no such actions, suits or proceedings are threatened.

(i) The Company has the duly authorized and outstanding capitalization set forth under the caption "Capitalization" in the Prospectus. The outstanding shares of capital stock of the Company have been duly authorized and validly issued, fully paid and nonassessable. The Shares conform in substance to all documents relating thereto contained in the Registration Statement and Prospectus. The Shares to be sold by the Company hereunder have been duly authorized and, when issued and delivered pursuant to this Agreement, will be validly issued, fully paid and nonassessable and will conform to the description thereof contained in the Prospectus. No statutory preemptive rights or similar rights to subscribe for or purchase shares of capital stock of any security holders of the Company exist with respect to the issuance and sale of the Shares by the Company. Except as described in the Prospectus, the Company has no agreement with any security holder which gives such security holder the right to require the Company to register under the Act any securities of any nature owned or held by such person in connection with the transactions contemplated by this Agreement. Except as described in the

Prospectus, there are no outstanding options, warrants, agreements, contracts or other rights to purchase or acquire from the Company any shares of its capital stock. Except as described in the Prospectus, there are no agreements among the Company's executive officers and directors and any other persons with respect to the voting or transfer of the Company's capital stock or with respect to other aspects of the Company's affairs. Upon payment for and delivery of the Shares to be sold by the Company pursuant to this Agreement, the Underwriters will acquire good and marketable title to such Shares, free and clear of all liens, encumbrances or claims created by actions of the Company. The certificates evidencing the Shares will comply as to form with all applicable provisions of the laws of the State of Minnesota.

(j) The financial statements of the Company, together with the related notes, included in the Registration Statement and Prospectus (the "Financial Statements") fairly and accurately present the financial position, the results of operations and changes in stockholder's equity and cash flows of the Company at the dates and for the respective periods to which such Financial Statements apply. The Financial Statements have been prepared in accordance with generally accepted accounting principles, consistently applied throughout the periods involved, and all adjustments necessary for a fair presentation of results for such periods have been made, except as otherwise stated therein; and the supporting schedules included in the Registration Statement present fairly the information required to be stated therein. No other financial statements or schedules are required to be included in the Registration Statement. The summary and selected consolidated financial data included in the Registration Statement present fairly the information shown therein on the basis stated in the Registration Statement and have been compiled on a basis consistent with the financial statements presented therein.

(k) Arthur Andersen, LLP, which has expressed its opinion with respect to the financial statements filed with the Commission as part of the Registration Statement, are independent public accountants as required by the Act and the rules and regulations thereunder.

(l) Since the respective dates as of which information is given in the Registration Statement and Prospectus, (i) there has not been any material adverse change, or any development, event or occurrence in the business of the Company that, taken together with other developments, events and occurrences with respect to such business, would have or would reasonably be expected to have a material adverse effect on the condition (financial or otherwise) of the Company or the management, shareholders' equity, results of operations, business, property or prospects of the Company, whether or not occurring in the ordinary course of business, (ii) there has not been any transaction not in the ordinary course of business entered into by the Company which is material to the Company, other than transactions described or contemplated in the Registration Statement, (iii) the Company has not incurred any material liabilities or obligations, which are not in the ordinary course of business or which could result in a material reduction in the future earnings of the Company, (iv) the Company has not sustained any material loss or interference with its business or properties from fire, flood, windstorm, accident or other calamity, whether or not covered by insurance, (v) there has not been any change in the capital stock of the Company (other than upon the exercise of options described in the Registration Statement) or any material increase in the short-term or long-term debt (including capitalized lease obligations) of the Company, (vi) there has not been any declaration

or payment of any dividends or any distributions of any kind with respect to the capital stock of the Company, other than any dividends or distributions described or contemplated in the Registration Statement, or (vii) there has not been any issuance of warrants, options, convertible securities or other rights to purchase or acquire capital stock of the Company.

(m) The Company has filed all necessary federal, state, local and foreign income and franchise tax returns and paid all taxes shown as due thereon. The Company has no knowledge of any tax deficiency which either has been or might be asserted against it which would materially and adversely affect the Company's business or properties.

(n) The Company maintains a system of internal accounting controls sufficient to provide reasonable assurance that (i) transactions are executed in accordance with management's general or specific authorizations and (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain accountability for assets; (iii) access to assets is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(o) The Company has good and marketable title to all of the property, real and personal, described in the Registration Statement or Prospectus as being owned by the Company, free and clear of all liens, encumbrances, equities, charges or claims, except as do not materially interfere with the uses made and to be made by the Company of such property or as disclosed in the Financial Statements. The Company has valid and binding leases to the real and personal property described in the Registration Statement or Prospectus as being under lease to the Company, except as to those leases which are not material to the Company or the lack of enforceability of which would not materially interfere with the use made and to be made by the Company of such leased property.

(p) There has been no unlawful storage, treatment or disposal of waste by the Company at any of the facilities owned or leased thereby, except for such violations which would not have a material adverse effect on the condition, (financial or otherwise) or the shareholders' equity, results of operation, business, properties or prospects of the Company. There has been no material spill, discharge, leak, emission, ejection, escape, dumping or release of any kind onto the properties owned or leased by the Company, or into the environment surrounding those properties, of any toxic or hazardous substances, as defined under any federal, state or local regulations, laws or statutes, except for those releases either permissible under such regulations, laws or statutes or otherwise allowable under applicable permits or which would not have a material adverse effect on the condition (financial or otherwise) or the shareholders' equity, results of operation, business, properties or prospects of the Company.

(q) Each employee benefit plan (as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA")) ("Employee Benefit Plan"), and each bonus, retirement, pension, profit sharing, stock bonus, thrift, stock option, stock purchase, incentive, severance, deferred or other compensation or welfare benefit plan, program,

agreement or arrangement of, or applicable to employees or former employees of, the Company or with respect to which the Company could have any liability ("Benefit Plans"), was or has been established, maintained and operated in all material respects in compliance with all applicable federal, state, and local statutes, orders, governmental rules and regulations, including, but not limited to, ERISA and the Internal Revenue Code of 1986, as amended (the "Code"). No Benefit Plan is or was subject to Title IV of ERISA or Section 302 of ERISA or Section 412 of the Code. The Company does not, either directly or indirectly as a member of a controlled group within the meaning of Sections 414(b), (c), (m) and (o) of the Code ("Controlled Group"), have any material liability that remains unsatisfied or arising under Section 502 of ERISA, Subchapter D of Chapter 1 of Subtitle A of the Code or under Chapter 43 of Subtitle D of the Code. No action, suit, grievance, arbitration or other matter of litigation or claim with respect to any Benefit Plan (other than routine claims for benefits made in the ordinary course of plan administration for which plan administrative procedures have not been exhausted) is pending or, to the Company's knowledge, threatened or imminent against or with respect to any Benefit Plan, any member of a Controlled Group that includes the Company, or any fiduciary within the meaning of Section 3(21) of ERISA with respect to a Benefit Plan which, if determined adversely to the Company, would have a material adverse effect on the Company. Neither the Company nor any member of a Controlled Group that includes the Company, has any knowledge of any facts that could give rise to any action, suit, grievance, arbitration or any other manner of litigation or claim with respect to any Benefit Plan.

(r) No labor disturbance or dispute by the employees or consultants or contractors of the Company exists or, to the Company's knowledge, is threatened which could reasonably be expected to have a material adverse effect on the conduct of the business or the financial condition (financial or otherwise), results of operations, properties or prospects of the Company.

(s) Except as disclosed in the Prospectus:

(i) The Company owns or possesses the full rights to use or is licensed to use all patents, patent applications, inventions, copyrights, trademarks, service marks, applications for registration of trademarks and service marks, trade secrets, know-how and other intellectual property proprietary information or know-how reasonably necessary for the conduct of its present or intended business as described in the Prospectus ("Proprietary Rights"); there are no pending legal, governmental or administrative proceedings relating to the Proprietary Rights to which the Company is a party or of which any property of the Company is subject; and no such proceedings are, to the best of the Company's knowledge, threatened or contemplated against the Company by any governmental agency or authority or by others;

(ii) The Company has not received any notice of conflict or claim with asserted intellectual property rights of any third parties;

(iii) To the best of the Company's knowledge, the Company does not infringe upon the rights or claimed rights of any person under or, with respect to, any of the Proprietary Rights referred to in Section 1(s)(i) above; except as disclosed in the Prospectus, the Company is not obligated nor is it under any liability whatsoever to make any payments by way of royalties, fees or otherwise to any owner of, licensor of, or other claimant to, any Proprietary Rights, with respect to the use thereof or in connection with the conduct of its business or otherwise; and to the best of the Company's knowledge, the Company is not using any confidential information or trade secrets of any other party in the conduct of its business;

(iv) The Company has not entered into any consent, indemnification, forbearance to sue or settlement agreement with respect to the Proprietary Rights other than in the ordinary course of business;

(v) To the best of the Company's knowledge, the Proprietary Rights are valid and enforceable and no registration relating thereto has lapsed, expired or been abandoned or canceled or is the subject of cancellation or other adversarial proceedings, and all applications therefor are pending and are in good standing;

(vi) The Company has complied in all material respects with its respective contractual obligations relating to the protection of any Proprietary Rights used pursuant to licenses; and

(vii) The Company owns and/or has the unrestricted right to use all trade secrets, including know-how, customer lists, inventions, designs, processes, computer programs and any other technical data or information necessary to the development, manufacture, operation and sale of all products sold or proposed to be sold by it, free and clear of any rights, liens and claims of others.

(t) The Company maintains insurance, which is in full force and effect, of the types and in the amounts reasonably adequate for its business and, to the best of its knowledge, consistent with coverage comparable to the insurance maintained by similar companies or businesses.

(u) The Company has not sold any securities in violation of Section 5 of the Act.

(v) The conditions for use of a registration statement on Form SB-2 for the distribution of the Shares have been satisfied with respect to the Company.

(w) The Company intends to apply the proceeds from the sale of the Shares by it to the purposes and substantially in the manner set forth in the Prospectus.

(x) No person is entitled, directly or indirectly, to compensation from the Company or the Underwriters for services as a finder in connection with the transactions contemplated by this Agreement.

(y) All material transactions between the Company and its stockholders who beneficially own more than 5% of any class of the Company's voting securities have been accurately disclosed in the Prospectus, and the terms of each such transaction are fair to the Company and no less favorable to the Company than the terms that could have been obtained from unrelated parties.

(z) The Company has not distributed and will not distribute any prospectus or other offering material in connection with the offering and sale of the Shares other than any Preliminary Prospectus or the Prospectus or other materials permitted by the Act to be distributed by the Company.

(aa) The Company has not taken and will not take, directly or indirectly, any action designed to, or which has constituted, or which might reasonably be expected to cause or result in, stabilization or manipulation of the price of the Common Stock.

(bb) The Company's application for listing on the Nasdaq National Market ("Nasdaq") has been approved, and, on the date the Registration Statement became effective, the Company's Registration Statement on Form 8-A or other applicable form under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), became effective.

(cc) To the Company's knowledge, none of the Company's officers, directors or security holders has any affiliations with the National Association of Securities Dealers, Inc., except as set forth in the Registration Statement or as otherwise disclosed in writing to the Representative.

(dd) The Company has obtained a written agreement, enforceable by the Representative, from each officer and director of the Company and shareholder who holds __% or more of the outstanding Common Stock of the Company that for 180 days following the Effective Date, such person will not, without the Representative's prior written consent, sell, transfer or otherwise dispose of, or agree to sell, transfer or otherwise dispose of, other than by gift to donees who agree to be bound by the same restriction or by will or the laws of descent, any of his or her Common Stock, or any options, warrants or rights to purchase Common Stock or any shares of Common Stock received upon exercise of any options, warrants or rights to purchase Common Stock, which are beneficially held by such persons during such 180 day period.

(ee) The Company is not, and upon completion of the sale of the Shares contemplated hereby will not be, required to register as an "investment company" under the Investment Company Act of 1940, as amended.

(ff) The Company has complied and will comply with all provisions of Florida Statutes Section 517.075 (Chapter 92-198, Laws of Florida). Neither the Company, nor any

affiliate thereof, does business with the government of Cuba or with any person of affiliate located in Cuba.

(gg) Other than as contemplated by this Agreement, the Company has not incurred any liability for any finder's fee, broker's fee or other agent's commission in connection with the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby.

(hh) Any certificate signed by any officer of the Company and delivered to the Representative or counsel to the Underwriters shall be deemed to be a representation and warranty of the Company to each Underwriter as to the matters covered thereby.

2. PURCHASE, SALE, DELIVERY AND PAYMENT.

(a) On the basis of the representations, warranties, and agreements herein contained, but subject to the terms and conditions herein set forth, the Company agrees to issue and sell to each of the Underwriters, and the Underwriters agree, severally and not jointly, to purchase from the Company the Firm Shares, at a purchase price equal to ____% of the per Share price to public of $_____ (the "Offering Price"), the respective amount of Firm Shares set forth opposite such Underwriter's name in Schedule A hereto. The Underwriters will collectively purchase all of the Firm Shares if any are purchased.

(b) On the basis of the representations and warranties herein contained, but subject to the terms and conditions herein set forth, the Company hereby grants an option to the Underwriters to purchase an aggregate of up to 300,000 Option Shares at the same purchase price as the Firm Shares for use solely in covering any overallotments made by the Underwriters in the sale and distribution of the Firm Shares. The option granted hereunder may be exercised at any time (but not more than once) within 30 days after the Effective Date (as defined in Section 5(a) hereof) upon notice (confirmed in writing) by the Representative to the Company setting forth the aggregate number of Option Shares as to which the Underwriters are exercising the option and the date on which certificates for such Option Shares are to be delivered. Option Shares shall be purchased severally for the account of each Underwriter in proportion to the number of Firm Shares set forth opposite the name of such Underwriter in Schedule A hereto. The option granted hereby may be canceled by the Representative upon notice to the Company as to the Option Shares for which the option is unexercised at the time of expiration of the 30 day period.

(c) The Company will deliver the Firm Shares to the Representative at the offices of Oppenheimer Wolff & Donnelly, Plaza VII, 45 South Seventh Street, Suite 3400, Minneapolis, MN 55402, unless some other place is agreed upon, at 10:00 a.m., Minneapolis time, against payment of the purchase price at the same place, on the third full business day after trading of the Shares has commenced, or, if the offering commences after 4:30 p.m., on the fourth full business day after commencement of the offering, or such earlier time as may be agreed upon between the Representative and the Company, such time and place being herein referred to as the "First Closing Date."

(d) The Company will deliver the Option Shares being purchased by the Underwriters to the Representative at the above-referenced offices of Oppenheimer Wolff & Donnelly set forth in Section 2(c) above, unless some other place is agreed, at 10:00 a.m., Minneapolis time, against payment of the purchase price at such place, on the date determined by the Representative and of which the Company has received notice as provided in Section 2(b), which shall not be earlier than two nor later than five full business days after the exercise of the option as set forth in Section 2(b), or at such other time not later than ten full business days thereafter as may be agreed upon by the Representative and the Company, such time and date being herein referred to as the "Second Closing Date."

(e) Certificates for the Shares to be delivered will be registered in such names and issued in such denominations as the Underwriters shall request two business days prior to the First Closing Date or the Second Closing Date, as the case may be. The certificates will be made available to the Underwriters in definitive form for the purpose of inspection and packaging at least twenty-four (24) hours prior to the respective closing dates.

(f) Payment for the Shares shall be made by wire transfer to a designated account of the Company for the Shares to be sold by it or by certified or official bank check or checks in Clearing House funds, payable to the order of the Company for the Shares to be sold by it.

3. UNDERWRITERS' OFFERING TO THE PUBLIC.

(a) The Underwriters will make a public offering of the Shares directly to the public (which may include selected dealers who are members in good standing of the National Association of Securities Dealers, Inc. (the "NASD") or foreign dealers not eligible for membership in the NASD but who have agreed to abide by the interpretation of the NASD Board of Governor's with respect to free-riding and withholding) as soon as the Underwriters deem practicable after the Registration Statement becomes effective at the Offering Price, subject to the terms and conditions of this Agreement and in accordance with the Prospectus. Concessions from the Offering Price may be allowed selected dealers who are members of the NASD as the Underwriters determine and the Underwriters will furnish the Company with such information about the distribution arrangements as may be necessary for inclusion in the Registration Statement. It is understood that the Offering Price and such concessions may vary after the public offering. The Underwriters shall offer and sell the Shares only in jurisdictions in which the offering of Shares has been duly registered or qualified, or is exempt from registration or qualification, and shall take reasonable measures to effect compliance with applicable state and local securities laws.

(b) It is understood that the Representative, individually and not as a Representative, may (but shall not be obligated to) make payment on behalf of any Underwriter or Underwriters for the Shares to be purchased by such Underwriter or Underwriters. No such payment by the Representative shall relieve such Underwriter or Underwriters from any of its or their other obligations hereunder.

4. COVENANTS OF THE COMPANY.

The Company hereby covenants and agrees with each of the several Underwriters as follows:

(a) If the Company has elected to rely on Rule 430A under the Act, the Company will prepare and file a Prospectus (or term sheet within the meaning of Rule 434 under the Act) containing the information omitted therefrom pursuant to Rule 430A under the Act with the Commission within the time period required by, and otherwise in accordance with the provisions of, Rules 424(b), 430A and 434, if applicable, under the Act; if the Company has elected to rely upon Rule 462(b) under the Act to increase the size of the offering registered under the Act, the Company will prepare and file a registration statement with respect to such increase with the Commission within the time period required by, and otherwise in accordance with the provisions of, Rule 462(b) under the Act; the Company will prepare and file with the Commission, promptly upon the request of the Representative, any amendments or supplements to the Registration Statement or Prospectus (including any term sheet within the meaning of Rule 434 under the Act) that, in the opinion of the Representative, may be necessary or advisable in connection with distribution of the Securities by Underwriters; and the Company will not file any amendment or supplement to the Registration Statement or Prospectus (including any term sheet within the meaning of Rule 434 under the Act) to which the Representative shall reasonably object by notice to the Company after having been furnished with a copy a reasonable time prior to the filing.

(b) The Company will advise the Representatives promptly of (i) any request of the Commission for amendment of the Registration Statement or for supplement to the Prospectus or for any additional information, (ii) the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or the use of the Prospectus, (iii) the suspension of the qualification of the Shares for offering or sale in any jurisdiction, or (iv) the institution or threatening of any proceedings for that purpose, and the Company will use its best efforts to prevent the issuance of any such stop order preventing or suspending the use of the Prospectus or suspending such qualification and to obtain as soon as possible the lifting thereof, if issued.

(c) The Company will promptly prepare and file at its own expense with the Commission any amendments of, or supplements to, the Registration Statement and the Prospectus which may be necessary in connection with the distribution of the Shares by the Underwriters. During the period when a Prospectus relating to the Shares is required to be delivered under the Act, the Company will promptly file any amendments of, or supplements to, the Registration Statement and the Prospectus which may be necessary to correct any untrue statement of a material fact or any omission to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The Company will not file any amendment of, or supplement to, the Registration Statement or Prospectus, after the Effective Date, which shall not previously have been submitted to the Representative and its counsel a reasonable time prior to such proposed filing or to which the Representative shall have reasonably objected. In case any Underwriter is required to deliver a

prospectus in connection with sales of any Shares at any time nine months or more after the effective date of the Registration Statement, upon the request of the Representative but at the expense of such Underwriter, the Company will prepare and deliver to such Underwriter as many copies as the Representative may request of an amended or supplemented Prospectus complying with Section 10(a)(3) of the Act.

(d) The Company will endeavor to qualify the Shares for sale under the securities laws of such jurisdictions as the Representative may reasonably designate and the Company will file such consents to service of process or other documents necessary or appropriate in order to effect such qualification or registration. In each jurisdiction in which the Shares shall have been qualified or registered as above provided, the Company will continue such qualifications or registrations in effect for so long as may be required for purposes of the distribution of the Shares and make and file such statements and reports in each year as are or may be reasonably required by the laws of such jurisdiction to permit secondary trading of the same; provided, however, that in no event shall the Company be obligated to qualify to do business in any jurisdiction where it is not now so qualified or to take any action which would subject it to the service of process in suits, other than those arising out of the offering or sale of the Shares.

(e) The Company will furnish to the Representative, as soon as available, copies of the Registration Statement and all amendments (two of which will be signed and which shall include all exhibits), each Preliminary Prospectus, if any, the Prospectus and any amendments or supplements to such documents including any prospectus prepared to permit compliance with Section 10(a)(3) of the Act, all in such quantities as the Representative may from time to time reasonably request. The Company specifically authorizes the Underwriters and all dealers to whom any of the Shares may be sold by the Underwriters to use and distribute copies of such Preliminary Prospectuses and Prospectuses in connection with the sale of the Shares as and to the extent permitted by the federal and applicable state and local securities laws.

(f) The Company will make generally available to its security holders an earnings statement, in a form complying with requirements of Section 11(a) of the Act and Rule 158 thereunder, as soon as practicable and in any event not later than 45 days after the end of its fiscal quarter in which occurs the first anniversary date of the Effective Date, meeting the requirements of Section 11(a) of the Act covering a period of at least 12 consecutive months beginning after the Effective Date, and will advise you in writing when such statement has been so made available.

(g) The Company will, for such period up to five years from the First Closing Date, deliver to the Representatives copies of its annual report and copies of all other documents, and information furnished by the Company to its security holders or filed with any securities exchange pursuant to the requirements of such exchange or with the Commission pursuant to the Act or the Exchange Act, or any state securities commission by the Company. The Company will deliver to the Representatives similar reports with respect to significant subsidiaries, if any, as that term is defined in the rules and regulations under the Act, which are not consolidated in the Company's financial statements.

(h) The Company will not, without the prior written consent of the Representative, offer, sell or otherwise dispose of any capital stock of the Company or warrants, options, convertible securities or other rights to assign any shares of capital stock (other than pursuant to employee stock options, the conversion of convertible securities outstanding on the date of this Agreement, or currently outstanding options and warrants) for a period of 180 days after the Effective Date.

(i) The Company shall be responsible for and pay all costs and expenses incident to the performance of its obligations under this Agreement including, without limiting the generality of the foregoing, (i) all costs and expenses in connection with the preparation, printing and filing of the Registration Statement (including financial statements and exhibits), Preliminary Prospectuses, if any, the Prospectus and any amendments thereof or supplements to any of the foregoing; (ii) the issuance and delivery of the Shares, including taxes, if any; (iii) the cost of all certificates representing the Shares; (iv) the fees and expenses of the Transfer Agent for the Shares; (v) the fees and disbursements of counsel for the Company; (vi) all fees and other charges of the independent public accountants of the Company; (vii) the cost of furnishing and delivering to the Underwriters and dealers participating in the offering copies of the Registration Statement (including appropriate exhibits), Preliminary Prospectuses, the Prospectus and any amendments of, or supplements to, any of the foregoing; (viii) the NASD filing fee; (ix) all fees and expenses of counsel for the Representative incurred in qualifying the Shares for sale under the laws of such jurisdictions designated by the Representative (including filing fees).

(j) The Company will not take, and will use its best efforts to cause each of its officers and directors not to take, directly or indirectly, any action designed to or which might reasonably be expected to cause or result in the stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Shares and will not effect any sales of any security of the Company which are required to be disclosed in response to Item 701 of Regulation S-X of the Commission which have not been so disclosed in the Registration Statement.

(k) Upon completion of this offering, the Company will use its best efforts to maintain the listing of its Common Stock on the National Association of Securities Dealers Automated Quotation System (Nasdaq) National Market or any other national securities exchange.

(l) The Company will apply the net proceeds from the sale of the Shares substantially in the manner set forth in the Prospectus.

(m) During the period ending 270 days from the Effective Date, the Company agrees that it will issue press releases, make public statements and respond to inquiries of the press and securities analysts only after conferring with its counsel and with the Representative.

(n) Prior to or as of either closing date, the Company shall have performed each condition to closing required to be performed by the Company pursuant to Section 5 hereof.

5. CONDITIONS OF THE UNDERWRITERS' OBLIGATIONS.

The respective obligations of the Underwriters to purchase and pay for the Shares as provided herein shall be subject to the accuracy of the representations and warranties of the Company, in the case of the Firm Shares as of the date hereof and the First Closing Date (as if made on and as of the First Closing Date), and in the case of the Option Shares, as of the date hereof and the Second Closing Date (as if made on and as of the Second Closing Date), to the performance by the Company of its obligations hereunder, and to the satisfaction of the following additional conditions on or before the First Closing Date in the case of the Firm Shares and on or before the Second Closing Date in the case of the Option Shares:

(a) The Registration Statement has been declared effective as of _____.m Minneapolis time on _____, 1998 (the "Effective Date"). All filings required by Rules 424, 430A and 434 under the Act shall have been timely made. No stop order suspending the effectiveness thereof shall have been issued and no proceeding for that purpose shall have been initiated or, to the knowledge of the Company or the Representative, threatened by the Commission or any state securities commission or similar regulatory body. Any request of the Commission for additional information (to be included in the Registration Statement or the Prospectus or otherwise) shall have been complied with to the satisfaction of the Underwriters and their legal counsel.

(b) The Representative shall not have advised the Company that the Registration Statement or Prospectus, or any amendment thereof or supplement thereto, contains any untrue statement of a fact which is material or omits to state a fact which is material and is required to be stated therein or is necessary to make the statements contained therein, in light of the circumstances under which they were made, not misleading; provided, however, that this Section 5(b) shall not apply to statements in, or omissions from, the Registration Statement or Prospectus or any amendment thereof or supplement thereto, which are based upon and conform to written information furnished to the Company by any of the Underwriters specifically for use in the preparation of the Registration Statement or the Prospectus, or any such amendment or supplement.

(c) Subsequent to the Effective Date, and except as contemplated or referred to in the Prospectus, the Company shall not have incurred any direct or contingent liabilities or obligations material to the Company, or entered into any material transactions, except liabilities, obligations or transactions in the ordinary course of business, or declared or paid any dividends or made any distribution of any kind with respect to its capital stock; and there shall not have been any change in the capital stock (other than a change in the number of outstanding shares of Common Stock due to the exercise of options or warrants described in the Registration Statement and the Prospectus), or any change in the short-term debt or long-term debt (including capitalized lease obligations) of the Company, or any issuance of options, warrants, convertible securities or other rights to purchase the capital stock of the Company or any change or any development involving a prospective change in or affecting the general affairs, management, financial position, shareholders' equity or results of operations of the Company, otherwise than as set forth or contemplated in the Prospectus, the effect of which, in the judgment of the Representatives

makes it impracticable or inadvisable to proceed with the public offering or the delivery of the Shares being delivered.

(d) The Representative shall have received the opinion of Fredrikson & Byron, P.A., counsel for the Company, dated the First Closing Date or the Second Closing Date, as the case may be, addressed to the Underwriters covering certain corporate matters to the effect that:

(i) The Company as been duly incorporated and is validly existing in good standing under the laws of the State of Minnesota; has the corporate power to own, lease and operate its properties and conduct its businesses as described in the Prospectus; and is duly qualified to do business as a foreign corporation in good standing in all jurisdictions where the ownership or leasing of its properties or the conduct of its business requires such qualification and in which the failure to be so qualified or in good standing would have a material adverse effect on condition (financial or otherwise), shareholders' equity, results of operations, business, properties or prospects of the Company.

(ii) The Company has the number of authorized and outstanding shares of capital stock of the Company as set forth under the caption "Capitalization" of the Prospectus, and all issued and outstanding capital stock of the Company has been duly authorized and is validly issued, fully paid and nonassessable. There are no statutory preemptive rights, or to the best knowledge of such counsel, no similar subscription or purchase rights of securities holders of the Company with respect to issuance or sale of the Shares by the Company pursuant to this Agreement, and no rights to require registration of shares of Common Stock or other securities of the Company because of the filing of the Registration Statement exist. The Shares conform as to matters of law in all material respects to the description of such made in the Prospectus, and such description accurately sets forth the material legal provisions thereof required to be set forth in the Prospectus.

(iii) The Shares have been duly authorized and, upon delivery to the Underwriters against payment therefor, will be validly issued, fully paid and nonassessable.

(iv) The certificates evidencing the Shares comply as to form with the applicable provisions of the laws of the State of Minnesota.

(v) The Registration Statement has become effective under the Act and, to the knowledge of such counsel, no stop orders suspending the effectiveness of the Registration Statement have been issued and no proceedings for that purpose have been instituted or are pending or, to the knowledge of such counsel, contemplated under the Act.

(vi) To such counsel's knowledge, there are not material legal or

governmental proceedings, pending or threatened, before any court or administrative body or regulatory agency, to which the Company or its affiliates is a party or to which any of the properties of the Company or its affiliates are subject that are required to be disclosed in the Registration Statement or Prospectus that are not so described, or statutes, regulations, or legal or governmental proceedings that are required to be described in the Registration Statement or Prospectus that are not so described.

(vii) To such counsel's knowledge, there are no franchises, leases, contracts, agreements or documents of a character required to be disclosed in the Registration Statement or Prospectus or to be filed as exhibits to the Registration Statement or required to be incorporated by reference into the Prospectus which are not disclosed or filed or incorporated by reference, as required.

(viii) No authorization, approval or consent of any governmental authority or agency is necessary in connection with the issuance and sale of the Shares as contemplated under this Agreement, except such as may be required under the Act or under state or other securities laws in connection with the purchase and distribution of the Shares by the Underwriters.

(ix) The Registration Statement and the Prospectus and any amendments thereof or supplements thereto (other than the financial statements and schedules and supporting financial and statistical data and information included or incorporated therein, as to which such counsel need express no opinion) conform in all material respects with the requirements of the Act and the Rules and Regulations, and the conditions for use of a registration statement on Form SB-2 for the distribution of the Shares have been satisfied with respect to the Company.

(x) The statements (i) in the Prospectus under the caption "Risk Factors -- Government Regulation," "-- Hazardous Materials," "--Anti-Takeover Laws," "-- Potential Adverse Market Impact of Shares Eligible for Future Sale," "Business -- Current Licensing Arrangements," "-- Government Regulation," "-- Facilities," "-- Legal Proceeding," "Management - Stock Option Plan," "Description of Capital Stock," "Shares Eligible for Future Sale" and (ii) in the Registration Statement in Item 14 insofar as such statements constitute a summary of statutes, legal and governmental proceeding contracts and other documents, are accurate summaries and fairly present the information called for with respect to such matters.

(xi) Such counsel does not know of any contracts, agreements, documents or instruments required to be filed as exhibits to the Registration Statement or described in the Registration Statement or the Prospectus which are not so filed or described as required, and does not know of any amendment to the Registration Statement required to be filed that has not been filed; and insofar as

any statements in the Registration Statement or the Prospectus constitute summaries of any contract, agreement, document or instrument to which the Company is a party, such statements are accurate summaries and fairly present the information called for with respect to such matters.

(xii) To such counsel's knowledge, there are no defects in title or leasehold interests, or any liens, encumbrances, equities, charges or claims, not disclosed in the Registration Statement or Prospectus which would materially affect the present occupancy or use of any of the real or personal property owned or leased by the Company.

(xiii) The Company has the corporate power and authorization to enter this Agreement and to authorize, issue and sell the Shares as contemplated hereby. This Agreement has been duly authorized, executed and delivered by, and is a valid and binding agreement of the Company, enforceable in accordance with its terms, except as enforceability may be limited by the application of bankruptcy, insolvency, moratorium or similar laws affecting the rights of creditors generally and judicial limitations on the right of specific performance and other equitable remedies and except as the enforceability of indemnification or contribution provisions hereof may be limited by action of a court interpreting or applying federal or state securities laws or equitable principles.

(xiv) The performance of this Agreement and the consummation of the transactions described herein will not result in a violation of or default under, the Company's [AMENDED AND RESTATED] Articles of Incorporation, Bylaws or other governing documents. To the best of such counsel's knowledge, (a) the Company is not in violation of, or in default under, its [AMENDED AND RESTATED] Articles of Incorporation, Bylaws or other governing documents; and (b) the performance of this Agreement and the consummation of the transactions described herein will not result in a material violation of, or a material default under, the terms or provisions of (A) any bond, debenture, note, or other evidence of indebtedness or any contract, license, indenture, mortgage, loan agreement, joint venture or partnership agreement, lease, agreement or instrument to which the Company is a party or by which the Company or any of its properties is bound, or (B) any law, order, rule, regulation, writ, injunction, or decree known to such counsel of any government, governmental agency or court having jurisdiction over the Company or any of its properties.

(xv) To such counsel's knowledge, sales of unregistered securities by the Company prior to the Effective Date were exempt from registration requirements of the Act and are not required to be integrated, under Rule 502(a) of Regulation D of the Act, with the public offering contemplated hereby.

(xvi) The Company is not, and immediately upon completion of the sale of the Shares contemplated hereby will not be required to register as an "investment company" under the Investment Company Act of 1940, as amended.

(xvii) To the best of such counsel's knowledge, the Company is not engaged in any negotiations regarding any form of business combination with an other entity.

In expressing the foregoing opinion, as to matters of fact relevant to conclusions of law, counsel may rely, to the extent that they deem proper, upon certificates of public officials and of the officers of the Company, and opinions of other legal counsel to the Company, provided that copies of all such certificates and opinions are attached to the opinion.

In addition to the matters set forth above, such opinion shall also include a statement to the effect that, although such counsel cannot guarantee the accuracy, completeness or fairness of any of the statements contained in the Registration Statement or Prospectus, in connection with such counsel's representation, investigation and due inquiry of the Company in the preparation of the Registration Statement and Prospectus, such counsel has no reason to believe that, (i) as of its Effective Date, the Registration Statement or any further amendment thereto (other than the financial statements and related schedules therein, as to which such counsel need express no opinion) made by the Company prior to the First Closing Date or the Second Closing Date, as the case may be, contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or (ii), as of its date, the Prospectus or any further amendment or supplement thereto (other than the financial statements and related schedules therein, as to which such counsel need express no opinion) made by the Company prior to the First Closing Date or the Second Closing Date, as the case may be, contained an untrue statement of a material fact or omitted to state a material fact necessary to make the statements therein, in light of the circumstances in which they were made, not misleading or (iii), as of the First Closing Date or the Second Closing Date, as the case may be, either the Registration Statement or the Prospectus or any further amendment or supplement thereto (other than the financial statements and related schedules therein, as to which such counsel need express no opinion) made by the Company prior to the First Closing Date or the Second Closing Date, as the case may be, contains an untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in light of the circumstances in which they were made, not misleading.

(e) The Representative shall have received on the First Closing Date or the Second Closing Date, as the case may be, the opinion of Fredrikson & Byron, P.A., intellectual property counsel for the Company, dated the First Closing Date or the Second Closing Date, as the case may be, addressed to the Underwriters, covering matters relating to the patents and other intellectual property owned or licensed by the Company as set forth in Schedule D.

(f) The Representative shall have received from Oppenheimer Wolff & Donnelly, its counsel, such opinion or opinions as the Representative may reasonably require, dated the First Closing Date or the Second Closing Date, as the case may be, with respect to the

sufficiency of corporate proceedings and other legal matters relating to this Agreement and the transactions contemplated hereby, and other related matters as the Representative may reasonably request; and the Company and its counsel shall have furnished to said counsel such documents as they may have reasonably requested for the purpose of enabling them to pass upon such matters. In connection with such opinion, as to matters of fact relevant to conclusions of law, such counsel may rely, to the extent that they deem proper, upon representations or certificates of public officials and of responsible officers of the Company.

(g) The Representative and the Company shall have received letters, dated the date hereof and the First Closing Date and the Second Closing Date, as the case may be, from Arthur Andersen LLP, to the effect that they are independent public accountants with respect to the Company within the meaning of the Act and the related rules and regulations, stating that in their opinion the financial statements and schedules examined by them an included in the Registration Statement comply in form in all material respects with the applicable accounting requirements of the Act and the related rules and regulations, and containing such other statements and information of the type ordinarily included in accountants' "comfort letters" to underwriters with respect to the financial statements and certain financial information contained in the Registration Statement and the Prospectus.

(h) The Representative shall have received from the Company a certificate, dated as of each Closing Date, of the Chief Executive Officer and the Chief Financial Officer of the Company to the effect that as of the First Closing Date and the Second Closing Date:

(i) The representations and warranties of the Company in this Agreement are true and correct as if made on and as of each Closing Date. The Company has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied at, or prior to, each such Closing Date.

(ii) No stop order suspending the effectiveness of the Registration Statement has been issued, and no proceeding for that purpose has been instituted or is pending or to the best knowledge of such officers contemplated under the Act.

(iii) Neither the Registration Statement nor the Prospectus nor any amendment thereof or supplement thereto includes any untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading, and, since the Effective Date, there has occurred no event required to be set forth in an amended or supplemented prospectus which has not been so set forth; provided, however, that such certificate does not require any representation concerning statements in, or omissions from, the Registration Statement or Prospectus or any amendment thereof or supplement thereto, which are based upon and conform to written information furnished to the Company by any of the Underwriters specifically for use in the preparation of the Registration Statement or the Prospectus or any such amendment or supplement.

(iv) Subsequent to the respective dates as of which information is given in the Registration Statement and the Prospectus and except as contemplated or referred to in the Prospectus, the Company has not incurred any direct or contingent liabilities or obligations material to the Company, or entered into any material transactions, except liabilities, obligations or transactions in the ordinary course of business, or declared or paid any dividend or made any distribution of any kin with respect to its capital stock, and there has not been any change in the capital stock (other than a change in the number of outstanding shares of Common Stock due to the exercise of options or warrants described in the Registration Statement and the Prospectus) and there has not been any material adverse change in the capital stock, short-term debt, or long-term debt (including capitalized lease obligations) of the Company, or any material adverse change or any development involving a prospective material adverse change (whether or not arising in the ordinary course of business) in or affecting the general affairs, condition (financial or otherwise), business, key personnel, property, prospects, shareholders' equity or results of operations of the Company.

(v) Subsequent to the respective dates as of which information is given in the Registration Statement and the Prospectus, the Company has not sustained any material loss of, or damage to, its properties, whether or not insured.

(vi) Except as is otherwise expressly stated in the Registration Statement and Prospectus there are no material actions, suits or proceedings pending before any court or governmental agency, authority or body, or, to the best of such officer's knowledge, threatened, to which the Company is a party or of which the business or property of the Company is the subject.

(i) The Representative shall have received, dated as of each Closing Date, from the Secretary of the Company a certificate of incumbency certifying the names, titles and signatures of the officers authorized to execute the resolutions of the Board of Directors of the Company authorizing and approving the execution, delivery and performance of this Agreement, a copy of such resolutions to be attached to such certificate, certifying such resolutions and certifying that the [AMENDED AND RESTATED] Articles of Incorporation and the Bylaws of the Company have been validly adopted and have not been amended or modified, except as described in the Prospectus.

(j) The Representative shall have received a written agreement, enforceable by the Representative, from each of officer and director of the Company and each shareholder who holds _____ % or more of the outstanding Common Stock of Company, that for 180 days following the Effective Date, such person will not, without the Representative's prior written consent, sell, transfer or otherwise dispose of, or agree to sell, transfer or otherwise dispose of, other than by gift to donees who agree to be bound by the same restriction or by will or the laws of descent, any of his or her Common Stock, or any options, warrants or rights to purchase Common Stock or any shares of Common Stock received upon exercise of any options, warrants

or rights to purchase Common Stock, all of which are beneficially held by such persons during the 180 day period.

(k) The Company's Common Stock shall have been approved for listing on the Nasdaq National Market.

(l) The Company shall have furnished to the Underwriters, dated as of the date of each Closing Date, such further certificates and documents as the Underwriters shall have reasonably required.

(m) All such opinions, certificates, letters and documents will be in compliance with the provisions hereof only if they are reasonably satisfactory to the Representative and their legal counsel. All statements contained in any certificate, letter or other document delivered pursuant hereto by, or on behalf of, the Company shall be deemed to constitute representations and warranties of the Company.

(n) The Representative may waive in writing the performance of any one or more of the conditions specified in this Section 5 or extend the time for their performance.

(o) If any of the conditions specified in this Section 5 shall not have been fulfilled when and as required by this Agreement to be fulfilled, this Agreement and all obligations of the Underwriters hereunder may be canceled at, or at any time prior to, each closing date by the Representative. Any such cancellation shall be without liability of the Underwriters to the Company or to any other party, and shall not relieve the Company of its obligations under Section 4(h) hereof. Notice of such cancellation shall be given to the Company at the address specified in Section 11 hereof in writing, or by facsimile or telephone and confirmed in writing.

6. INDEMNIFICATION.

(a) The Company hereby agrees to indemnify and hold harmless each Underwriter, each officer and director thereof, and each person, if any, who controls any Underwriter within the meaning of the Act, against any losses, claims, damages or liabilities, joint or several, to which such Underwriter or each such person may become subject, under the Act, the Exchange Act, the common law or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof), arise out of, or are based upon, (i) any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement, any Preliminary Prospectus or the Prospectus including any amendment thereof, or (ii) the omission or alleged omission to state in the Registration Statement, any Preliminary Prospectus or Prospectus including any amendment thereof a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; or (iii) any untrue statement or alleged untrue statement of a material fact contained in any application or other statement executed by the Company or based upon written information furnished by the Company filed in any jurisdiction in order to quality the Shares under, or exempt the Shares or the sale thereof from qualification under, the securities laws of such jurisdiction, or the omission or alleged omission to state in such application or statement a

material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; and the Company will reimburse each Underwriter and each such controlling person for any legal or other expenses reasonably incurred by such Underwriter or controlling person (subject to the limitation set forth in Section 6(c) hereof, in connection with investigating or defending against any such loss, claim, damage, liability or action as such expenses are incurred; provided, however, that the Company will not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of, or is based upon, any untrue statement, or alleged untrue statement, omission or alleged omission, made in reliance upon and in conformity with information furnished to the Company by, or on behalf of, any Underwriter in writing specifically for use in the preparation of the Registration Statement or any such post effective amendment thereof, any such Preliminary Prospectus or the Prospectus or any such amendment thereof or supplement thereto; and provided further, that the foregoing indemnity agreement is subject to the condition that, insofar as it relates to any untrue statement, alleged untrue statement, omission or alleged omission made in any Preliminary Prospectus but eliminated, remedied or corrected in the Prospectus (or any amendment or supplement thereto) such indemnity agreement shall not inure to the benefit of any Underwriter (or to the benefit of any person who controls such Underwriter), if the person asserting any loss, claim, damage or liability as a result of such untrue statement or omission purchased the Shares from such Underwriter and was not sent or given a copy of the Prospectus with, or prior to, the written confirmation of the sale of such Shares to such person by such Underwriter unless such failure to deliver the Prospectus (as amended or supplemented) was the result of noncompliance by the Company with Section 4(c). This indemnity agreement is in addition to any liability which the Company may otherwise have.

(b) Each Underwriter severally, but not jointly, agrees to indemnify and hold harmless the Company, each of the Company's directors, each of the Company's officers who has signed the Registration Statement and each person who controls the Company within the meaning of the Act against any losses, claims, damages or liabilities to which the Company or any such director, officer, or controlling person may become subject, under the Act, the Exchange Act, the common law, or otherwise, insofar as such losses, claims, damages, or liabilities (or actions in respect thereof) arise out of, or are based upon, (i) any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement, any Preliminary Prospectus or Prospectus, including any amendment thereof, (ii) the omission or alleged omission to state in the Registration Statement, any Preliminary Prospectus or Prospectus including any amendment thereof a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; or (iii) any untrue statement or alleged untrue statement of a material fact contained in any application or other statement executed by the Company or by any Underwriter and filed in any jurisdiction in order to qualify the Shares under, or exempt the Shares or the sale thereof from qualification under, the securities laws of such jurisdiction, or the omission or alleged omission to state in such application or statement a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; in each of the above cases to the extent, but only the extent, that such untrue statement, alleged untrue statement, omission or alleged omission, was made in reliance upon and in conformity with information furnished to the Company by, or on behalf of, any

Underwriter in writing specifically for use in the preparation of the Registration Statement or any such post effective amendment thereof, any such Preliminary Prospectus or the Prospectus or any such amendment thereof or supplement thereto, or in any application or other statement executed by the Company or by any Underwriter and filed in any jurisdiction; and each Underwriter will reimburse any legal or other expenses reasonably incurred by the Company or any such director, officer or controlling person in connection with investigating or defending against any such loss, claim, damage, liability or action as such expenses are incurred. This indemnity agreement is in addition to any liability which the Underwriters may otherwise have.

(c) Promptly after receipt by an indemnified party under this Section 6 of notice of the commencement of any action or proceeding (including any governmental investigation), such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Section 6, notify in writing the indemnifying party of the commencement thereof. The failure to so notify the indemnifying party will not relieve such party from any liability under this Section 6 as to the particular item for which indemnification is then being sought, unless such failure so to notify prejudices the indemnifying party's ability to defend such action. In case any such action is brought against any indemnified party and the indemnified party notifies an indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate therein and, to the extent that it may wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel who shall be reasonably satisfactory to such indemnified party; and after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party will not be liable to such indemnified party under this Section 6 for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof other than reasonable costs of investigation; provided, however, that if, in the reasonable judgment of the indemnified party, it is advisable for such parties and controlling persons to be represented by separate counsel, any indemnified party shall have the right to employ separate counsel to represent it and all other parties and their controlling persons who may be subject to liability arising out of any claim in respect of which indemnity may be sought by the Underwriters against the Company or by the Company against the Underwriters hereunder, in which event the fees and expenses of such separate counsel shall be borne by the indemnifying party; provided, however, if the indemnified party shall have reasonably concluded that there may be legal defenses available to it and/or other indemnified parties which are different from or additional to those available to the indemnifying party, or the indemnified and indemnifying parties may have conflicting interests which would make it inappropriate for the same counsel to represent both of them, the indemnified party shall have the right to select separate counsel to assume such defense and to otherwise participate in the defense of such action on behalf of such indemnified party and all other parties and their controlling persons. Any such indemnifying party shall not be liable to any such indemnified party on account of any settlement of any claim or action effected without the consent of such indemnifying party.

7. CONTRIBUTION.

(a) If the indemnification provided for in Section 6 is unavailable or insufficient to hold harmless any indemnified party in respect of any losses, claims, damages or

liabilities referred to therein, then each indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities in such proportion as is appropriate to reflect the relative benefits received by the Company and the Underwriters from the offering of the Shares. In the event that the allocation provided by the immediately preceding sentence is not permitted by applicable law, then each indemnifying party shall contribute in such proportion as is appropriate to reflect not only the relative benefits referred to above but also the relative fault of the Company and the Underwriters in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations. The Company and the Underwriters agree that contribution determined by per capita allocation (even if the Underwriters were considered a single person) would not be equitable. The respective relative benefits received by the Company on the one hand, and the Underwriters, on the other, shall be deemed to be in the same proportion (a) in the case of the Company, as the total price paid to the Company for the Shares by the Underwriters (net of underwriting discount received but before deducting expenses) bears to the aggregate Offering Price of the Shares, and (b) in the case of the Underwriters, as the aggregate underwriting discount received by them bears to the aggregate Offering Price of the Shares, in each case as reflected in the Prospectus. The relative fault of the Company and the Underwriters shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company or by the Underwriters and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The amount paid or payable by a party as a result of the losses, claims, damages and liabilities referred to above shall be deemed to include any legal or other fees or expenses reasonably incurred by such party in connection with investigating or defending any action or claim. Notwithstanding the provisions of this Section 7, no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Shares underwritten by it were offered to the public exceeds the amount of any damages which such Underwriter has otherwise been required to pay by reason of any untrue or alleged untrue statement or omission or alleged omission in the Registration Statement, any Preliminary Prospectus, the Prospectus or any amendment or supplement thereto. The Underwriters' obligation to contribute pursuant to this Section 7 is several and not joint. No person guilty of fraudulent misrepresentation (within the meaning of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this Section 7, each person who controls an Underwriter within the meaning of the Act or the Exchange Act shall have the same rights to contribution as such Underwriter, each person who controls the Company within the meaning of the Act or the Exchange Act shall have the same rights to contribution as the Company and each officer of the Company who shall have signed the Registration Statement and each director of the Company shall have the same rights to contribution as the Company.

(b) Promptly after receipt by a party to this Agreement of notice of the commencement of any action, suit, or proceeding, such person will, if a claim for contribution in respect thereof is to be made against another party (the "Contributing Party"), notify the Contributing Party of the commencement thereof, but the failure to so notify the Contributing Party will not relieve the Contributing Party from any liability which it may have to any party

other than under this Section 7, unless such failure to so notify prejudices the Contributing Party's ability to defend such action. Any notice given pursuant to Section 6 hereof shall be deemed to be like notice hereunder. In case any such action, suit or proceeding is brought against any party, and such person notifies a Contributing Party of the commencement thereof, the Contributing Party will be entitled to participate therein with the notifying party and any other Contributing Party similarly notified.

(c) The obligations of the Company under this Section 7 shall be in addition to any liability which the Company may otherwise have, and the obligations of the Underwriter under this Section 7 shall be in addition to any liability which the Underwriters may otherwise have.

8. EFFECTIVE DATE AND TERMINATION.

(a) This Agreement shall become effective at the later of (i) the day upon which this Agreement shall have been executed and delivered by the parties hereto, or (ii) (ii) at 10:00 a.m. Minneapolis time, on the first full business day following the Effective Date, or at such earlier time after the Effective Date as the Representative in its discretion shall first release the Shares for offering to the public. For purposes of this Section 8, the Shares shall be deemed to have been released to the public upon release by the Representative of the publication of a newspaper advertisement relating to the Shares or upon release of a telegram or a letter offering the Shares for sale to securities dealers, whichever shall first occur.

(b) The Representative shall have the right to terminate this Agreement by giving notice to the Company as hereinafter specified at any time prior to the First Closing Date, and the option referred to in Section 2(b), if exercised, may be canceled at any time by the Representative by giving such notice to the Company at any time prior to the Second Closing Date, if (i) the Company shall have failed, refused or been unable, at or prior to the First Closing Date, to perform any material agreement on its part to be performed hereunder; (ii) any other condition of the Underwriters' obligations hereunder is not fulfilled; (iii) trading in securities generally on the New York Stock Exchange, American Stock Exchange or the Nasdaq Stock Market shall have been suspended, or minimum or maximum prices for trading shall have been required or established by the Commission or by any such exchange or the Nasdaq Stock Market; (iv) a banking moratorium shall have been declared by federal, New York or Minnesota authorities; (v) there shall have been such a material adverse change in general economic, monetary, political or financial conditions, or the effect of international conditions on the financial markets in the United States shall be such as, in the judgment of the Representative, makes it impracticable or inadvisable to proceed with the completion of the sale of and payment for the Shares; (vi) there shall have been the enactment, publication, decree or other promulgation of any federal or state statute, regulation, rule or order of any court or other governmental authority, which in the judgment of the Representative materially and adversely affects or will materially and adversely affect the business or operations of the Company; or (vii) there shall be an outbreak of major hostilities (or an escalation thereof) in which the United States is involved or a formal declaration of war by the United States of America shall have occurred or any other substantial national or international calamity or any other event or

occurrence of a similar character shall have occurred since the execution of this Agreement that, in the judgment of the Representative, makes it impracticable or inadvisable to proceed with the completion of the sale of and payment for the Shares. Any such termination shall be without liability of any party to any other party, except as provided in Sections 6 and 7 hereof; provided, however, that the Company shall remain obligated to pay costs and expenses to the extent provided in Section 4(i) hereof.

(c) If the Representative elects to prevent this Agreement from becoming effective or to terminate this Agreement as provided in this Section 8, it shall notify the Company promptly by telecopy or telephone, confirmed by letter sent to the address specified in Section 11 hereof. If the Company shall elect to prevent this Agreement from becoming effective, it shall notify the Representative promptly by telecopy or telephone, confirmed by letter sent to the address specified in Section 11 hereof.

(d) If the Company shall fail at the First Closing Date to sell and deliver the number of Shares which it is obligated to sell hereunder, then this Agreement shall terminate without any liability on the part of any Underwriter. No action taken pursuant to this Section 8(d) shall relieve the Company from liability, if any, in respect of such default.

9. DEFAULT OF UNDERWRITER.

If on the First Closing Date or the Second Closing Date, as the case may be, any Underwriter shall fail to purchase and pay for the portion of the Shares which such Underwriter has agreed to purchase and pay for on such date (otherwise than by reason of any default on the part of the Company), you, as Representative of the Underwriters, shall use your best efforts to procure within 36 hours thereafter one or more of the other Underwriters, or any others, to purchase from the Company such amounts as may be agreed upon, and upon the terms set fort herein, of the Firm Shares or Option Shares, as the case may be, which the defaulting Underwriter or Underwriters failed to purchase. If during such 36 hours you, as Representative, shall not have procured such other Underwriters, or any others, to purchase the Firm Shares or Option Shares, as the case may be, agreed to be purchased by the defaulting Underwriter or Underwriters, then (i) if the aggregate number of Shares with respect to which such default shall occur does no exceed 10% of the Firm Shares or Option Shares, as the case may be, covered hereby the other Underwriters shall be obligated, severally, in proportion to the respective numbers of Firm Shares or Option Shares, as the case may be, which they are obligated to purchase hereunder, to purchase the Firm Shares or Option Shares, as the case may be, which such defaulting Underwriter or Underwriters failed to purchase or (ii) if the aggregate number of shares of Firm Shares or Option Shares, as the case may be, with respect to which such default shall occur exceeds 10% of the Firm Shares or Option Shares, as the case may be, covered hereby, the Company or you as the Representative of the Underwriters will have the right, by written notice given within the next 36-hour period to the parties to this Agreement, to terminate this Agreement without liability on the part of the non-defaulting Underwriters or of the Company except for expenses to be borne by the Company and the Underwriters as provided in Section 4(i) hereof and the indemnity and contribution agreements in Sections 6 and 7 hereof. In

the event of a default by any Underwriter or Underwriters, as set forth in this Section 9, the First Closing Date or Second Closing Date, as the case may be, may be postponed for such period, not exceeding seven days, as you, as Representatives, may determine in order that the required changes, not including a reduction in the number of Firm Shares, in the Registration Statement or in the Prospectus or in any other documents or arrangements may be effected. The term "Underwriter" includes any person substituted for a defaulting Underwriter. Any action taken under this Section 9 shall not relieve any defaulting Underwriter from liability in respect of any default of such Underwriter under this Agreement.

10. SURVIVAL.

The respective indemnity and contribution agreements of the Company and the Underwriters contained in Sections 6 and 7, respectively, the representations and warranties of the Company set forth in Section 1 hereof and the covenants of the Company set forth in Section 4 hereof shall remain operative and in full force and effect, regardless of any investigation made by, or on behalf of, the Underwriters, the Company, any of its officers and directors or any controlling person referred to in Sections 6 and 7 and shall survive the delivery of and payment for the Shares. The aforesaid indemnity and contribution agreements shall also survive any termination or cancellation of this Agreement. Any successor of any party or of any such controlling person, or any legal representative of such controlling person, as the case may be, shall be entitled to the benefit of the respective indemnity and contribution agreements.

11. NOTICES.

All notices or communications hereunder, except as herein otherwise specifically provided, shall be in writing and, if sent to the Representative or any of the Underwriters, shall be mailed, delivered, or telecopied and confirmed, to John G. Kinnard and Company, Incorporated, 920 Second Avenue South, Minneapolis, Minnesota 55402, Attention: Jerry S. Johnson, with a copy to D. William Kaufman, Esq., Oppenheimer Wolff & Donnelly, Plaza VII, 45 South Seventh Street, Suite 3400, Minneapolis, Minnesota 55402; or, if sent to the Company, shall be mailed, delivered, or telegraphed, and confirmed, to SurModics, Inc., 9924 West 74th Street, Eden Prairie, Minnesota 55344, Attention: Dale R. Olseth, with a copy to David R. Busch, Esq., Fredrikson & Byron, P.A., 900 Second Avenue South, Suite 1100, Minneapolis, Minnesota 55401.

12. INFORMATION FURNISHED BY THE UNDERWRITER.

The statements relating to the stabilization activities of the Underwriters and the statements in paragraphs ___ and ___ under the caption "Underwriting" in any Preliminary Prospectus and in the Prospectus constitute the information furnished by, or on behalf of, the Underwriters in writing specifically for use with reference to the Underwriters referred to in Section 1(b) and Section 6 hereof.

13. PARTIES.

This Agreement shall inure to the benefit of and be binding upon each of the Underwriters and the Company, their respective successors and assigns and the officers, directors and controlling persons referred to in Sections 6 and 7. Nothing expressed in this Agreement is intended or shall be construed to give any person or corporation, other than the parties hereto, their respective successors and assigns and the controlling persons, officers and directors referred to in Sections 6 and 7 any legal or equitable right, remedy or claim under, or in respect of, this Agreement or any provision herein contained, this Agreement and all conditions and provisions hereof being intended to be and being for the sole and exclusive benefit of the parties hereto and their respective executors, administrators, successors, assigns and such controlling persons, officers and directors, and for the benefit of no other person or corporation. No purchaser of any Shares from the Underwriters shall be construed to be a successor or assign merely by reason of such purchase.

14. GOVERNING LAW.

This Agreement shall be construed and enforced in accordance with the laws of the State of Minnesota, without regard to conflict of law provisions.

If the foregoing is in accordance with your understanding of our agreement, kindly sign and return to us the enclosed counterpart of this Agreement, whereupon it will become a binding agreement between the Company and each of the several Underwriters in accordance with its terms.

Very truly yours,

SURMODICS, INC.

By

Its

The foregoing Underwriting Agreement
is hereby confirmed and accepted by us
for itself and as Representative of the
several Underwriters referred to in the
foregoing Agreement as of the date
first above written.

JOHN G. KINNARD
AND COMPANY, INCORPORATED

By

Its

SCHEDULE A

NAME OF UNDERWRITER	NUMBER OF FIRM SHARES
John G. Kinnard and Company, Incorporated	
Total	2,000,000

SCHEDULE B

LIST OF PATENTS

SCHEDULE C

LIST OF PATENT APPLICATIONS

SCHEDULE D

FORM OF OPINION OF PATENT COUNSEL

ARTICLES OF AMENDMENT OF ARTICLES OF INCORPORATION
OF
BSI CORPORATION

Pursuant to the provisions of Minnesota Statutes, Section 302A.135, the following amendment of Section 1.1 of Article 1 of the Articles of Incorporation of BSI Corporation was adopted on June 4, 1997, by the shareholders of the corporation:

Section 1.1 of Article 1 is amended in its entirety to read as follows:

"1.1 The name of the corporation shall be SurModics, Inc."

The undersigned swears that the foregoing is true and accurate and that the undersigned has the authority to sign this document on behalf of the corporation.

Dated: June 4, 1997.

/s/ David R. Busch

David R. Busch, Its Corporate Secretary

ARTICLES OF AMENDMENT OF ARTICLES OF INCORPORATION
OF
BSI CORPORATION (f/k/a BIO-METRIC SYSTEMS, INC.)

Pursuant to the provisions of Minnesota Statutes, Section 302A.135, the following amendment of Section 3.1 of Article 3 of the Articles of Incorporation of BSI Corporation (f/k/a Bio-Metric Systems, Inc.) was adopted on January 27, 1997, by the shareholders of the corporation:

Section 3.1 of Article 3 is amended in its entirety to read as follows:

"3.1 AUTHORIZED SHARES. The aggregate number of shares which the corporation shall have the authority to issue shall be 20,450,000, 15.0 million of which shall be designated Voting Common Stock, $.05 Par Value; 5.0 million of which shall be undesignated shares and 450,000 of which shall be designated Series A Convertible Preferred Stock, $.05 Par Value (hereinafter referred to as the "Preferred Stock"). (The Voting Common Stock, any shares issued from the undesignated shares, and the Preferred Stock are hereinafter referred to collectively as the "Capital Stock".) The Board of Directors of the corporation is authorized to establish from the undesignated shares, by resolution adopted and filed in the manner provided by law, one or more classes or series of shares, to designate each such class or series (which may include but is not limited to designation as additional common shares), and to fix the relative rights and preferences of each such class or series."

The undersigned swears that the foregoing is true and accurate and that the undersigned has the authority to sign this document on behalf of the corporation.

Dated: January 29, 1997.

/s/ David R. Busch

David R. Busch, Its Corporate Secretary

ARTICLES OF AMENDMENT OF ARTICLES OF INCORPORATION
OF
BIO-METRIC SYSTEMS, INC.

Pursuant to the provisions of Minnesota Statutes, Section 302A.135, the following amendments of Section 1.1 of Article 1 and Section 2.1 of Article 2 of the Articles of Incorporation of Bio-Metric Systems, Inc. were adopted on January 17, 1994, by the shareholders of the corporation:

"ARTICLE 1 - NAME

1.1) The name of the corporation shall be BSI Corporation.

ARTICLE 2 - REGISTERED OFFICE

2.1) The registered office of the corporation is located at 9924 West 74th Street, Eden Prairie, Minnesota 55344."

The undersigned swears that the foregoing is true and accurate and that the undersigned has the authority to sign this document on behalf of the corporation.

Dated: January 17, 1994.

/s/ David R. Busch

David R. Busch, Its Corporate Secretary

RESTATED ARTICLES OF INCORPORATION
OF
BIO-METRIC SYSTEMS, INC.

We, the undersigned, DALE R. OLSETH and DAVID R. BUSCH, the Chairman/President/Chief Executive officer and Secretary, respectively, of Bio-Metric Systems, Inc., a Minnesota corporation, do hereby certify that at a special meeting of the shareholders of Bio-Metric Systems, Inc. held on April 10, 1989, notice of such meeting having been mailed to each shareholder entitled to vote thereon at least ten (10) days prior to such meeting, the shareholders, by at least a majority of the voting power of the shares of Voting Common Stock, present in person or by proxy, adopted resolutions to restate the Articles of Incorporation of Bio-Metric Systems, Inc. as set forth below.

ARTICLE 1 - NAME

1.1) The name of the corporation shall be BIO-METRIC SYSTEMS, INC.

ARTICLE 2 - REGISTERED OFFICE

2.1) The registered office of the corporation is located at 9942 West 74th Street, Eden Prairie, Minnesota 55344.

ARTICLE 3 - CAPITAL STOCK

3.1) AUTHORIZED SHARES; ESTABLISHMENT OF CLASSES AND SERIES. The aggregate number of shares which the corporation shall have the authority to issue shall be 5,500,000 shares, 5,000,000 of which shall be designated Voting Common Stock, $.05 par value; 50,000 of which shall be designated Nonvoting Common Stock, $.05 par value; and 450,000 of which shall be designated Series A Convertible Preferred Stock, $.05 par value, (hereinafter referred to as the "Preferred Stock"). The Common Stock and Preferred Stock are hereinafter referred to collectively as the "Capital Stock".

3.2) ISSUANCE OF SHARES. The Board of Directors of the corporation is authorized from time to time to accept subscriptions for, issue, sell and deliver shares of Capital Stock of the corporation to such persons, at such times and upon such terms and conditions as the Board shall determine, valuing all nonmonetary consideration and establishing a price in money or other consideration, or a minimum price, or a general formula or method by which the price will be determined.

3.3) ISSUANCE OF RIGHTS TO PURCHASE SHARES. The Board of Directors is further authorized from time to time to grant and issue rights to subscribe for, purchase, exchange securities for, or convert securities into, shares of Capital Stock, and to fix the terms, provisions and conditions of such rights, including the exchange or conversion basis or the price at which such shares may be purchased or subscribed for.

3.4) ISSUANCE OF SHARES TO HOLDERS OF ANOTHER CLASS OR SERIES. The Board is further authorized to issue shares of one class or series of Capital Stock to holders of that class or series of Capital Stock or to holders of another class or series of Capital Stock to effect share dividends or splits.

ARTICLE 4 - RIGHTS AND PRIVILEGES OF SHARES AND OF SHAREHOLDERS

The rights, preferences, privileges and restrictions granted to or imposed upon the Capital Stock or the holders thereof are set forth below.

4.1) VOTING PRIVILEGES. Each holder of Voting Common Stock shall have one vote on all matters submitted to the shareholders for each share of Voting Common Stock standing in the name of such holder on the books of the corporation. Each holder of Preferred Stock shall have one vote on all matters submitted to the shareholders for each share of Voting Common Stock which such holder of Preferred Stock would be entitled to receive upon the conversion of his Preferred Stock as provided in subsection 4.5(c). In addition, each holder of Preferred Stock shall have the special voting rights which are described in subsection 4.5(b). Except as may be required by the Minnesota Business Corporation Act, the holders of Nonvoting Common Stock shall have no voting rights with respect to any matter submitted to a vote of the shareholders of the corporation.

4.2) PREEMPTIVE RIGHTS. No holder of shares of any class or series of Capital Stock shall be entitled as such, as a matter of right, to subscribe for or purchase additional shares of that class or series or any other class or series of Capital Stock of the corporation now or hereafter authorized or issued.

4.3) NO CUMULATIVE VOTING. There shall be no cumulative voting by the shareholders of the corporation.

4.4) DISTRIBUTIONS. Except as provided in subsection 4.5(a) on the liquidation, dissolution or winding up of the corporation, shares of Capital Stock shall share ratably in any dividends or distributions of the corporation, whether paid in cash, property or stock.

4.5) SERIES A CONVERTIBLE PREFERRED STOCK.

(a) LIQUIDATION PREFERENCE. In the event of the liquidation, dissolution or winding up of the corporation, whether voluntary or involuntary, the holders of the Preferred Stock shall be entitled to receive out of assets of the corporation, an amount equal to $13.50 (hereinafter referred to as the "Liquidation Preference") for each outstanding share of Preferred Stock before any payment shall be made or any assets distributed to the holders of Voting Common Stock or Nonvoting Common Stock or any other class of stock of this corporation ranking junior to the Preferred Stock upon liquidation or dissolution of the corporation. If, upon any liquidation, dissolution, or

winding up of the corporation, the assets of the corporation are insufficient to pay the Liquidation Preference for each outstanding share of Preferred Stock, the holders of Preferred Stock shall share pro rata in any such distribution in proportion to the full amounts to which they would otherwise be entitled. If, upon any liquidation, dissolution or winding up of the corporation, the holders of Preferred Stock would be entitled to receive in excess of the Liquidation Preference for each outstanding share of Preferred Stock in any such distribution if all such shares of Preferred Stock had been converted to shares of Voting Common Stock pursuant to subsection 4.5(c), instead of receiving the Liquidation Preference, each holder of Preferred Stock shall receive an amount equal to the distribution such holder would receive if all his outstanding shares of Preferred Stock had been converted to shares of Voting Common Stock pursuant to subsection 4.5(c) on the day preceding the date of such liquidation, dissolution or winding up. The Liquidation Preference shall be appropriately adjusted to reflect stock splits and reverse stock splits of the Preferred Stock or dividends or distributions payable in shares of Preferred Stock.

Nothing hereinabove set forth shall affect in any way the right or obligation of each holder of shares of Preferred Stock to convert such shares into shares of Voting Common Stock, at any time and from time to time, in accordance with subsection 4.5(c) below.

(b) SPECIAL VOTING RIGHTS. Without the affirmative vote of the holders (acting together as a class) of at least a majority of the Preferred Stock at the time outstanding given in person or by proxy at any annual meeting, or at such special meeting called for that purpose, or, if permitted by law, in writing without a meeting, the corporation shall not:

(1) authorize or issue any shares of stock having priority over the Preferred Stock as to the payment of dividends or the payment or distribution of assets upon the liquidation or dissolution, voluntary or involuntary, of the corporation; or

(2) amend the Articles of Incorporation of the corporation so as to alter this Article 4 in any respect.

(c) CONVERSION RIGHTS; MANDATORY CONVERSION.

(1) At the option of the holder thereof, each share of Preferred Stock shall be convertible, at the offices of the corporation (or at such other office or offices, if any, as the Board of Directors may designate), into one (1) share of Voting Common Stock of the corporation, subject to adjustment as provided in subsection 4.5(c)(2) below. In order to convert shares of Preferred Stock into shares of Voting Common Stock, the holder thereof, shall surrender at the principal executive offices of the corporation the certificate or certificates therefor, duly endorsed to the corporation or in blank, and give written notice to the corporation at such office that such holder elects to convert a specified portion or all of such shares of Preferred Stock into shares of Voting Common Stock. Shares

of Preferred Stock shall be deemed to have been converted on the day of surrender of the certificate representing such shares for conversion in accordance with the foregoing provisions (the "Conversion Date"), and the person entitled to receive the shares of Voting Common Stock of the corporation issuable upon such conversion shall be treated for all purposes as the record holder of such shares of Voting Common Stock at that time. As promptly as practicable on or after the Conversion Date, the corporation shall issue and mail or deliver or cause to be issued and mailed or delivered to such holder a certificate or certificates for the number of shares of Voting Common Stock issuable upon conversion and a certificate or certificates for the balance of the Preferred Stock surrendered, if any, not so converted into shares of Voting Common Stock.

(2) The number of shares of Voting Common Stock issuable in exchange for shares of Preferred Stock upon the exercise of these conversion rights (the "Conversion Ratio"), which shall initially be one share of Voting Common Stock for one share of Preferred Stock, shall be subject to adjustment from time to time as hereinafter provided:

(i) In case the corporation shall at any time subdivide or split its outstanding Common Stock into a greater number of shares, the Conversion Ratio in effect immediately prior to such subdivision or split shall be proportionately increased; and, conversely, in case the outstanding Common Stock of the corporation shall be combined into a smaller number of shares the Conversion Ratio in effect immediately prior to such combination shall be proportionately reduced.

(ii) If any capital reorganization or reclassification of the Capital Stock of the corporation or consolidation or merger of the corporation with another corporation or the sale of all or substantially all of its assets to another corporation shall be affected in such a way that holders of Common Stock shall be entitled to receive stock, securities or assets with respect to or in exchange for Common Stock, then, as a condition of such reorganization, reclassification, consolidation, merger or sale, lawful and adequate provision shall be made whereby the holders of Preferred Stock shall thereafter have the right to receive, in lieu of the Voting Common Stock of the corporation immediately theretofore receivable upon the conversion of any such Preferred Stock, such shares of stock, securities or assets as may be issued or payable with respect to or in exchange for a number of outstanding shares of Voting Common Stock equal to the number of shares of Voting Common Stock immediately theretofore receivable upon the conversion of such Preferred Stock had such reorganization, reclassification, consolidation, merger or sale not taken place; and, in any such case, appropriate provision shall be made with respect to the rights and interests of the holders of the Preferred Stock to the end that the provisions hereof (including without limitation provisions

for adjustments of the Conversion Ratio and of the number of shares receivable upon the conversion of such Preferred Stock) shall thereafter be applicable as nearly as may be, in relation to any shares of stock, securities or assets hereafter receivable upon the conversion of such Preferred Stock. The corporation shall not effect any such consolidation, merger or sale, unless prior to the consummation thereof the surviving corporation (if other than the corporation), the corporation resulting from such consolidation or the corporation purchasing such assets shall ASSUME by written instrument executed and ma i led to the registered holders of the Preferred Stock at the last address of such holders appearing on the books of the corporation, the obligation to deliver to such holders such shares of stock, securities or assets as, in accordance with the foregoing provisions, such holders may be entitled to receive.

(iii) If and whenever the corporation shall issue or sell any Common Stock for a consideration per share less than the Liquidation Preference (except for the issuance or sale of up to 50,000 shares of Nonvoting Common Stock pursuant to the corporation's 1984 Stock Option Plan, up to 200,000 shares of Voting Common Stock pursuant to the corporation's 1987 Stock Option Plan and up to 50,000 shares of Voting Common Stock to Simplot Development Corporation (hereinafter referred to as the "Excluded Stock Issuances")) or shall issue any options, warrants or other rights for the purchase of shares of Common Stock at a consideration per share of less than the Liquidation Preference, forthwith upon such issuance or sale of such shares, options, warrants or other rights for purchase, the Conversion Ratio in effect immediately prior to such issuance or sale for the Preferred Stock shall be adjusted so that each share of Preferred Stock shall thereafter be convertible into that number of shares of Voting Common Stock as is equal to the number determined by multiplying the Conversion Ratio by a fraction, the numerator of which shall be the amount determined by multiplying (aa) the number of shares of Common Stock outstanding immediately after such issuance or sale plus the number of shares of Common Stock issuable upon the exercise of any purchase rights thus issued, by (bb) the Liquidation Preference, and the denominator of which shall be an amount equal to the sum of (aa) the number of shares of Common Stock outstanding immediately prior to such issuance or sale multiplied by the Liquidation Preference, and (bb) the total consideration payable to the corporation upon such issuance or sale of such shares and such purchase rights and upon the exercise of such purchase rights. If any options or purchase rights taken into account in any such adjustment of the Conversion Ratio subsequently expire without exercise, the Conversion Ratio shall be recomputed by deleting such options or purchase rights. For purposes of this subsection 4.5(c)(2), the number of shares of Voting Common Stock or Nonvoting Common Stock which may be issued as Excluded Stock Issuances shall be appropriately adjusted to

reflect stock splits, stock dividends, reorganizations, consolidations and similar changes.

(iv) The anti-dilution provisions of this subsection 4.5(c)(2) may be waived by the affirmative vote of the holders (acting together as a class) of at least a majority of the then outstanding shares of Preferred Stock,

(3) Upon receipt of a written notice to the corporation from a holder of shares of Preferred Stock delivered to the corporation's principal executive offices requesting a computation of the then current Conversion Ratio, the corporation shall promptly give written notice by first-class mail, postage prepaid, addressed to the holder of the Preferred Stock making such request at the address of such holder as shown on the books of the corporation which notice shall state the then current Conversion Ratio, setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based.

(4) In case any time:

(i) the corporation shall pay any dividend payable in stock upon its Common Stock or make any distribution (other than regular cash dividends) to the holders of its Common Stock; or

(ii) the corporation shall offer for subscription pro rata to the holders of its Common Stock any additional shares of stock of any class or other rights; or

(iii) there shall be any capital reorganization, reclassification of the Capital Stock of the corporation or consolidation or merger of the corporation with or sale of all or substantially all of its assets to another corporation; or

(iv) there shall be a voluntary or involuntary dissolution, liquidation or winding up of the corporation;

then in any one or more of said cases the corporation shall give written notice, by first-class mail, postage prepaid, addressed to the holders of the Preferred Stock at the addresses of such holders as shown on the books of this corporation, of the date on which (aa) the books of the corporation shall close or a record shall be taken for such dividend, distribution or subscription rights or (bb) such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding up shall take place, as the case may be. Such notice shall also specify the date as of which the holders of Common Stock of record shall participate in such dividend, distribution or subscription rights or shall be entitled to exchange their Common Stock for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation

or winding up, as the case may be. Such written notice shall be given at least 20 days prior to the action in question and not less than 20 days prior to the record date or the date on which this corporation's transfer books are closed in respect thereto.

(5) As used in this subsection 4.5(c), the term Common Stock shall mean and include the corporation's presently authorized Voting Common Stock and Nonvoting Common Stock and shall also include any capital stock of any class of the corporation hereafter authorized which shall have the right to vote on all matters submitted to the shareholders of the corporation and shall not be limited to a fixed sum or percentage in respect of the rights of the holders thereof to participate in dividends or in the distribution of assets upon the voluntary or involuntary liquidation, dissolution or winding up of the corporation; provided that the shares receivable pursuant to conversion of the Preferred Stock shall include shares designated as Voting Common Stock of the corporation as of the date of issuance of such Preferred Stock or, in the case of any reclassification of the outstanding shares thereof, the stock, securities or assets provided for in subsection 4.5(c)(2)(ii) above.

(6) The number of shares of Voting Common Stock issuable upon conversion of shares of Preferred Stock shall be computed to the nearest one hundredth of a full share; however, no fractional shares of Voting Common Stock shall be issued upon conversion. The corporation shall pay a cash adjustment in respect of any fraction of a share in an amount-equal to the same fraction of the market price per share of Voting Common Stock as of the close of business on the day of conversion. "Market price" shall mean the average of the high and low prices of the Voting Common Stock sales on all exchanges on which the Voting Common Stock may at the time be listed or as reported by the National Association of Securities Dealers, Inc. Automated Quotation System National Market System ("NASDAQ-NMS"), or, if there shall have been no sales on any such exchange or as reported by NASDAQ-NMS on any such day, the average of the bid and asked prices at the end of such day, or, if the Voting Common Stock shall not be so listed or transactions so reported, the average of the bid and asked prices at the end of the day in the over-the-counter market, in each case averaged over a period of 20 consecutive business days prior to the date as of which I, market price" is being determined. If at any time the Voting Common Stock is not listed on any exchange, reported by NASDAQ-NMS or quote in the over-the-counter market, the "market price" shall be deemed to be the higher of (a) the book value thereof as determined by any firm of independent public accountants of recognized standing selected by the Board of Directors of the Corporation as of the last day of any month ending within 60 days preceding the date as of which the determination is to be made, or (b) the fair value thereof determined in good faith by the Board of Directors of the Corporation as of a date which is within 15 days of the date as of which the determination is to be made.

(7) Notwithstanding the foregoing right to convert at the option of the holder, each share of Preferred Stock shall automatically be converted into the appropriate number of shares of Voting Common Stock of the corporation in the manner and upon the terms set forth herein, without any act by the corporation or the holders of Preferred Stock, concurrently with the closing of:

(i) the sale by the corporation of shares of Voting Common Stock in a public offering which was registered under the Securities Act of 1933, as amended, was underwritten by an investment banking firm on a firm commitment basis and results in the Voting Common Stock being of the corporation being quoted on the National Association of Securities Dealers, Inc. Automated Quotation System ("NASDAQ") or listed on the New York Stock Exchange, American Stock Exchange or other national stock exchange; or

(ii) a merger of the corporation with or the acquisition of the corporation by another entity in which the surviving entity is a corporation with a class of securities which are quoted on NASDAQ or listed on the New York Stock Exchange, the American Stock Exchange or other national stock exchange.

ARTICLE 5 - MERGER, EXCHANGE, SALE OF ASSETS AND DISSOLUTION

5.1) Where approval of shareholders is required by law, the affirmative vote of the holders of at least a majority of the voting power of all shares entitled to vote shall be required to authorize the corporation (i) to merge into or with one or more other corporations, (ii) to exchange its shares for shares of one or more other corporations, (iii) to sell, lease, transfer or otherwise dispose of all or substantially all of its property and assets, including its goodwill, or (iv) to commence voluntary dissolution.

ARTICLE 6 - AMENDMENT OF ARTICLES OF INCORPORATION

6.1) Subject to the special voting rights of the holders of Preferred Stock set forth in subsection 4.5(b), any provision contained in these Articles of Incorporation may be amended, altered, changed or repealed by the affirmative vote of the holders of at least majority of the voting power of the shares present and entitled to vote at a duly held meeting or such greater percentage as may be otherwise prescribed by the laws of the State of Minnesota.

ARTICLE 7 - INCORPORATORS

7.1) The name and mailing address of the original incorporator was as follows:

Stephen A. A. Goddard
1645 Hennepin Avenue South
Suite 212
Minneapolis, Minnesota 55403

ARTICLE 8 - DIRECTOR LIABILITY

8.1) LIMITATION ON DIRECTOR LIABILITY. To the fullest extent permitted by the Minnesota Business Corporation Act, as the same exists or may hereafter be amended, a director of this corporation shall not be personally liable to the corporation or its shareholders for monetary damages for breach of fiduciary duty as a director.

IN WITNESS WHEREOF, we have hereunto set our hands this 10th day of April, 1989.

/s/ Dale R. Olseth

Dale R. Olseth, Chairman, President,
and Chief Executive Officer

/s/ David R. Busch

David R. Busch, Secretary

STATE OF MINNESOTA)
)ss.
COUNTY OF HENNEPIN)

The foregoing instrument was acknowledged before me this 10th day of April, 1989, by Dale R. Olseth and David R. Busch, Chairman/President/Chief Executive Officer and Secretary, respectively, of Bio-Metric Systems, Inc., a Minnesota corporation, on behalf of the corporation.

/s/ Walter H. Diers

Notary Public

RESTATED BYLAWS

OF

BIO-METRIC SYSTEMS, INC.

ARTICLE 1.

OFFICES

1.1) OFFICES. The principal office of the corporation shall be 6316 Barrie Road, Edina, Minnesota, and the corporation may have offices at such other places within or without the State of Minnesota as the Board of Directors shall from time to time determine or the business of the corporation requires.

ARTICLE 2.

MEETING OF SHAREHOLDERS

2.1) ANNUAL MEETING. The annual meeting of the shareholders of the corporation entitled to vote shall be held at the principal office of the corporation or at such other place, within or without the State of Minnesota, as is designated by the Board of Directors, or by written consent of all the shareholders entitled to vote thereat, at such time on such day of each year as shall be determined by the Board of Directors or by the President. At the annual meeting, the shareholders, voting as provided in the Articles of Incorporation, shall elect directors and shall transact such other business as shall properly come before the meeting.

2.2) SPECIAL MEETINGS. Special meetings of the shareholders entitled to vote shall be called by the Secretary at anytime upon request of the Chairman of the Board, the President or the Board of Directors (acting upon majority vote), or upon request by shareholders holding ten percent (10%) or more of the voting power of the shareholders.

2.3) NOTICE OF MEETINGS. There shall be mailed to each shareholder entitled to vote, at his address as shown by the books of the corporation, a notice setting out the place, date and hour of the annual meeting or any special meeting, which notice shall be mailed at least five (5) days prior to the date of the meeting; provided, that (i) notice of a meeting at which an agreement of merger or consolidation is to be considered shall be mailed to all shareholders of record, whether or not entitled to vote, at least two (2) weeks prior thereto, (ii) notice of a meeting at which a proposal to dispose of all, or substantially all, of the property and assets of the corporation is to be considered shall be mailed to all shareholders of record, whether or not entitled to vote, at least ten (10) days prior thereto, and (iii) notice of a meeting at which a proposal to dissolve the corporation or to amend the Articles of Incorporation is to be considered shall be mailed to all shareholders of record, whether or not entitled to vote, at least ten (10) days prior thereto. Notice of any special meeting shall state the purpose or purposes of the proposed meeting, and the business transacted at all special meetings shall be confined to purposes stated in the notice.

Attendance at a meeting by any shareholder, without objection in writing by him, shall constitute his waiver of notice of the meeting.

2.4) QUORUM AND ADJOURNED MEETING. The holders of a majority of all shares outstanding and entitled to vote, represented either in person or by proxy, shall constitute a quorum for the transaction of business at any annual or special meeting of the shareholders. In case a quorum is not present at any meeting, those present shall have the power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until the requisite number of voting shares shall be represented. At such adjourned meetings at which the required amount of voting shares shall be represented, any business may be transacted which might have been transacted at the original meeting.

2.5) VOTING. At each meeting of the shareholders, every shareholder having the right to vote shall be entitled to vote in person or by proxy duly appointed by an instrument in writing subscribed by such shareholder. Each shareholder shall have one (1) vote for each share having voting power standing in his name on the books of the corporation except as may be otherwise required to provide for cumulative voting (if not denied by the Articles). Upon the demand of any shareholder, the vote for directors or the vote upon any question before the meeting shall be by ballot. All elections shall be determined and all questions decided by a majority vote of the number of shares entitled to vote and represented at any meeting at which there is a quorum except in such cases as shall otherwise be required by statute, the Articles of Incorporation or these Bylaws. Except as may otherwise be required to conform to cumulative voting procedures, directors shall be elected by a plurality of the votes cast by holders of shares entitled to vote thereon.

2.6) RECORD DATE. The Board of Directors may fix a time, not exceeding sixty (60) days preceding the date of any meeting of shareholders, as a record date for the determination of the shareholders entitled to notice of and to vote at such meeting, notwithstanding any transfer of any shares on the books of the corporation after any record date so fixed. The Board of Directors may close the books of the corporation against transfer of shares during the whole or any part of such period. In the absence of action by the Board, only shareholders of record twenty (20) days prior to a meeting may vote at such meeting.

2.7) ORDER OF BUSINESS. The suggested order of business at the annual meeting and, to the extent appropriate, at all other meetings of the shareholders shall, unless modified by the presiding chairman be:

(a) Call of roll
(b) Proof of due notice of meeting or waiver of notice
(c) Determination of existence of quorum
(d) Reading and disposal of any unapproved minutes
(e) Annual reports of officers and committees
(f) Election of directors
(g) Unfinished business
(h) New business

(i) Adjournment.

ARTICLE 3.

DIRECTORS

3.1) GENERAL POWERS. The property, affairs and business of the corporation shall be managed by a Board of Directors.

3.2) NUMBER, TERM AND QUALIFICATIONS. At each annual meeting the shareholders shall determine the number of directors, which shall not be less than the minimum required by law; provided, that between annual meetings the authorized number of directors may be increased by the shareholders or by the Board of Directors or decreased by the shareholders. Each director at each annual meeting of shareholders shall be elected for a term of one (1) year and shall hold office until his successor is elected and qualified, or until his resignation or removal as provided by statute.

3.3) VACANCIES. Vacancies on the Board of Directors shall be filled by the remaining members of the Board, though less than a quorum; provided that newly created directorships resulting from an increase in the authorized number of directors shall be filled by two-thirds (2/3) of the directors serving at the time of such increase. Persons so elected shall be directors until their successors are elected by the shareholders, who may make such election at their next annual meeting or at any special meeting duly called for that purpose.

3.4) QUORUM AND VOTING. A majority of the whole Board of Directors shall constitute a quorum for the transaction of business except that when a vacancy or vacancies exist, a majority of the remaining directors (provided such majority consists of not less than two directors) shall constitute a quorum. Except as otherwise provided in the Articles of Incorporation or these Bylaws, the acts of a majority of the directors present at a meeting at which a quorum is present be the acts of the Board of Directors.

3.5) FIRST MEETING. As soon as practicable after each annual election of directors, the Board of Directors shall meet for the purpose of organization, electing or appointing officers of the corporation, and transaction of other business, at the place where the shareholders' meeting is held or at the place where regular meetings of the Board of Directors are held. No notice of such meeting need be given. Such first meeting may be held at any other time and place specified in a notice given as hereinafter provided for special meetings or in a waiver of notice signed by all the directors.

3.6) REGULAR MEETINGS. Regular meetings of the Board of Directors shall be held from time to time at such time and place as may from time to time be fixed by resolution adopted by a majority of the entire Board of Directors. No notice need be given of any regular meeting.

3.7) SPECIAL MEETINGS. Special meetings of the Board of Directors may be held at such time and place as may be designated in the notice or the waiver of notice of the meeting. Special meetings of the Board of Directors may be called by the Chairman of the Board, the President or by any two (2) directors. Unless notice shall be waived by all directors, notice, of such special meeting (including a statement of the purposes thereof) shall be given to each director at least twenty-four (24) hours in advance of the meeting if oral or two (2) days in advance of the meeting if by mail, telegraph or other written communication; provided, however, that meetings may be held without waiver of notice from or giving notice to any director while he is in the armed forces of the United States or outside the continental limits of the United States. Attendance at a meeting by any director, without objection in writing by him, shall constitute a waiver of notice of such meeting.

3.8) COMPENSATION. Directors who are not salaried officers of the corporation shall receive such fixed sum per meeting attended or such fixed annual sum as shall be determined from time to time by resolution of the Board of Directors. Nothing herein contained shall be construed to preclude any director from serving this corporation in any other capacity and receiving proper compensation therefor.

3.9) EXECUTIVE COMMITTEE. The Board of Directors may, by unanimous affirmative action of the entire Board, designate two or more of its number to constitute an Executive Committee, which, to the extent determined by unanimous affirmative action of the entire Board, shall have and exercise authority of the Board in the management of the business of the corporation. Any such Executive Committee shall act only in the interval between meetings of the Board and shall be subject at all times to the control and direction of the Board.

3.10) ORDER OF BUSINESS. The suggested order of business at any meeting of the Board of Directors shall, to the extent appropriate and unless modified by the presiding chairman, be:

(a) Roll call
(b) Proof of due notice of meeting or waiver of notice, or unanimous presence and declaration by president
(c) Determination of existence of quorum
(d) Reading and disposal of any unapproved minutes
(e) Reports of officers and committee
(f) Election of officers
(g) Unfinished business
(h) New business
(i) Adjournment.

ARTICLE 4.

OFFICERS

4.1) NUMBER AND DESIGNATION. The Board of Directors shall elect a President, a Secretary and a Treasurer, and may elect or appoint a Chairman of the Board, one or more Vice

Presidents, and such other officers and agents as it may from time to time determine. Any two of the offices except those of President and Vice President may be held by one person.

4.2) ELECTION, TERM OF OFFICE AND QUALIFICATIONS. At each annual meeting of the Board of Directors, the Board shall elect the officers provided for in Section 4.1 and such officers shall hold office until the next annual meeting of the Board or until their successors are elected or appointed and qualify; provided, however, that any officer may be removed with or without case by the affirmative vote of a majority of the entire Board of Directors (without prejudice, however, to any contract rights of such officer).

4.3) RESIGNATIONS. Any officer may resign at any time by giving written notice to the Board of Directors or to the Chairman, President or Secretary. The resignation shall take effect at the time specified in the notice and, unless otherwise specified therein, acceptance of the resignation shall not be necessary to make it effective.

4.4) VACANCIES IN OFFICE. If there be a vacancy in any office of the corporation, by reason of death, resignation, removal or otherwise, such vacancy shall be filled for the unexpired term by the Board of Directors at any regular or special meeting.

4.5) CHAIRMAN OF THE BOARD. The Board of Directors may, in its discretion elect one of its number as Chairman of the Board. The Chairman shall preside at all meetings of the shareholders and of the Board and shall exercise general supervision and direction over the more significant matters of policy affecting the affairs of the corporation, including particularly its financial and fiscal affairs. The Chairman of the Board may call a meeting of the Board whenever he deems it advisable.

4.6) PRESIDENT. The President shall have general active management of the business of the corporation. In the absence of the Chairman of the Board, he shall preside at all meetings of the shareholders and Board of Directors. He shall be the chief executive officer of the corporation and shall see that all orders and resolutions are carried into effect. He shall be ex-officio a member of all standing committees and shall perform all duties usually incident to the office of President and such other duties as may from time to time be assigned to him by the Board.

4.7) VICE PRESIDENT. Each Vice President shall have such powers and shall perform such duties as may be specified in these Bylaws or prescribed by the Board of Directors. In the event of absence or disability of the President, the Board of Directors may designate a Vice President or Vice Presidents to succeed to the powers and duties of the President.

4.8) SECRETARY. The Secretary shall be secretary and shall attend all meetings of the shareholders and Board of Directors. He shall act as clerk thereof and shall record all the proceedings of such meetings in the minute book of the corporation. He shall give proper notice of meetings of shareholders and directors. He may, with the Chairman of the Board, President or Vice President, sign all certificates representing shares of the corporation and shall perform the

duties usually incident to his office and such other duties as may be prescribed by the Board of Directors from time to time.

4.9) TREASURER. The Treasurer shall keep accurate accounts of all monies of the corporation received or disbursed, and shall deposit all monies, drafts and checks in the name of and to the credit of the corporation in such banks and depositories as the Board of Directors shall designate from time to time . He shall have power to endorse for deposit the funds of the corporation as authorized by the Board of Directors. He shall render to the Chairman of the Board, President and the Board of Directors, whenever required, an account of all of his transactions as Treasurer and statements of the financial condition of the corporation, and shall perform the duties usually incident to his officer and such other duties as may be prescribed by the Board of Directors from time to time.

4.10) OTHER OFFICERS. The Board of Directors may appoint one or more Assistant Secretaries, one or more Assistant Treasurers, and such other officers, agents and employees as the Board may deem advisable. Each officer, agent or employee so appointed shall hold office at the pleasure of the Board and shall perform such duties as may be assigned to him by the Board, Chairman of the Board or President.

ARTICLE 5.

INDEMNIFICATION

5.1) INDEMNIFICATION OF DIRECTORS AND OFFICERS. To the full extent permitted by Minnesota Statutes, Section 301.095, as amended from time to time, or by other provisions of law, each person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, wherever brought, whether civil, criminal, administrative or investigative, by reason of the fact that such person is or was a director or officer of the corporation or by reason of the fact that such person is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise at the request of the corporation, shall be indemnified by the corporation against expenses, including attorneys' fees, judgments, fines and amounts paid in settlement actually reasonably incurred by such person in connection with such action, suit or proceeding; provided, however, that the indemnification with respect to a person who is or was service as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise shall apply only to the extent such person is not indemnified by such other corporation, partnership, joint venture, trust or other enterprise. The indemnification provided by this section shall continue as to a person who has ceased to be a director or officer of the corporation and shall inure the benefit of the heirs, executors and administrators of such person.

5.2) INDEMNIFICATION OF EMPLOYEES AND AGENTS. Each person who is not eligible for indemnification pursuant to Section 5.1 above and who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, wherever brought, whether civil, criminal, administrative or investigative, by reason of the fact that such

person is or was an employee or agent of the corporation or by reason of the fact that such person is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, may be indemnified by the corporation by action of the Board of Directors to the extent permitted and in accordance with the procedures described by Minnesota Statutes, Chapter 30.1, as amended from time to time, against expenses, including attorneys' fees, judgments, fines and amounts paid in settlement, actually and reasonably incurred by such person in connection with such action, suit or proceeding; provided, however, that the indemnification with respect to a person who is or was serving as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise shall apply only to the extent such person is not indemnified by such other corporation, partnership, joint venture, trust or other enterprise. The indemnification provided by this section shall continue as to a person who has ceased to be an employee or agent and shall inure to the benefit of the heirs, executors and administrators of such person.

5.3) NONEXCLUSIVITY. The foregoing right of indemnification in the case of a director or officer and permissive indemnification in the case of an agent or employee shall not be exclusive of other rights to which a director, officer, employee or agent may be entitled as a matter of law.

5.4) INSURANCE. To the full extent permitted by Minnesota Statutes, Section 301.095, as amended from time to time, or by other provisions of law, the corporation may purchase and maintain insurance on behalf of any indemnified party against any liability asserted against such person and incurred by such person in such capacity.

ARTICLE 6.

SHARES AND THEIR TRANSFER

6.1) CERTIFICATES OF STOCK. Every owner of stock of the corporation shall be entitled to a certificate, in such form as the Board of Directors may prescribe, certifying the number of shares of stock of the corporation owned by him. The certificates for such stock shall be numbered (separately for each class) in the order in which they shall be issued and shall be signed in the name of the corporation by the Chairman of the Board, President or a Vice President, and by the Secretary, Assistant Secretary, Treasurer, Assistant Treasurer, or any other proper officer of the corporation thereunto authorized by the Board of Directors. Signatures of the officers upon a certificate may be facsimiles if the certificate is countersigned by a transfer agent or registered by a registrar other than the corporation. Certificates on which a facsimile signature of a former officer appears may be issued with the same effect as if he were such officer on the date of issue.

6.2) STOCK RECORD. As used in these Bylaws, the term "shareholder" shall mean, the person, firm or corporation in whose name outstanding shares of capital stock of the corporation a re currently registered on the stock record books of the corporation. A record shall be kept of the name of the person, firm or corporation owning the stock represented by such certificates respectively, the respective dates of cancellation. Every certificate surrendered to the corporation for exchange or transfer shall be cancelled and no new certificate or certificates shall be issued in

exchange for any existing certificate until such existing certificate shall have been so cancelled (except as provided for in Section 6.4 of this Article 6).

6.3) TRANSFER OF SHARES. Transfer of shares on the books of the corporation may be authorized only by the shareholder named in the certificate (or his legal representative or duly authorized attorney-in-fact) and upon surrender for cancellation of the certificate or certificates for such shares. The shareholder in whose name shares of stock stand on the books of the corporation shall be deemed the owner thereof for all purposes as regards the corporation ;provided, that when any transfer of shares shall be made as collateral security and not absolutely, such fact, if known to the Secretary of the corporation or the transfer agent, shall be so expressed in the entry of transfer.

6.4) LOST CERTIFICATES. Any shareholder claiming a certificate of stock to be lost or destroyed shall make an affidavit or affirmation of that fact in such form as the Board of Directors may require, and shall, if the directors so require, give the corporation a bond of indemnity in form and with one or more sureties satisfactory to the Board of at least double the value, as determined by the Board, of the stock represented by such certificate in order to indemnify the corporation against any claim that may be made against it on account of the alleged loss or destruction of such certificate, whereupon a new certificate may be issued in the same tenor and for the same number of shares as the one alleged to have been destroyed or lost.

6.5) TREASURY STOCK. Treasury stock shall be held by the corporation subject to disposal by the Board of Directors in accordance with the Articles and these Bylaws, and shall not have voting rights nor participate in dividends.

6.6) INSPECTION OF BOOKS BY SHAREHOLDERS. Shareholders shall be permitted to inspect the books of the corporation for a proper purpose at all reasonable times.

ARTICLE 7

GENERAL PROVISIONS

7.1) DIVIDENDS. Subject to the provisions of the Articles of Incorporation and of these Bylaws, the Board of Directors may declare dividends from the net earnings or net assets of the corporation available for dividends whenever and in such amounts as , in its opinion, the condition of the affairs of the corporation shall render it advisable.

7.2) SURPLUS AND RESERVES. Subject to the provisions of the Articles of Incorporation and of these Bylaws, the Board of Directors in its discretion may use and apply any of the net earnings or net assets of the corporation available for such purpose to purchase or acquire any of the shares of the capital stock of the corporation in accordance with law, or any of its bonds, debentures, notes, scrip or other securities or evidences of indebtedness, or from time to time may set aside from its net assets or net earnings such sums as it, in its absolute discretion may think proper as a reserve fund to meet contingencies, for the purpose of maintaining or increasing

the property or business of the corporation, or for any other purpose it may think conducive to the best interests of the corporation.

7.3) FISCAL YEAR. The fiscal year of the corporation shall be established by the Board of Directors.

7.4) SEAL. The corporation shall have such corporate seal or no corporate seal as the Board of Directors shall from time to time determine.

7.5) SECURITIES OF OTHER CORPORATIONS.

(a) VOTING SECURITIES HELD BY THE CORPORATION. Unless otherwise ordered by the Board of Directors, the President shall have full power and authority on behalf of the corporation (i) to attend and to vote at any meeting of security holders of any other companies in which the corporation may hold securities; (ii) to execute any proxy for such meeting on behalf of the corporation and (iii) to execute a written action in lieu of a meeting of such other company on behalf of this corporation. At such meeting, by such proxy or by such writing in lieu of meeting, the President shall possess and may exercise any and all rights and powers incident to the ownership of such securities that the corporation might have possessed and exercised if it had been present. The Board of Directors may, from time to time, confer like powers upon any other person or persons.

(b) PURCHASE AND SALE OF SECURITIES. Unless otherwise ordered by the Board of Directors, the President shall have full power and authority on behalf of the corporation to purchase, sell, transfer or encumber any and all securities of any other company owned by the corporation and may execute and deliver such documents as may be necessary to effectuate such purchase, sale, transfer or encumbrance. The Board of Directors may, from time to time, confer like powers upon any other person or persons.

ARTICLE 8.

MEETINGS

8.1) WAIVER OF NOTICE. Whenever any notice whatsoever is required to be given by these Bylaws, the Articles of Incorporation or any of the laws of the State of Minnesota, a waiver thereof in writing, signed by the person or persons entitled to such notice, whether before, at or after the time stated therein, shall be deemed equivalent to the actual required notice.

8.2) PARTICIPATION BY CONFERENCE TELEPHONE. Members of the Board of Directors, or any committee designated by the Board, may participate in a meeting of the Board of Directors or of such committee by means of conference telephone or similar communications equipment whereby all persons participating in the meeting can hear and communicate with each other, and participation in a meeting pursuant to this Section shall constitute presence in person at such meeting. The place of the meeting shall be deemed to be the place of origination of the conference telephone call or similar communication technique.

8.3) AUTHORIZATION WITHOUT MEETING. Any action of the shareholders, the Board of Directors, or any lawfully constituted Executive Committee of the corporation which may be taken at a meeting thereof, may be taken without a meeting if authorized by a writing signed by all of the holders of shares who would be entitled to notice of a meeting for such purpose, by all of the directors, or by all of the members of such Executive Committee, as the case may be.

ARTICLE 9

AMENDMENTS AND BYLAWS

9.1) AMENDMENTS. These Bylaws may be altered, amended, added to or repealed by the affirmative vote of a majority of the members of the Board of Directors at any regular meeting of the Board or at any special meeting of the Board called for that purpose, subject to the power of the shareholders to change or repeal such Bylaws and subject to any other limitations on such authority of the Board provided by the Minnesota Business Corporation Act.

The undersigned, PATRICK E. GUIRE, Secretary of BIOMETRIC SYSTEMS, INC., hereby certifies that the foregoing Restated Bylaws were duly adopted as the Bylaws of the Corporation by its shareholders and Board of Directors on September 19, 1980.

/s/ Patrick A. Guire

Secretary

Attest:

/s/ John W. Roseveor
- ---
President

Fredrikson & Byron, P.A.
1100 International Centre
900 Second Avenue South
Minneapolis, MN 55402

December 24, 1997

SurModics, Inc.
9924 West 74th Street
Eden Prairie, Minnesota 55344

RE: REGISTRATION STATEMENT ON FORM SB-2 - EXHIBIT 5.1

Gentlemen/Ladies:

We have acted as counsel for SurModics, Inc. (the "Company") in connection with the Company's filing of a Registration Statement on Form SB-2 (the "Registration Statement") relating to the registration under the Securities Act of 1933 (the "Act") of 2,300,000 shares of Common Stock, including 300,000 shares subject to an over-allotment option (the "Shares").

In connection with rendering this opinion, we have reviewed the following:

1. The Company's Articles of Incorporation;

2. The Company's Bylaws; and

3. Certain corporate resolutions, including resolutions of the Company's Board of Directors pertaining to the issuance by the Company of the Shares covered by the Registration Statement.

Based upon the foregoing and upon representations and information provided by the Company, we hereby advise you that in our opinion:

1. The Company's Articles of Incorporation validly authorize the issuance of the Shares registered pursuant to the Registration Statement.

2. Upon the delivery and payment therefor in accordance with the terms of the Registration Statement and the Underwriting Agreement described in the Registration Statement, the Shares to be issued and sold by the Company will be validly issued, fully paid and nonassessable.

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement and to the reference to our firm under the caption "Legal Matters" included in the Registration Statement and the related Prospectus.

Very truly yours,

FREDRIKSON & BYRON, P.A.

By /s/ Melodie R. Rose
Melodie R. Rose

OFFICE/WAREHOUSE LEASE

THIS INDENTURE of lease, dated this 18th day of November, 1991, by and between Prairieview Jack, Ltd., AmberJack, Ltd., its General Partner, Welsh Companies, Inc., its Manager hereinafter referred to as "Lessor", and Bio-Metric Systems, Inc. (a Minnesota Corporation) hereinafter referred to as "Lessee".

DEFINITIONS:

"Premises" - That certain real property located in the City of Eden Prairie, County of Hennepin and State of Minnesota and legally described on Exhibit "A" attached hereto and made a part hereof, including all buildings and site improvements located thereon.

"Building" - That certain office/warehouse building containing approximately 63,905 square feet located upon the Premises and commonly described as Prairieview Business Center.

"Demised Premises" - That certain portion of the Building located at 9922, 9924, 9928, 9932, 9942 West 74th St. (see Article 42 of Addendum) and designated as Bays 8, 11, 12, 13, 14, 15 (see Article 42 of Addendum), consisting of approximately 26,115 square feet (10,074 square feet of office space and 16,041 square feet of warehouse space), as measured from the outside walls of the Demised Premises to the center of the partition wall, as shown on the floor plan attached hereto as Exhibit "B" and made a part hereof. The Demised Premises include a non-exclusive easement for access to common areas, as hereinafter defined, and all licenses and easements appurtenant to the Demised Premises.

"Common Areas" - The term "common area" means the entire areas to be used for the non-exclusive use by Lessee and other lessees in the Building, including, but not limited to, corridors, lavatories, driveways, truck docks, parking lots and landscaped areas. Subject to reasonable rules and regulations to the promulgated by Lessor, the common areas are hereby made available to Lessee and its employees, agents, customers, and invitees for reasonable use in common with other lessees, their employees, agents, customers and invitees.

WITNESSETH:

TERM:

1. For and in consideration of the rents, additional rents, terms, provisions and covenants herein contained, Lessor hereby lets, leases and demises to Lessee the Demised Premises for the term of 60 months commencing on the first day of January, 1992 (sometimes called "the Commencement Date") and expiring the last day of December, 1996 (sometimes called "Expiration Date"), unless sooner terminated as hereinafter provided.

BASE RENT:

2. Lessor reserves and Lessee shall pay Lessor, a total rental of Seven Hundred Thirteen Thousand Three Hundred Thirty and 46/100 Dollars ($713,330.46), payable in advance, in equal monthly installments of SEE ARTICLE 43 OF ADDENDUM Dollars ($ARTICLE 43), commencing on the

Commencement Date and continuing on the first day of each and every month thereafter for the next succeeding months during the balance of the term (sometimes called "Base Rent"). In the event the Commencement Date falls on a date other than the first of a month the rental for that month shall be prorated and adjusted accordingly.

ADDITIONAL RENT:

3. Lessee shall pay to Lessor throughout the term of this Lease the following:

a. Lessee shall pay a sum equal to Forty & 87/100 (See Article 44 of Addendum) percent (40.87%) of the Real Estate taxes. The term "Real Estate Taxes" shall mean all real estate taxes, all assessments and any taxes in lieu thereof which may be levied upon or assessed against the Premises of which the Demised Premises are a part. Lessee, in addition to all other payments to Lessor by Lessee required hereunder shall pay to Lessor, in each year during the term of this Lease and any extension or renewal thereof, Lessee's proportionate share of such real estate taxes and assessments paid in the first instance by Lessor.

Any tax year commencing during any lease year shall be deemed to correspond to such lease year. In the event the taxing authorities include in such real estate taxes and assessments the value of any improvements made by Lessee, or of machinery, equipment, fixtures, inventory or other personal property or assets of Lessee, then Lessee shall pay all the taxes attributable to such items in addition to its proportionate share of said aforementioned real estate taxes and assessments. A photostatic copy of the tax statement submitted by Lessor to Lessee shall be sufficient evidence of the amount of taxes and assessments assessed or levied against the Premises of which the Demised Premises are a part, as well as the items taxed.

b. A sum equal to Forty & 87/100 (See Article 44 of Addendum) percent (40.87%) of the annual aggregate operating expenses incurred by Lessor in the operation, maintenance and repair of the Premises. The term "Operating Expenses" shall include by not be limited to maintenance, repair, replacement and care of all common area lighting, common area plumbing and roofs, parking and landscaped areas, signs, snow removal, non-structural repair and maintenance of the exterior of the Building, insurance premiums, management fee, wages and fringe benefits of personnel employed for such work, costs of equipment purchased and used for such purposes, and the cost or portion thereof properly allocable to the Premises (amortized over such reasonable period as lessor shall determine together with the interest at the rate of 13% per annum on the unamortized balance) of any capital improvements made to the Building by Lessor after the Base Year which result in a reduction of Operating Expenses or made to the Building by Lessor after the date of this Lease that are required under any governmental law or regulation that was not applicable to the Building at the time it was constructed.

c. In no event shall the total adjusted monthly rent be less than Fifteen Thousand Two Hundred Twenty-Eight & 00/100 Dollars ($15,228), per month during the term of this Lease.

The payment of the sums set forth in this Article 3 shall be in addition to the Base Rent payable pursuant to Article 2 of this Lease. All sums due hereunder shall be due and payable

within thirty (30) days of delivery of written certification by Lessor setting forth the computation of the amount due from Lessee. In the event the lease term shall begin or expire at any time during the calendar year, the Lessee shall be responsible for his prorata share of Additional Rent under subdivisions a. and b. during the Lease and/or occupancy time.

Prior to commencement of this Lease, and prior to the commencement of each calendar year thereafter commencing during the term of this Lease or any renewal or extension thereof, Lessor may estimate for each calendar year (i) the total amount of Real Estate Taxes; (ii) the total amount of Operating Expenses; (iii) Lessee's share of Real Estate Taxes for such calendar year; (iv) Lessee's share of Operating Expenses for such calendar year; and (v) the computation of the annual and monthly rental payable during such calendar year as a result of increases or decreases in Lessee's share of Real Estate Taxes, and Operating Expenses. Said estimates will be in writing and will be delivered or mailed to Lessee at the Premises.

The amount of Lessee's share of Real Estate Taxes, and Operating Expenses for each calendar year, so estimated, shall be payable as Additional Rent, in equal monthly installments, in advance, on the first day of each month during such calendar year at the option of Lessor. In the event that such estimate is delivered to Lessee before the first day of January of such calendar year, said amount, so estimated, shall be payable as additional rent in equal monthly installments, in advance, on the first day of each month during such calendar year. In the event that such estimate is delivered to Lessee after the first day of January of such calendar year, said amount, so estimated, shall be payable as additional rent in equal monthly installments, in advance, on the first day of each month over the balance of such calendar year, with the number of installments being equal to the number of full calendar months remaining in such calendar year.

Upon completion of each calendar year during the term of this Lease or any renewal or extension thereof, Lessor shall cause its accountants to determine the actual amount of the Real Estate Taxes, and Operating Expenses payable in such calendar year and Lessee's share thereof and deliver a written certification of the amounts thereof to Lessee. If Lessee has underpaid its share of Real Estate Taxes, or Operating Expenses for such calendar year, Lessee shall pay the balance of its share of same within ten (10) days after the receipt of such statement. If Lessee has overpaid its share of Real Estate Taxes, or Operating Expenses for such calendar year, Lessor shall either (i) refund such excess, or (ii) credit such excess against the most current monthly installment or installments due Lessor for its estimate of Lessee's share of Real Estate Taxes, and Operating Expenses for the next following calendar year. A pro rata adjustment shall be made for a calendar year occurring during the term of this Lease or any renewal or extension thereof based upon the number of days of the term of the Lease during said calendar year as compared to three hundred sixty-five (365) days and all additional sums payable by Lessee or credits due Lessee as a result of the provisions of this Article 3 shall be adjusted accordingly.

COVENANT TO PAY RENT:

4. The covenants of Lessee to pay the Base Rent and the Additional Rent are each independent of any other covenant, condition, provision or agreement contained in this Lease. All rents are payable to Lessor at Welsh Companies, Inc., 11200 West 78th Street, Eden Prairie, MN 55344, or as may be designated by Lessor

UTILITIES:

5. Lessor shall provide mains and conduits to supply water, gas, electricity and sanitary sewage to the Premises. Lessee shall pay, when due, all charges for sewer usage or rental, garbage, disposal, refuse removal, water, electricity, gas, fuel oil, L.P. gas, telephone and/or other utility services or energy source furnished to the Demised Premises during the term of this Lease, or any renewal or extension thereof. In Lessor elects to furnish any of the foregoing utility services or other services furnished or caused to be furnished to Lessee, then the rate charged by Lessor shall not exceed the rate Lessee would be required to pay to a utility company or service company furnishing any of the foregoing utilities or services. The charges thereof shall be deemed additional rent in accordance with Article 3.

CARE AND REPAIR OF DEMISED PREMISES:

6. Lessee shall, at all times throughout the term of this Lease, including renewals and extension, and at its sole expense, keep and maintain the Demised Premises in a clean, safe, sanitary and first class condition and in compliance with all applicable laws, codes, ordinances, rules and regulations. Lessee's obligations hereunder shall include but not be limited to the maintenance, repair and replacement, if necessary, of heating, air conditioning fixtures, equipment, and systems, all lighting and plumbing fixtures and equipment, fixtures, motors and machinery, all interior walls, partitions, doors and windows, including the regular painting thereof, all exterior entrances, windows, doors and docks and the replacement of all broken glass. When used in this provision, the term "repairs" shall include replacements or renewals when necessary, and all such repairs made by the Lessee shall be equal in quality and class to the original work. The Lessee shall keep and maintain all portions of the Demised Premises and the sidewalk and areas adjoining the same in a clean and orderly condition, free of accumulation of dirt, rubbish, snow and ice.

If Lessee fails, refuses or neglects to maintain or repair the Demised Premises as required in this Lease after notice shall have been given Lessee, in accordance with Article 33 of this Lease, Lessor may make such repairs without liability to Lessee for any loss or damage that may accrue to Lessee's merchandise, fixtures or other property or to Lessee's business by reason thereof, and upon completion thereof, Lessee shall pay to Lessor all costs plus 15% for overhead incurred by Lessor in making such repairs upon presentation to Lessee of bill therefor.

Lessor shall repair, at its expense, the structural portions of the Building, provided however where structural repairs are required to be made by reason of the acts of Lessee, the costs thereof shall be borne by Lessee and payable by Lessee to Lessor upon demand.

The Lessor shall be responsible for all outside maintenance of the Demised Premises, including grounds and parking areas. All such maintenance which is the responsibility of the Lessor shall be provided as reasonably necessary to the comfortable use and occupancy of Demised Premises during business hours, except Saturdays, Sundays and holidays, upon the condition that the Lessor shall not be liable for damages for failure to do so due to causes beyond its control.

SIGNS:

7. Any sign, lettering, picture, notice or advertisement installed on or in any part of the Premises and visible from the exterior of the Building, or visible from the exterior of the Demised Premises, shall be approved and installed by Lessor at Lessee's expense. In the event of a violation of the foregoing by Lessee, Lessor may remove the same without any liability and may charge the expense incurred by such removal to Lessee.

ALTERATIONS, INSTALLATION, FIXTURES:

8. Except as hereinafter provided, Lessee shall not make any alteration, additions, or improvements in or to the Demised Premises or add, disturb or in any way change any plumbing or wiring therein without the prior written consent of the Lessor. In the event alterations are required by any governmental agency by reason of the use and occupancy of the Demised Premises by Lessee, Lessee shall make such alterations at its own cost and expense after first obtaining Lessor's approval of plans and specifications therefor and furnishing such indemnification as Lessor may reasonably require against liens, costs, damages and expenses arising out of such alterations. Alterations or additions by Lessee must be built in compliance with all laws, ordinances and governmental regulations affecting the Premises and Lessee shall warrant to Lessor that all such alterations, additions, or improvements shall be in strict compliance with all relevant laws, ordinances, governmental regulations, and insurance requirements. Construction of such alterations or additions shall commence only upon Lessee obtaining and exhibiting to Lessor the requisite approvals, licenses and permits and indemnification against liens. All alterations, installations, physical additions or improvements to the Demised Premises made by Lessee shall at once become the property of Lessor and shall be surrendered to Lessor upon the termination of this Lease; provided, however, this clause shall not apply to movable equipment or furniture owned by Lessee which may be removed by Lessee at the end of the term of this Lease if Lessee is not then in default.

POSSESSION:

9. Except as hereinafter provided Lessor shall deliver possession of the Demised Premises to Lessee in the condition required by this Lease on or before the Commencement Date, but delivery of possession prior to or later than such Commencement Date shall not affect the expiration date of this Lease. The rentals herein reserved shall commence on the date when possession of the Demised Premises is delivered by Lessor to Lessee. Any occupancy by Lessee prior to the beginning of the term shall in all respects be the same as that of a Lessee under this Lease. Lessor shall have no responsibility or liability for loss or damage to fixtures, facilities or equipment installed or left on the Demised Premises. If Demised Premises are not ready for occupancy by Commencement Date and possession is later than Commencement Date, rent shall begin on date of possession.

SECURITY AND DAMAGE DEPOSIT:

10. Lessee contemporaneously with the execution of this Lease, has transferred from Lease dated May 24, 1982, to the Lessor the sum of Two Thousand Seven Hundred and 00/100 Dollars

($2,700.00), receipt of which is acknowledged hereby by Lessor, which deposit is to be held by Lessor, without liability for interest, as a security and damage deposit for the faithful performance by Lessee during the term hereof or any extension hereof. Prior to the time when Lessee shall be entitled to return of this security deposit, Lessor may commingle such deposit with Lessor's own funds and to use such security deposit for such purpose as Lessor may determine. In the event of the failure of Lessee to keep and perform any of the terms, covenants and conditions of this Lease to be kept and performed by Lessee during the term hereof or any extension hereof, then Lessor, either with or without terminating this Lease, may (but shall not be required to) apply such portion of said deposit as may be necessary to compensate or repay Lessor for all losses or damages sustained or to be sustained by Lessor due to such breach on the part of Lessee, including, but not limited to overdue and unpaid rent, any other sum payable by Lessee to Lessor pursuant to the provisions of this Lease, damages or deficiencies in the reletting of Demised Premises, and reasonable attorney's fees incurred by Lessor. Should the entire deposit or any portion thereof, be appropriated and applied by Lessor, in accordance with the provisions of this paragraph, Lessee upon written demand by Lessor, shall remit forthwith to Lessor a sufficient amount of cash to restore said security deposit to the original sum deposited, and Lessee's failure to do so within five (5) days after receipt of such demand shall constitute a breach of this Lease. Said security deposit shall be returned to Lessee, less any depletion thereof as the result of the provisions of this paragraph, at the end of the term of this Lease or any renewal thereof, or upon the earlier termination of this Lease. Lessee shall have no right to anticipate return of said deposit by withholding any amount required to be paid pursuant to the provision of this Lease or otherwise.

In the event Lessor shall sell the Premises, or shall otherwise convey or dispose of its interest in this Lease, Lessor may assign said security deposit or any balance thereof to Lessor's assignee, whereupon Lessor shall be released from all liability for the return or repayment of such security deposit and Lessee shall look solely to the said assignee for the return and repayment of said security deposit. Said security deposit shall not be assigned or encumbered by Lessee without such consent of Lessor, and any assignment or encumbrance without such consent shall not bind Lessor. In the event of any rightful and permitted assignment of this Lease by Lessee, said security deposit shall be deemed to be held by Lessor as a deposit made by the assignee, and Lessor shall have no further liability with respect to the return of said security deposit to the Lessee.

USE:

11. The Demised Premises shall be used and occupied by Lessee solely for the purposes of general offices, laboratory, library, coating production, warehouse so long as such use is in compliance with all applicable laws, ordinances and governmental regulations affecting the Building and Premises. The Demised Premises shall not be used in such manner that, in accordance with any requirement of law or of any public authority, Lessor shall be obliged on account of the purpose of manner of said use to make any addition or alteration to or in the Building. The Demised Premises shall not be used in any manner which will increase the rates required to be paid for public liability or for fire and extended coverage insurance covering the Premises. Lessee shall occupy the Demised Premises conduct its business and control its agents, employees, invitees and visitors in such a way as is lawful, and reputable and will not permit or

create any nuisance, noise, odor, or otherwise interfere with, annoy or disturb any other lessee in the Building in its normal business operations or Lessor in its management of the Building. Lessee's use of the Demised Premises shall conform to all the Lessor's rules and regulations relating to the use of the Premises. Outside storage on the Premises of any type of equipment, property or materials owned or used on the Premise by Lessee or its customers and suppliers shall not be permitted.

ACCESS TO DEMISED PREMISES:

12. The Lessee agrees to permit the Lessor and the authorized representatives of the Lessor to enter the Demised Premises at all times during usual business hours for the purpose of inspecting the same and making any necessary repairs to the Demised Premises and performing any work therein that may be necessary to comply with any laws, ordinances, rules, regulations or requirements of any public authority or of the Board of Fire Underwriters or any similar body or that the Lessor may deem necessary to prevent waste or deterioration in connection with the Demised Premises. Nothing herein shall imply any duty upon the part of the Lessor to do any such work which, under any provision of this Lease, the Lessee may be required to perform and the performance thereof by the Lessor shall not constitute a waiver of the Lessee's default in failing to perform the same. The Lessor may, during the progress of any work in the Demised Premises, keep and store upon the Demised Premises all necessary materials, tools and equipment. The Lessor shall not in any event be liable for inconvenience, annoyance, disturbance, loss of business, or other damage of the Lessee by reason of making repairs or the performance or any work in the Demised Premises, or on account of bringing materials, supplies and equipment into or through the Demised Premises during the course thereof and the obligations of the Lessee under this Lease shall not thereby be affected in any manner whatsoever." Lessor reserves the right to enter upon the Demised Premises at any time in the event of an emergency and at reasonable hours to exhibit the Demised Premises to prospective purchasers or others; and to exhibit the Demised Premises to prospective Lessees and to the display "For Rent" or similar signs on windows or doors in the Demised Premises during the last One Hundred Twenty (120) days of the term of this Lease, all without hindrance or molestation by Lessee.

EMINENT DOMAIN:

13. In the event of any eminent domain or condemnation proceeding or private sale in lieu thereof in respect to the Premises during the term hereof, the following provisions shall apply:

a. If the whole of the Premises shall be acquired or condemned by eminent domain for any public or quasipublic use or purpose, then the term of this Lease shall cease and terminate as of the date possession shall be taken in such proceeding and all rentals shall be paid up to that date.

b. If any part constituting less than the whole of the Premises shall be acquired or condemned as aforesaid, and in the event that such partial taking or condemnation shall materially affect the Demised Premises so as to render the Demised Premises unsuitable for the business of the Lessee, in the reasonable opinion of Lessor, then the term of this Lease shall cease and terminate as of the date possession shall be taken by the condemning authority and rent shall be paid to the date of such termination.

In the event of a partial taking or condemnation of the Premises which shall not materially affect the Demised Premises so as to render the Demised Premises unsuitable for the business of the Lessee, in the reasonable opinion of the Lessor, this Lease shall continue in full force and effect but with a proportionate abatement of the Base Rent and Additional Rent based on the portion, if any, of the Demised Premises taken. Lessor reserves the right, at its option, to restore the Building and the Demised Premises to substantially the same condition as they were prior to such condemnation. In such event, Lessor shall give written notice to Lessee within thirty (30) days following the date possession shall be taken by the condemning authority, of Lessor's intention to restore. Upon Lessor's notice of election to restore, Lessor shall commence restoration and shall restore the Building and the Demised Premises with reasonable promptness, subject to delays beyond Lessor's control and delays in the making of condemnation or sale proceeds adjustments by Lessor; and Lessee shall have no right to terminate this Lease except as herein provided. Upon completion of such restoration, the rent shall be adjusted based upon the portion, if any, of the Demised Premises restored.

c. In the event of any condemnation or taking as aforesaid, whether whole or partial, the Lessee shall not be entitled to any part of the award paid for such condemnation and Lessor is to receive the full amount of such award, the Lessee hereby expressly waiving any right to claim to any part thereof.

d. Although all damages in the event of any condemnation shall belong to the Lessor whether such damages are awarded as compensation for diminution in value of the leasehold or to the fee of the Demised Premises. Lessee shall have the right to claim and recover from the condemning authority, but not from Lessor, such compensation as may be separately awarded or recoverable by Lessee in Lessee's own right on account of any and all damage to Lessee's business by reason of the condemnation and for or on account of any cost or loss to which Lessee might be put in removing Lessee's merchandise, furniture, fixtures, leasehold improvements and equipment. However, Lessee shall have no claim against Lessor or make any claim with the condemning authority for the loss of its leasehold estate, any unexpired term or loss of any possible renewal or extension of said lease or loss of any possible value of said lease, any unexpired term, renewal or extension of said Lease.

DAMAGE OR DESTRUCTION:

14. In the event of any damage or destruction to the Premises by fire or other cause during the term hereof, the following provisions shall apply:

a. If the Building is damaged by fire or any other cause to such extent that the cost of restoration, as reasonably estimated by Lessor, will equal or exceed thirty percent (30%) of the replacement value of the Building (exclusive of foundations) just prior to the occurrence of the damage, then Lessor may, no later than the sixtieth (60th) day following the damage, give Lessee written notice of Lessor's election to terminate this Lease.

b. If the cost of restoration as estimated by Lessor will equal or exceed fifty percent (50%) of said replacement value of the Building and if the Demised Premises are not suitable as a

result of said damage for the purposes for which they are demised hereunder, in the reasonable opinion of Lessee, then Lessee may, no later than the sixtieth (60th) day following the damage, give Lessor a written notice of election to terminate this Lease.

c. If the cost of restoration as estimated by Lessor shall amount to less than thirty percent (30%) of said replacement value of the Building, or if, despite the cost, Lessor does not elect to terminate this Lease, Lessor shall restore the Building and the Demised Premises with reasonable promptness, subject to delays beyond Lessor's control and delays in the making of insurance adjustments by Lessor; and Lessee shall have no right to terminate this Lease except as herein provided. Lessor shall not be responsible for restoring or repairing leasehold improvements of the Lessee.

d. In the event of either of the elections to terminate, this Lease shall be deemed to terminate on the date of the receipt of the notice of election and all rentals shall be paid up to that date. Lessee shall have no claim against Lessor for the value of any unexpired term of this Lease.

e. In any case where damage to the Building shall materially affect the Demised Premises so as to render them unsuitable in whole or in part for the purposes for which they are demised hereunder, then, unless such destruction was wholly or partially caused by the negligence or breach of the terms of this Lease by Lessee, its employees, contractors or licensees, a portion of the rent based upon the amount of the extent to which the Demised Premises are rendered unsuitable shall be abated until repaired or restored. If the destruction or damage was wholly or partially caused by negligence or breach of the terms of this Lease by Lessee as aforesaid and if Lessor shall elect to rebuild, the rent shall not abate and the Lessee shall remain liable for the same.

CASUALTY INSURANCE:

15. a. Lessor shall at all times during the term of this Lease, at its expense, maintain a policy or policies of insurance with premiums paid in advance issued by an insurance company licensed to do business in the State of Minnesota insuring the Building against loss or damage by fire, explosion or other insurable hazards and contingencies for the full replacement value, provided that Lessor shall not be obligated to insure any furniture, equipment, machinery, goods or supplies not covered by this Lease which Lessee may bring upon the Demised Premises or any additional improvements which Lessee may construct or install on the Demised Premises.

b. Lessee shall not carry any stock of goods or do anything in or about the Demised Premises which will in any way impair or invalidate the obligation of the insurer under any policy of insurance required by this Lease.

c. Lessor hereby waives and releases all claims, liabilities and causes of action against Lessee and its agents, servants and employees for loss or damage to, or destruction of, the Premises or any portion thereof, including the buildings and other improvements situated thereon, resulting from fire, explosion and other perils included in standard extended coverage insurance, whether caused by the negligence of any of said persons or otherwise. Likewise, Lessee hereby waives and releases all claims, liabilities and causes of action against Lessor and its agents, servants and employees for loss or

damage to, or destruction of, any of the improvements, fixtures, equipment, supplies, merchandise and other property whether that of Lessee or of others in, upon or about the Premises resulting from fire, explosion or the other perils included in standard extended coverage insurance, whether caused by the negligence of any of said persons or otherwise. The waiver shall remain in force whether or not the Lessee's insurer shall consent thereto.

d. In the event that the use of the Demised Premises by Lessee increases the premium rate for insurance carried by Lessor on the improvements of which the Demised Premises are a part, Lessee shall pay Lessor, upon demand, the amount of such premium increase. If Lessee installs any electrical equipment that overloads the power lines to the building or its wiring, Lessee shall, at its own expense, make whatever changes are necessary to comply with the requirements of the insurance underwriter, insurance rating bureau and governmental authorities having jurisdiction.

PUBLIC LIABILITY INSURANCE

16. Lessee shall during the term hereof keep in full force and effect at its expense a policy or policies of public liability insurance with respect to the Demised Premises and the business of Lessee, on terms with companies approved in writing by Lessor, in which both Lessee and Lessor shall be covered by being named as insured parties under reasonable limits of liability not less than: $500,000 for injury/death to any one person; $1,000,000 for injury/death to more than one person, and $500,000 with respect to damage to property. Such policy or policies shall provide that ten (10) days written notice must be given to Lessor prior to cancellation thereof. Lessee shall furnish evidence satisfactory to Lessor at the time this Lease is executed that such coverage is in full force and effect.

DEFAULT OF LESSEE:

17. a. In the event of any failure of Lessee to pay any rental due hereunder within ten (10) days after the same shall be due, or any failure to perform any other of the terms, conditions or covenants of this Lease to be observed or performed by Lessee for more than thirty (30) days after written notice of such failure shall have been given to Lessee, or if Lessee or an agent of Lessee shall falsify any report required to be furnished to Lessor pursuant to the terms of this Lease, or if Lessee or any guarantor of this Lease shall become bankrupt or insolvent, or file any debtor proceedings or any person shall take or have against Lessee or any guarantor of this Lease in any court pursuant to any statute either of the United States or of any state a petition in bankruptcy or insolvency or for reorganization or for the appointment of a receiver or trustee of all or a portion of Lessee's or any such guarantor's property, or if Lessee or any such guarantor makes an assignment for the benefit of creditors, or petitions for or enters into an arrangement, or if Lessee shall abandon the Demised Premises or suffer this Lease to be taken under any writ of execution, then in any such event Lessee shall be in default hereunder, and Lessor, in addition to other rights of remedies it may have, shall have the immediate right of re-entry and may remove all persons and property from the Demised Premises and such property may be removed and stored in a public warehouse or elsewhere at the cost of, and for the account of

Lessee, all without service of notice or resort to legal process and without being guilty of trespass, or becoming liable for any loss or damage which may be occasioned thereby.

b. Should Lessor elect to re-enter the Demised Premises, as herein provided, or should it take possession of the Demised Premises pursuant to legal proceedings or pursuant to any notice provided for by law, it may either terminate this Lease or it may from time to time, without terminating this Lease, make such alterations and repairs as may be necessary in order to relet the Demised Premises, and relet the Demised Premises or any part thereof such term or terms (which may be for a term extending beyond the term of this Lease) and at such rental or rentals and upon such other terms and conditions as Lessor in its sole discretion may deem advisable. Upon each such subletting all rentals received by the Lessor from such reletting shall be applied first to the payment of any indebtedness other than rent due hereunder from Lessee to Lessor; second, to the payment of any costs and expenses of such reletting, including brokerage fees and attorney's fees and costs of such alterations and repairs; third, to the payment of the rent due and upon payment of future rent as the same may become due and payable hereunder. If such rentals received from such reletting during any month be less than that to be paid during that month by Lessee hereunder, Lessee, upon demand, shall pay any such deficiency to Lessor. No such re-entry or taking possession of the Demised Premises by Lessor shall be construed as an election on its part to terminate this Lease unless a written notice of such intention be given to Lessee or unless the termination thereof be decreed by a court of competent jurisdiction. Notwithstanding any such reletting without termination, Lessor may at any time after such re-entry and reletting elect to terminate this Lease for any such breach, in addition to any other remedies it may have, it may recover from Lessee all damages it may incur by reason of such breach, including the cost of recovering the Demised Premises, reasonable attorney's fees, and including the worth at the time of such termination of the excess, if any, of the amount of rent and charges equivalent to rent reserved in this Lease for the remainder of the stated term over the then reasonable rental value of the Demised Premises for the remainder of the stated term, all of which amounts shall be immediately due and payable from Lessee to Lessor.

c. Lessor may, at its option, instead of exercising any other rights or remedies available to it in this Lease or otherwise by law, statute or equity, spend such money as is reasonably necessary to cure any default of Lessee herein and the amount so spent, and costs incurred, including attorney's fees in curing such default, shall be paid by Lessee, as additional rent, upon demand.

d. In the event suit shall be brought for recovery of possession of the Demised Premises, for the recovery of rent or any other amount due under the provisions of this Lease, or because of the breach of any other covenant herein contained on the part of Lessee to be kept or performed, and a breach shall be established, Lessee shall pay to Lessor all expenses incurred therefor, including a reasonable attorney's fee, together with interest on all such expenses at the rate of Eighteen and 00/100 percent (18%) per annum from the date of such breach of the covenants of this Lease.

e. Lessee hereby expressly waives any and all rights of redemption granted by or under any present or future laws in the event of Lessee being

evicted or dispossessed for any cause, or in the event of Lessor obtaining possession of the Demised Premises, by reason of the violation by Lessee of any of the covenants or conditions of this Lease, or otherwise. Lessee also waives any demand for possession of the Demised Premises, and any demand for payment of rent and any notice of intent to re-enter the Demised Premises, or of intent to terminate this Lease, other than the notices above provided in this Article, and waives any and every other notice or demand prescribed by any applicable statutes or laws.

f. No remedy herein or elsewhere in this Lease or otherwise by law, statute or equity, conferred upon or reserved to Lessor or Lessee shall be exclusive of any other remedy, but shall be cumulative, and may be exercised from time to time and as often as the occasion may arise.

COVENANTS TO HOLD HARMLESS:

18. Unless the liability for damage or loss is caused by the negligence of Lessor, its agents or employees, Lessee shall hold harmless Lessor from any liability for damages to any person or property in or upon the Demised Premises and the Premises, including the person and the property of Lessee and its employees and all persons in the Building at its or their invitation or sufferance, and from all damages resulting from Lessee's failure to perform the covenants of this Lease. All property kept, maintained or stored on the Demised Premises shall be so kept, maintained or stored at the sole risk of Lessee. Lessee agrees to pay all sums of money in respect of any labor, service, materials, supplies or equipment furnished or alleged to have been furnished to Lessee in or about the Premises, and not furnished on order of Lessor, which may be secured by any Mechanic's Materialmen's or other lien to be discharged at the time performance of any obligation secured thereby matures, provided that Lessee may contest such lien, but if such lien is reduced to final judgment and if such judgment or process thereon is not stayed, or if stayed and said stay expires, then and in each such event, Lessee shall forthwith pay and discharge said judgment. Lessor shall have the right to post and maintain on the Demised Premises, notices of non-responsibility under the laws of the State of Minnesota.

NON-LIABILITY:

19. Subject to the terms and conditions of Article 14 hereof, Lessor shall not be liable for damage to any property of Lessee or of others located on the Premises, nor for the loss of or damage to any property of Lessee or of others by theft or otherwise. Lessor shall not be liable for any injury or damage to persons or property resulting from fire, explosion, falling plaster, steam, gas, electricity, water, rain or snow or leaks from any part of the Premises or from the pipes, appliances, or plumbing works or from the roof, street or subsurface or from any other place or by dampness or by any other cause of whatsoever nature. Lessor shall not be liable for any such damage caused by other Lessees or persons in the Premises, occupants of adjacent property, of the buildings, or the public or caused by operations in construction of any private, public or quasi-public work. Lessor shall not be liable for any latent defect in the Demised Premises. All property of Lessee kept or stored on the Demised Premises shall be so kept or stored at the risk of Lessee only and Lessee shall hold Lessor harmless from any claims arising out of damage to the same, including subrogation claims by Lessee's insurance carrier.

SUBORDINATION:

20. This Lease shall be subordinated to any mortgages that may now exist or that may hereafter be placed upon the Demised Premises and to any and all advances made thereunder, and to the interest upon the indebtedness evidenced by such mortgages, and to all renewals, replacements and extensions thereof. In the event of execution by Lessor after the date of this Lease of any such mortgage, renewal, replacement or extension, Lessee agrees to execute a subordination agreement with the holder thereof which agreement shall provide that:

a. Such holder shall not disturb the possession and other rights of Lessee under this Lease so long as Lessee is not in default hereunder,

b. In the event of acquisition of title to the Demised Premises by such holder, such holder shall accept the Lessee as Lessee of the Demised Premises under the terms and conditions of this Lease and shall perform all the obligations of Lessor hereunder, and

c. The Lessee shall recognize such holder as Lessor hereunder. Lessee shall, upon receipt of a request from Lessor therefor, execute and deliver to Lessor or to any proposed holder of a mortgage or trust deed or to any proposed purchaser of the Premises, a certificate in recordable form, certifying that this Lease is in full force and effect, and that there are no offsets against rent nor defenses to Lessee's performance under this Lease, or setting forth any such offsets or defenses claimed by Lessee, as the case may be.

ASSIGNMENT OR SUBLETTING:

21. Lessee agrees to use and occupy the Demised Premises throughout the entire term hereof for the purpose of purposes herein specified and for no other purposes, in the manner and to substantially the extent now intended, and not to transfer or assign this Lease or sublet said Demised Premises, or any part thereof, whether by voluntary act, operation of law, or otherwise, without obtaining the prior consent of Lessor in each instance. Lessee shall seek such consent of Lessor by a written request therefor, setting forth such information as Lessor may deem necessary. Lessor agrees not to withhold consent unreasonably. Consent by Lessor to any assignment of this Lease or to any subletting of the Demised Premises shall not be a waiver of Lessor's rights under this Article as to any subsequent assignment or subletting. Lessor's rights to assign this Lease are and shall remain unqualified. No such assignment or subleasing shall relieve the Lessee from any of Lessee's obligations in this Lease contained, nor shall any assignment or sublease or other transfer of this Lease be effective unless the assignee, sublessee or transferee shall at the time of such assignment, sublease or transfer, assume in writing for the benefit of Lessor, its successors or assigns, all of the terms, covenants and conditions of this Lease thereafter to be performed by Lessee and shall agree in writing to be bound thereby. Should Lessee sublease in accordance with the terms of this Lease, fifty percent (50%) of any increase in rental received by Lessee over the per square foot rental rate which is being paid by Lessee shall be forwarded to and retained by Lessor, which increase shall be in addition to the Base Rent and Additional Rent due Lessor under this Lease.

ATTORNMENT:

22. In the event of a sale or assignment of Lessor's interest, in the Premises, or the Building in which the Demised Premises are located, or this Lease, or if the Premises come into custody or possession of a mortgagee or any other party whether because of a mortgage foreclosure, or otherwise, Lessee shall attorn to such assignee or other party and recognize such party as Lessor hereunder; provided, however, Lessee's peaceable possession will not be disturbed so long as Lessee faithfully performs its obligations under this Lease. Lessee shall execute, on demand, any attornment agreement required by any such party to be executed, containing such provisions and such other provisions as such party may require.

NOVATION IN THE EVENT OF SALE:

23. In the event of the sale of the Demised Premises, Lessor shall be and hereby is relieved of all the covenants and obligations created hereby accruing from and after the date of sale, and such sale shall result automatically in the purchaser assuming and agreeing to carry out all the covenants and obligations of Lessor herein. Notwithstanding the foregoing provisions of this Article, Lessor, in the event of a sale of the Demised Premises, shall cause to be included in this agreement of sale and purchase a covenant whereby the purchaser of the Demised Premises assumes and agrees to carry out all of the covenants and obligations of Lessor herein.

The Lessor agrees at any time and from time to time upon not less than ten (10) days prior written request by the Lessor to execute, acknowledge and deliver to the Lessor a statement in writing certifying that this Lease is unmodified and in full force and effect as modified and stating the modifications, and the dates to which the basic rent and other charges have been paid in advance, if any, it being intended that any such statement delivered pursuant to this paragraph may be relied upon by any prospective purchaser of the fee or mortgagee or assignee of any mortgage upon the fee of the Demised Premises.

SUCCESSORS AND ASSIGNS:

24. The terms, covenants and conditions hereof shall be binding upon and inure to the successors and assigns of the parties hereto.

REMOVAL OF FIXTURES:

25. Notwithstanding anything contained in Article 8, 29 or elsewhere in this Lease, if Lessor requests then Lessee will promptly remove at the sole cost and expense of Lessee all fixtures, equipment and alterations made by Lessee simultaneously with vacating the Demised Premises and Lessee will promptly restore said Demised Premises to the condition that existed immediately prior to said fixtures, equipment and alterations having been made all at the sole cost and expense of Lessee.

QUIET ENJOYMENT:

26. Lessor warrants that it has full right to execute and to perform this Lease and to grant the estate demised, and that Lessee, upon payment of the rents and other amounts due and the

performance of all the terms, conditions, covenants and agreements on Lessee's part to be observed and performed under this Lease, may peaceably and quietly enjoy the Demised Premises for the business uses permitted hereunder, subject, nevertheless, to the terms and conditions of this Lease.

RECORDING:

27. Lessee shall not record this Lease without the written consent of Lessor. However, upon the request of either party hereto, the other party shall join in the execution of the Memorandum lease for the purposes of recordation. Said Memorandum lease shall describe the parties, the Demised Premises and the term of the Lease and shall incorporate this Lease by reference. This Article 27 shall not be construed to limit Lessor's right to file this Lease under Article 22 of this Lease.

OVERDUE PAYMENTS:

28. All monies due under this Lease from Lessee to Lessor shall be due on demand, unless otherwise specified and if not paid when due, shall result in the imposition of a service charge for such late payment in the amount of Eighteen percent (18%) of the amount due.

SURRENDER:

29. On the Expiration Date or upon the termination hereof upon a day other than the Expiration Date, Lessee shall peaceably surrender the Demise Premises broom-clean in good order, condition and repair, reasonable wear and tear only excepted. On or before the Expiration Date or upon termination of this Lease on a day other than the Expiration Date, Lessee shall, at its expense, remove all trade fixtures, personal property and equipment and signs from the Demised Premises and any property not removed shall be deemed to have been abandoned. Any damage caused in the removal of such items shall be repaired by Lessee and at its expense. All alterations, additions, improvements and fixtures (other than trade fixtures) which shall have been made or installed by Lessor or Lessee upon the Demised Premises and all floor covering so installed shall remain upon and be surrendered with the Demised Premises as a part thereof, without disturbance, molestation or injury, and without charge, at the expiration or termination of this Lease. If the Demised Premises are not surrendered on the Expiration Date or the date of termination, Lessee shall indemnify Lessor against loss or liability, claims, without limitation, made by any succeeding Lessee founded on such delay. Lessee shall promptly surrender all keys for the Demised Premises to Lessor at the place than fixed for payment of rent and shall inform Lessor of combinations of any locks and safes on the Demised Premises.

HOLDING OVER:

30. In the event of a holding over by Lessee after expiration or termination of this Lease without the consent in writing of Lessor, Lessee shall be deemed a lessee at sufferance and shall pay rent for such occupancy at the rate of twice the last-current aggregate Base and Additional Rent, prorated for the entire holdover period, plus all attorneys' fees and expenses incurred by Lessor in enforcing its rights hereunder, plus any other damages occasioned by such holding over.

Except as otherwise agreed, any holding over with the written consent of Lessor shall constitute Lessee with a month-to-month lessee.

ABANDONMENT:

31. In the event Lessee shall remove its fixtures, equipment or machinery or shall vacate the Demised Premises or any part thereof prior to the Expiration Date of this Lease, or shall discontinue or suspend the operation of its business conducted on the Demised Premises for a period of more than thirty (30) consecutive days (except during any time when the Demised Premises may be rendered intenantable by reason of fire or other casualty),then in any such event Lessee shall be deemed to have abandoned the Demised Premises and Lessee shall be in default under the terms of this Lease.

CONSENTS BY LESSOR:

32. Whenever provision is made under this Lease for Lessee securing the consent or approval by Lessor, such consent or approval shall only be in writing.

NOTICES:

33. Any notice required or permitted under this Lease shall be deemed sufficiently given or secured if sent by registered or certified return receipt mail to Lessee at Bio-Metrics Systems, Inc., 9932 West 74th Street, Eden Prairie, MN 55344 and to Lessor at the address then fixed for the payment of rent as provided in Article 4 of this Lease, and either party may by like written notice at any time designate a different address to which notices shall subsequently be sent or rent to be paid.

RULES AND REGULATIONS:

34. Lessee shall observe and comply with reasonable rules and regulations as Lessor may prescribe, on written notice to Lessee for the safety, care and cleanliness of the Building.

INTENT OF PARTIES:

35. Except as otherwise provided herein, the Lessee covenants and agrees that if it shall any time fail to pay any such cost or expense, or fail to take out, pay for, maintain or deliver any of the insurance policies above required, or fail to make any other payment or perform any other act on its part to be made or performed as in this Lease provided, then the Lessor may, but shall not be obligated so to do, and without notice to or demand upon the Lessee and without waiving or releasing the Lessee from any obligations of the Lessee in this Lease contained, pay any such cost or expense, effect any such insurance coverage and pay premiums therefore, and may make any other payment or perform any other act on the part of the Lessee to be made and performed as in this Lease provided, in such manner and to such extent as the Lessor may deemed desirable, and in exercising any such right, to also pay all necessary and incidental costs and expenses, employ counsel and incur and pay reasonable attorneys' fees. All sums so paid by Lessor and all necessary and incidental costs and expenses in connection with the performance of any such act

by the Lessor, together with interest thereon at the rate of eighteen percent (18%) per annum from the date of making of such expenditure, by Lessor, shall be deemed additional rent hereunder, and shall be payable to Lessor on demand. Lessee covenants to pay any such sum or sums with interest as aforesaid and the Lessor shall have the same rights and remedies in the event of the non-payment thereof by Lessee as in the case of default by Lessee in the payment of the Base Rent payable under this Lease.

GENERAL:

36. The Lease does not create the relationship of principal and agent or of partnership or of joint venture or of any association between Lessor and Lessee, the sole relationship between the parties hereto being that of Lessor and Lessee.

No waiver of any default of Lessee hereunder shall be implied from any omission by Lessor to take any action on account of such default if such default persists or is repeated, and no express waiver shall affect any default other than the default specified in the express waiver and that only for the time and to the extent therein stated. One or more waivers by Lessor shall not then be construed as a waiver of subsequent breach of the same covenant, term or condition. The consent to or approval by Lessor of any act by Lessee requiring Lessor's consent or approval shall not waive or render unnecessary Lessor's consent to or approval of any subsequent similar act by Lessee shall be construed to be both a covenant and a condition. No action required or permitted to be taken by or on behalf of Lessor under the terms or provisions of this Lease shall be deemed to constitute an eviction or disturbance of Lessee's possession of the Demised Premises. All preliminary negotiations are merged into and incorporated in this Lease. The laws of the State of shall govern the validity, performance and enforcement of this Lease.

a. This Lease and the exhibits, if any, attached hereto and forming a part hereof, constitute the entire agreement between Lessor an Lessee affecting the Demised Premises and there are no other agreements, either oral or written, between them other than are herein set forth. No subsequent alteration, amendment, change or addition to this Lease shall be binding upon Lessor or Lessee unless reduced to writing and executed in the same form and manner in which this Lease is executed.

b. If any agreement, covenant or condition of this Lease or the application thereof to any person or circumstances shall, to any extent, be invalid or unenforceable, the remainder of this Lease, or the application of such agreement, covenant or condition to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby and each agreement, covenant or condition of this Lease shall be valid and be enforced to the fullest extent permitted by law.

HAZARDOUS MATERIAL:

37. a. The Premises hereby leased shall be used by and/or at the sufferance of Lessee only for the purpose set forth in Article 11 above and for no other purposes. Lessee shall not use or permit the use of the Premises in any manner that will tend to create waster or a nuisance, or

will tend to unreasonably disturb other Lessees in the Building or the Project. Lessee, its employees and all persons visiting or doing business with Lessee in the Premises shall be bound by and shall observe the Building Rules and Regulations attached to this Lease as Exhibit "C", and such further and other reasonable rules and regulations made hereafter by Lessor relating to the Premises, the Building or the Project of which notice in writing shall be given to the Lessee, and all such rules and regulations shall be deemed to be incorporated into and form a part of this Lease.

b. Lessee covenants throughout the Lease Term, at Lessee's sole cost and expense, promptly to comply with all laws and ordinances and the orders, rules and regulations and requirements of all federal, state and municipal governments and appropriate departments, commissions, boards, and officers thereof, and the orders, rules and regulations of the Board of Fire Underwriters where the Premises are situated, or any other body now or hereafter well as extraordinary, and whether or not the same require structural repairs or alterations, which may be applicable to the Premises, or the use or manner of use of the Premises. Lessee will likewise observe and comply with the requirements of all policies of public liability, fire and all other policies of insurance at any time in force with respect to the buildings and improvements on the Premises and the equipment thereof.

c. In the event any Hazardous Material (hereinafter defined) is brought or caused to be brought into or onto the Premises, the Building or the Project by Lessee, Lessee shall handle any such material in compliance with all applicable federal, state and/or local regulations. For purposes of this Article, "Hazardous Material" means and includes any hazardous, toxic or dangerous waste, substance or material defined as such in (or for purposes of) the Comprehensive Environmental Response, Compensation, and Liability Act, any so-called "Superfund" or "Superlien" law, or any federal, state or local statute, law, ordinance, code, rule, regulation, order decree regulating, relating to, or imposing liability or standards of conduct concerning, any hazardous, toxic or dangerous waste, substance or material, as now or at any time hereafter in effect. Lessee shall submit to Lessor on an annual basis copies of its approved hazardous materials communication plan, OSHA monitoring plan, and permits required by the Resource Recovery and Conservation Act of 1976, if Lessee is required to prepare, file or obtain any such plans or permits. Lessee will indemnify and hold harmless Lessor from any losses, liabilities, damages, costs or expenses (including reasonable attorneys' fees) which Lessor may suffer or incur as a result of Lessee's introduction into or onto the Premises of any Hazardous Material. This Article shall survive the expiration or sooner termination of this Lease.

CAPTIONS:

38. The captions are inserted only as a matter of convenience and for reference, and in no way define, limit or describe the scope of this Lease nor the intent or any provision thereof.

EXHIBITS

39. Reference is made to Exhibits A through _____, inclusive, which Exhibits are attached hereto and made a part hereof.

EXHIBIT	DESCRIPTION
Exhibit A	Legal Description
Exhibit B	Demised Premises
Exhibit D	Improvements
Exhibit E	Sign Criteria
Exhibit C	Addendum to Lease

40. Submission of this instrument to Lessee or proposed Lessee or his agents or attorneys for examination, review, consideration or signature does not constitute or imply an offer to lease, reservation of space, or option to lease, and this instrument shall have no binding legal effect until execution hereof by both Lessor/Owner and Lessee or its agents.

41. It is agreed and understood that Larry AuBuchon, agent or broker with Welsh Companies, Inc. is representing Prairieview Jack, Ltd., Lessor, and no agent or broker with anyone is representing Bio-Metrics Systems, Inc., Lessee.

See attached Addendum for additional provisions.

IN WITNESS WHEREOF, the Lessor and the Lessee have caused these presents to be executed in form and manner sufficient to bind them at law, as of the day and year first above written.

Lessee: Bio-Metrics Systems, Inc. (a Minnesota Corporation)	Lessor: Prairieview Jack, Ltd., by Amberjack, Ltd. its General Partner, by Welsh Companies, Inc., its Manager
- ----------	----------
By: /s/ Dale R. Olseth ----------	By: /s/ Richard P. McGinley ----------
Dale R. Olseth	
Its: ----------	Its: Vice President ----------
	By: /s/ Robert Zabach ----------
	Its: Vice President ----------

STATE OF

COUNTY OF ss.:

On this 22 day of Nov., 1991, personally came before me, a Notary Public within and for said County, _____ and _____, to me well known to be the same persons described in and who executed the foregoing instrument, and acknowledged that they executed the same as their free act and deed.

/s/ Elizabeth H. Trad

Notary Public

My commission expires: Dec. 27, 1993

STATE OF

COUNTY OF ss.:

On this _____ day of _____, 19___, personally came before me, a Notary Public within and for said County, _____ and _____, to me well known to be the same

persons described in and who executed the foregoing instrument, and acknowledged that they executed the same as their free act and deed.

Notary Public

My commission expires:

EXHIBIT "A"

LEGAL DESCRIPTION

Lot 1, Block 1, Norseman Industrial Park Fourth Addition according to the plat on file and of record in the office of the County Recorder, Hennepin County, Minnesota

EXHIBIT C

ADDENDUM TO LEASE

DATED NOVEMBER 14, 1991

BY AND BETWEEN PRAIRIEVIEW JACK LTD. (LESSOR)

AND BIO-METRICS SYSTEMS, INC. (LESSEE)

Article 42. DEMISED PREMISES.

The Demised Premises from January 1, 1992, through June 30, 1994, will be as described on Page 1 of this Lease dated November 14, 1991, that this Addendum is part of. Commencing July 1, 1994, through the "Expiration Date" (December 31, 1996) the Demised Premises will be increased in size to include 9936 West 74th Street consisting of Bays 9 and 10 which consist of approximately 6,159 square feet (3,200 square feet of office space and 2,959 square feet of warehouse space). The total square footage of the Demised Premises as of July 1, 1994, through the Expiration Date will consist of approximately 32,274 square feet.

Article 43. BASE RENT.

The monthly base rent for the Premises is as follows:

January 1, 1992, through and including December 31, 1992:	$9,047.25 per month.
January 1, 1993, through and including June 30, 1994:	$10,135.38 per month.
July 1, 1994, through and including June 30, 1995:	$13,404.13 per month.
July 1, 1995, through and including December 31, 1995:	$14,081.75 per month.
January 1, 1996, through and including December 31, 1996:	$14,748.88 per month.

Article 44. PERCENTAGE OF REAL ESTATE TAXES AND ANNUAL AGGREGATE OPERATING EXPENSES.

Commencing July 1, 1994, the Demised Premises is expanded as indicated in Article 42, and the Lessee's proportionate share of Additional Rent as specified in Article 3 attributed to the Premises is also increased from Forty and 87/100 percent to Fifty and 50/100 percent (50.50%) until the Expiration Date of December 31, 1996.

Article 45. IMPROVEMENT ALLOWANCE FOR EXPANSION SPACE.

The Lessor will provide Sixty-Five Thousand Fifty-One and 00/100 Dollars ($65,051.00) for tenant improvements according to Exhibit D.1 and D.2 to be done in 3,134 square feet of 9922 West 74th Street and the 6,159 square feet of 9936 West 74th Street both being added to the Lessee's Demised Premises with the execution of this Lease. Improvements to the Demised

Premises will be approved by Lessor and Lessee by each initialing Exhibit D.1 and Exhibit D.2, the construction plans for the tenant improvements in 9922 and 9936 West 74th Street. Any amount of money spent over the tenant improvement allowance of $65,051.00 on improvements to 9922 and 9936 West 74th Street up to an additional Five Thousand and 00/100 Dollars ($5,000.00) will be paid for initially by the Lessor and repaid for by the Lessee over the remaining term of the Lease with Ten Percent (10%) interest. Any amount of money spent on tenant improvements above Seventy Thousand Fifty-One and 00/100 Dollars ($70,051.00) will immediately upon invoicing be paid for by the Lessee. All improvements to 9922 West 74th Street, Bay 15, will be completed prior to February 15, 1991. All improvements to 9936 West 74th Street, Bays 9 and 10, will be completed prior to October 1, 1994. The tenant improvement allowance will in no instance be refunded or credited to the Lessee if not spent on construction of the Demised Premises.

Article 46. FIRST OPPORTUNITY TO LEASE ADDITIONAL SPACE.

Provided Lessee is not in default and has performed all of its obligations herein, Lessee shall have the First Opportunity to lease such other contiguous space on the ground floor of the Premises as it becomes available for leasing during the term of this Lease for a term coterminous with this Lease and at rental rates and upon such other terms and conditions, other than rent-free periods, as are being offered by Lessor to the general public for such space. Upon notification in writing by Lessor that such space is available, Lessee shall have ten (10) business days in which to elect in writing so to lease such space, in which event the Lease for same shall commence not more than thirty (30) days after such space becomes vacant.

In the event Lessee declines or fails to elect so to lease such space, then the First Opportunity hereby granted shall automatically terminate and shall thereafter be null and void as to such space.

It is understood that the First Opportunity shall not be construed to prevent any tenant in the building from extending or renewing its Lease.

This First Opportunity hereby granted is personal to Bio-Metrics Systems, Inc., and is not transferable. In the event of any assignment or subletting under this Lease, this First Opportunity shall automatically terminate and shall thereafter be null and void.

Article 47.

With the full execution and acceptance of this Lease and the removal of any contingency, it is understood and agreed that Lessor and Lessee will execute Termination of Lease Agreements terminating Leases dated May 24, 1982, and April 22, 1986, and January 8, 1987, and any additional Amendments or Agreements.

Article 48.

It is understood and agreed that this Lease is contingent upon the Lessor's ability to provide 9922 West 74th Street West consisting of 3,134 square feet available for lease to the Lessee and therefore a Termination Agreement will have to be executed between the Lessor and North Central Sales, the current occupant of 9922 West 74th Street.

EXHIBIT E
Prairieview Business Center
9910-9950 - 74th Street

SIGN CRITERIA

1. Tenant identification shall be by way of 15" dimensional Helvetica upper class letters painted ivory in color and mounted above the bay windows. Signs shall be centered and shall not extend closer than 18" to the edge of the bay. In some cases, letters of a smaller size will be permitted for a portion of the message. No logos will be permitted.

2. Identification will be permitted, including logos, on the glass entry doors to the units. Front doors will be identified with 3" Helvetica, ivory colored, letters.

3. Rear identification shall be with bronze plastic plates, 8" in width x length of name, with 6" ivory Helvetica upper case flat letters affixed.

4. Proposed sign layouts may be submitted to Welsh Companies for approval prior to fabrication. The city building inspector will not issue sign permits unless the application is accompanied by a sign layout with written approval from Welsh Companies on the layout.

5. To facilitate preparation of approved signage, a sign consultant has been appointed for the project. He is Richard Walsh, 561 Third Street, Excelsior, Minnesota 55331. Telephone: 474-6943. Tenants are requested to work with him on proposed signage layouts.

AGREEMENT TO AMEND AND EXTEND LEASE

TO LEASE DATED November 18, 1991 BY AND BETWEEN Prairieview Jack, Ltd., AmberJack, Ltd., its General Partner, Welsh Companies, Inc., its Manager, AS LESSOR AND Bio-Metric Systems, Inc. (A Minnesota Corporation), as LESSEE.

THIS AMENDMENT TO LEASE, entered into and made as of the _____ day of _____, 1993, by and between Prairieview Jack, Ltd., AmberJack, Ltd., its General Partner, Welsh Companies, Inc., its Manager, as Lessor and Bio-Metric Systems, Inc. (A Minnesota Corporation), as Lessee.

WITNESSETH:

WHEREAS, Lessor and Lessee have heretofore entered into a certain lease, dated November 18, 1991 (the "Lease"), of a certain space at 9922, 9924, 9932, 9942 West 74th Street, Eden Prairie, Minnesota, also known as Bays 7, 8, 11, 12, 13, 14 & 15 of the Prairieview Business Center (the "Premises"), upon terms and conditions described in said Lease; and

WHEREAS, Lessor and Lessee desire to amend said lease and extend the term as described below:

NOW, THEREFORE, in consideration of the rents reserved and of the covenants and agreements herein set forth, it is agreed that the Lease be hereby amended from and after September 1, 1993, hereof as follows:

1. DEMISED PREMISES: The Demised Premises are as described above in this Agreement to Amend and Extend Lease through August 31, 1993. Commencing September 1, 1993, through June 30, 1994, the Demised Premises shall be increased in size to include 9916 West 74th Street commonly known as Bay 16, consisting of approximately 3,134 rentable square feet. Commencing July 1, 1994, through the Expiration Date, the Demised Premises will be increased in size to include 9936 West 74th Street as described in Article 42, Exhibit C of the Lease dated November 18, 1991. The total square footage of the Demised Premises as of September 1, 1993, through June 30, 1994, shall be approximately 29,249 square feet. The total square footage of the Demised Premises as of July 1, 1994, through the Expiration Date shall be approximately 35,408 square feet.

2. TERM: Effective September 1, 1993, the Lease Term shall be extended by thirty-six (36) months to expire on December 31, 1999, unless sooner terminated as provided herein.

3. BASE RENT: The monthly base rent as defined in Article 2 of the Lease and Article 43 of Exhibit C, Addendum to Lease, both dated November 18, 1991, shall be amended as follows:

	Base Rent/Month
September 1, 1993, through and including June 30, 1994	$11,735.46
July 1, 1994, through and including June 30, 1995	15,069.50
July 1, 1995, through and including June 30, 1996	15,807.17
July 1, 1996, through and including June 30, 1997	16,544.83
July 1, 1997, through and including June 30, 1998	17,282.50
July 1, 1998, through and including December 31, 1999	18,020.17

4. ADDITIONAL RENT: Article 3 of the Lease Agreement and Article 44 of the Addendum, shall be amended by deletion of the percentages 40.87% and 50.50% respectively and inserting, in lieu thereof, the following percentages and their commencement dates: Commencing September 1, 1993, the Demised Premises shall be expanded as indicated in Article 1 of this Agreement and the Lessee's proportionate share of Additional Rent, as described in Article 3 of the Lease Agreement, shall be increased to Forty-five and 77/100 percent (45.77%). Commencing July 1, 1994, the Demised Premises shall be expanded as indicated in Article 42, Exhibit C of the Lease and Lessee's proportionate share of Additional Rent shall be increased to Fifty-five and 41/100 percent (55.41%) until the Expiration Date of December 31, 1999.

5. IMPROVEMENT ALLOWANCE: Lessor shall provide Lessee an allowance of Twenty-One Thousand Nine Hundred Thirty-eight and 00/100 Dollars ($21,938.00) for tenant improvements to the approximate 3,134 rentable square feet within 9916 West 74th Street as described in the attached Exhibit E. Said allowance is in addition to the allowance for 9922 and 9936 West 74th Street as described in Article 45 of the Addendum to Lease and shall be used solely for improvements to the space within 9916 West 74th Street. The allowance shall be available to Lessee upon the delivery of receipts to Lessor's representative for work completed to the Demised Premises. All improvements to 9916 West 74th Street shall be completed prior to November 30, 1993. Any portion of the Allowance not used for improvements to the Demised Premises or used for the purchase of Tenant trade fixtures shall not be refunded or credited to Lessee.

6. REMOVAL OF FIXTURES: Notwithstanding anything to the contrary contained in Article 25, 8 and 29 of the Lease, Lessee shall provide Lessor with a written inventory of all trade fixtures and equipment that Lessee plans to remove from Premises a minimum of thirty (30) days prior to the planned date of vacancy. Trade fixtures shall include, but not be limited to that heating, ventilating, and air conditioning equipment that serves Lessee's specialized laboratory equipment or processes, an underground chemical receptor tank located within 9942 West 74th Street, a steel HVAC support structure within 9942 West 74th Street and concrete block chemical storage room located in 9942 West 74th Street. Upon removal of the chemical receptor tank Lessee shall provide Lessor with test results from a licensed environmental testing company certifying that the soil and groundwater surrounding said tank are free of hazardous or deleterious substances which may have originated from the tank. Any soil or groundwater found to contain such hazardous or deleterious materials shall be disposed of at Lessee's sole expense in a manner and location approved by the Minnesota Pollution Control Agency and any other local, State or Federal agencies governing the disposal of such materials. Prior to filling of the cavity which contained the chemical receptor tank, Lessee shall provide Lessor with a plan

prepared by a registered architect or engineer for approval. All penetrations through the roof of the Demised Premises or elsewhere in the building created by or the result of removal of Lessee's fixtures shall be repaired by a contractor approved by the Lessor.

7. FIRST OPPORTUNITY TO LEASE ADDITIONAL SPACE: Provided Lessee is not in default and has performed all of it's obligations herein, Lessee shall have the First Opportunity to Lease such other contiguous space as it becomes available for Lease as described in Article 46 of the Addendum to Lease, dated November 18, 1991.

8. OPTION TO EXTEND LEASE TERM:

a. Provided Tenant is not in default hereunder and has performed al of its covenants and obligations hereunder, Tenant shall have the option to extend the Term of this Lease (hereinafter the "Option") for one consecutive period of two (2) years upon the same terms and conditions, except the Base Rent shall be adjusted as set forth in this Section 8.

b. Should Tenant exercise its Option, Base Rent shall be as follows:

Period	Monthly Base Rent
January 1, 2000 through and including December 31, 2000	$18,855.33
January 1, 2001 through and including December 31, 2001	$19,593.00

Base Rent rates shall apply to the Option only. Base Rent for any other renewal period shall be renegotiated by Landlord and Tenant.

c. Tenant shall exercise said Option by giving written notice to Landlord not later than December 31, 1998. Thereafter Landlord shall advise Tenant within ten (10) business days of the Base Rent for the Option Period, and Tenant shall then have ten (10) business days within which to revoke in writing its exercise of the Option.

d. It is understood and agreed that this Option is personal to Bio-Metric Systems, Incorporated and is not transferrable. In the event of any assignment or subleasing of any or all of the Demised Premises, said Option shall be null and void.

9. The terms and conditions of this Agreement to Amend and Extend Lease are contingent upon full execution of a termination agreement with Challenge Printing for the 3,134 rentable square feet located in Bay 16.

Except as hereinabove set forth, all terms, provisions and covenants of the Lease shall remain unchanged and in full force and effect.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as of the date and year first above written.

LESSEE: Bio-Metric Systems, Inc.
(A Minnesota Corporation)

By: /s/ Dale R. Olseth
Dale R. Olseth
Its: President

LESSOR: Prairieview Jack, Ltd.,
AmberJack, Ltd.,
its General Partner, Welsh Companies, Inc., its Manager

By: ----------
E. Paul Dunn
Its: Executive Vice President

By: ----------
Richard P. McGinley
Its: Vice President

AMENDMENT #2

TO LEASE DATED November 18, 1991 BY AND BETWEEN
Prairieview Jack Ltd., AmberJack, Ltd. Its General Partner,
Welsh Companies, Inc., Its Manager, AS LANDLORD
AND Bio-Metric Systems, Inc. (A Minnesota Corporation), AS TENANT

THIS AMENDMENT TO LEASE, entered into and made as of the 10th day of November, 1993, by and between Prairieview Jack Ltd., AmberJack, Ltd. Its General Partner, Welsh Companies, Inc. Its Manager, as Landlord and Bio-Metric Systems, Inc. (A Minnesota Corporation), as Tenant.

WITNESSETH:

WHEREAS, Landlord and Tenant have heretofore entered into a certain lease, dated November 18, 1991 and amended September 1, 1993 (the "Lease"), of a certain space at 9916, 9922, 9924, 9932, 9942 West 74th Street, Eden Prairie, Minnesota, also known as Bays 7, 8, 11, 12, 13, 14, 15 & 16 (the "Premises"), upon terms and conditions described in said Lease; and

WHEREAS, Landlord and Tenant desire to amend said lease as described below:

NOW, THEREFORE, in consideration of the rents reserved and of the covenants and agreements herein set forth, it is agreed that the Lease be hereby amended from and after the date hereof as follows:

1. The time allotment for use of the tenant improvement allowance in Paragraph 5 - IMPROVEMENT ALLOWANCE of the Agreement to Amend and Extend Lease, shall be extended to January 31, 1994.

2. Effective JANUARY 17, 1994, BioMetric Systems, Inc. shall be known as BSI Corporation (A Minnesota Corporation). All reference to Bio-Metric Systems, Inc. in the Lease, Amendment #1, and Amendment #2 shall be the same as if it were specifically naming BSI Corporation.

Except as hereinabove set forth, all other terms, provisions and covenants of the Lease shall remain unchanged and in full force and effect.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as of the day and year first above written.

TENANT: BSI Corporation
(A Minnesota Corporation)

By: /s/ Dale R. Olseth
Dale R. Olseth
Its: President

LANDLORD: Prairieview Jack, Ltd.,
Its General Partner,
Welsh Companies, Inc.
Its Manager

By: /s/ E. Paul Dunn
E. Paul Dunn
Its: Executive Vice President

By: /s/ Richard P. McGinley
Richard P. McGinley
Its: Vice President

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BIO-METRIC SYSTEMS, INC.

1987 INCENTIVE STOCK OPTION PLAN

SECTION 1.

DEFINITIONS

As used herein, the following terms shall have the meanings indicated below:

(a) The "Company" shall mean BIO-METRIC SYSTEMS, INC., a Minnesota corporation, and any subsidiary of the Company.

(b) "Common Stock" shall mean voting common stock of the Company.

(c) The "Plan" means the Bio-Metric Systems, Inc. 1987 Incentive Stock Option Plan, as amended hereafter from time to time, including the form of Option Agreement.

(d) The "Optionee" is an employee of the Company to whom an option has been granted under the Plan.

(e) The "Internal Revenue Code" is the Internal Revenue Code of 1986, as amended from time to time.

(f) "Committee" shall mean a Committee of three or more persons who may be appointed by, and serve at the pleasure of the Board and shall have such powers and authority as are granted to it by the Board. Each of the members of the Committee shall be a "disinterested" person within the meaning of Rule 16b-3, as then in effect, of the General Rules and Regulations under the Securities Exchange Act of 1934. As of the effective date of the Plan, a "disinterested" person under Rule 16b-3 means a person who, among other things, is not eligible and has not at any time within one year prior to appointment to the Committee been eligible to participate in the Plan or in any other plan of the Company entitling participants to acquire stock, stock options or stock appreciation rights.

SECTION 2.

PURPOSE

The purpose of the Plan is to promote the success of the Company by facilitating the employment and retention of competent personnel and by furnishing incentive to employees upon whose efforts the success of the Company will depend to a large degree.

It is the intention of the Company to carry out the Plan through the granting of stock options which will qualify as "Incentive Stock Options" under the provisions of Section 422A of the Internal Revenue Code. Adoption of this Plan shall be and is expressly subject to the condition of approval by the shareholders of the Company within twelve (12) months before or after the adoption of such Plan by the Board of Directors.

SECTION 3.

EFFECTIVE DATE OF PLAN

The Plan shall be effective as of the date such Plan is adopted by the Board of Directors of the Company.

SECTION 4.

ADMINISTRATION

The Plan shall be administered by the Board of Directors of the Company (the "Board") or, to the extent empowered by the Board, by the Stock Option Committee as defined in Section 1 (f) of this Plan. The Board shall have all of the powers vested in it under the provisions of the Plan, including but not limited to exclusive authority (where applicable and within the limitations described herein) to determine the employees to whom, and the time or times at which, options shall be granted, the number of shares subject to each option and the option price and terms and conditions of each option. Without limiting the generality of the foregoing, the Board may, in its sole discretion, determine the number of shares subject to an option in proportion to an employee's compensation paid by the Company.

The Board, or the Committee if so empowered by the Board, shall have full power and authority to administer and interpret the Plan, to make and amend rules, regulations and guidelines for administering the Plan, to prescribe the form and conditions of the respective stock option agreements (which may vary from optionee to Optionee) evidencing each option and to make all other determinations necessary or advisable for the administration of the Plan. The Board's interpretation of the Plan, or the Committee's interpretation if so empowered by the Board, and all actions taken and determinations made by it pursuant to the power vested hereunder, shall be conclusive and binding on all parties concerned. No member of the Board or the Committee shall be liable for any action taken or determination made in good faith in connection with the administration of the Plan.

In the event the Board appoints a Committee as provided hereunder, any action of the Committee with respect to the administration of the Plan shall be taken pursuant to a ma3ority vote of the Committee members or pursuant to the written resolution of all Committee members.

SECTION 5.

PARTICIPANTS

The Board, or the Committee if so empowered by the Board, shall from time to time, at its discretion and without approval of the shareholders, designate those employees of the Company to whom stock options shall be granted. Directors of the Company who are otherwise engaged as employees of the Company may be designated as participants. The Board, or the Committee if so empowered by the Board, may grant additional options to some or all participants then holding options or may grant options solely or partially to new participants. In designating participants, the Board, or the Committee, shall also determine the number of shares to be optioned to each such participant.

SECTION 6.

STOCK

The Stock to be optioned under this Plan shall consist of authorized but unissued shares of voting common stock. Two Hundred thousand (200,000) shares of voting common stock shall be reserved and available for options under the Plan; provided, however, that the total number of shares of Common Stock reserved for options under this Plan shall be subject to adjustment as provided in Section 11 of the Plan. In the event that any outstanding option under the Plan for any reason expires or is terminated prior 'to the exercise thereof, the shares of Common Stock allocable to the unexercised portion of such option shall continue to be reserved for options under the Plan and may be optioned hereunder.

SECTION 7.

LIMITATIONS ON OPTIONS

Effective for options granted after December 31, 1986, the aggregate fair market value (determined as of the time an option is granted) of the stock with respect to which incentive stock options are exercisable for the first time by an optionee during any calendar year under this Plan and any other plans of the Company under Section 422A of the Internal Revenue Code, shall not exceed One Hundred Thousand Dollars ($100,000).

SECTION 8.

DURATION OF PLAN

Options may be granted pursuant to the Plan from time to time for a period of ten (10) years from the earlier of the date the Plan is approved by the Board of Directors or the date it is approved by the shareholders of the Company.

SECTION 9.

PAYMENT

Optionees shall pay for shares upon exercise of options granted pursuant to this Plan with cash or certified check.

SECTION 10.

TERMS AND CONDITIONS OF OPTIONS

Each option granted pursuant to the Plan shall be evidenced by a written stock option agreement (the "Option Agreement"). The Option Agreement shall be in such form as may be approved by the Board, or the Committee if empowered by the Board, from time to time and may vary from Optionee to Optionee; provided, however, that each optionee and each Option Agreement shall comply with and be subject to the following terms and conditions:

(a) NUMBER OF SHARES AND OPTION PRICE. The Option Agreement shall state the total number of shares covered by the Option. The option price per share shall not be less than one hundred percent (100%) of the fair market value of the Common Stock per share on the date the Board or the Committee grants the option; provided, however, that if an optionee owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or of its parent or any subsidiary, the option price per share of an option granted to such Optionee shall not be less than one hundred ten percent (110%) of the fair market value of the Common Stock per share on the date of the grant of the option. For purposes hereof, "fair market value" of the Common Stock per share shall be determined by the Board, or the Committee if so empowered by the Board, in its sole discretion by applying principles of valuation with respect to all such options. The Board shall have full authority and discretion in establishing the option price and shall be fully protected in so doing. If such stock is publicly traded as of the date the option is granted, the "fair market value" of the Common Stock shall be the mean between the "bid" and "asked" prices quoted by a recognized specialist in the Common Stock of the Company on the date the option is granted, or if there are no quoted "bid" and "asked" prices on such date, on the next preceding date for which there are such quotes; provided that if such stock is then listed upon an established stock exchange or exchanges, such "fair market value" shall be the highest closing price of such stock on such stock exchange or exchanges on the date the option is granted or, if no sale of such stock shall have occurred on any stock exchange on that date, on the next preceding day on which there was a sale of stock.

(b) TERM AND EXERCISABILITY OF OPTION. The term during which any option granted under the Plan may be exercised shall be established in each case by the Board, or the Committee if so empowered by the Board, but in no event shall any option be exercisable during a term of more than five (5) years after the date on which it is granted. The stock option agreement shall state when the option becomes exercisable and shall also state the maximum term during which the option may be exercised. In the event an option is exercisable immediately, the manner of exercise of the option in the event it is not

exercised in full immediately shall be specified in the stock option agreement. The Board, or the Committee if so empowered by the Board, may accelerate the exercise date of any option granted hereunder which is not immediately exercisable as of the date of grant.

(c) TRANSFER OF PPTION. No option shall be transferable, in whole or in part, by the Optionee other than by will or by the laws of descent and distribution and, during the Optionee's lifetime, the option may be exercised only by the Optionee. If the Optionee shall attempt any transfer of any option granted under the Plan during his lifetime, such transfer shall be void and the option, to the extent not fully exercised, shall terminate.

(d) OTHER PROVISIONS. The Option Agreement authorized under this Section 10 shall contain such other provisions as the Board, or the Committee if so empowered by the Board, shall deem advisable, including, without limitation, a provision granting the Company a repurchase right in the event the optionee either (i) transfers or attempts to transfer stock acquired pursuant to t e exercise of an option to an individual other than a member of optionee's family or another employee of the Company or (ii) terminates employment with the Company. Any such Option Agreement shall also contain such limitations and restrictions upon the exercise of the option as shall be necessary to ensure that such option will be considered an "Incentive Stock Option" as defined in Section 422A of the Internal Revenue Code or to conform to any change therein.

(e) HOLDING PERIOD. The disposition of any shares of Common Stock acquired by an optionee pursuant to the exercise of an option described above shall not be eligible for the favorable taxation treatment of Section 421(a) of the Internal Revenue Code unless any shares so acquired are held by the Optionee for at least two (2) years from the date of the granting of the option under which the shares were acquired and at least one year after the acquisition of such shares pursuant to the exercise of such option. In the event of an optionee's death, such holding period shall not be applicable pursuant to Section 421(c)(1) of the Internal Revenue Code.

SECTION 11.

RECAPITALIZATION

In the event of an increase or decrease in the number of shares of Common Stock resulting from a subdivision or consolidation of shares or the payment of a stock dividend or any other increase or decrease in the number of shares of Common Stock effected without receipt of consideration by the Company, the number of shares of Common Stock covered by each outstanding option and the price per share thereof shall be equitably adjusted by the Board of Directors to reflect such change. Additional shares which may be credited pursuant to such adjustment shall be subject to the same restrictions as are applicable to the shares with respect to which the adjustment relates.

Unless otherwise provided in the option agreement, in the event of the sale by the Company of substantially all of its assets and the consequent discontinuance of its business. or in the event of a merger, exchange, consolidation or liquidation of the Company, the Board of

Directors may in connection with the Board's adoption of the plan for sale, merger, exchange, consolidation or liquidation, provide for the complete termination of this Plan and cancellation of outstanding options not exercised prior to a date (prior to the effectiveness of such sale, merger, exchange, consolidation or liquidation) specified by the Board or for the continuance of the Plan only with respect to the exercise of options which, under the terms of Paragraph (b) of Section 10, were exercisable as of the date of adoption by the Board of such plan for sale, merger, exchange, consolidation or liquidation; provided, however, that in any event optionees holding options exercisable as of the date of the Board's adoption of the plan for sale, merger, exchange, consolidation or liquidation shall be given either (i) a reasonable time within which to exercise such exercisable portions of their options prior to the effectiveness of such sale, merger, exchange, consolidation or liquidation, or (ii) the right to exercise their respective options as to an equivalent number of shares of stock of the corporation succeeding the Company by reason of such sale, merger, exchange, consolidation or liquidation. The grant of an option pursuant to the Plan shall not limit in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure or to merge, exchange or consolidate or to dissolve, liquidate, sell or transfer all or any part of its business or assets.

SECTION 12.

INVESTMENT PURPOSE

No shares of Common Stock shall be issued pursuant to the Plan unless and until there has been compliance, in the opinion of Company's counsel, with all applicable legal requirements, including without limitation, those relating to securities laws and stock exchange listing requirements. As a condition to the issuance of Common Stock to Optionee, the Board may require Optionee to (a) represent that the shares of Common Stock are being acquired for investment and not resale and to make such other representations as the Board shall deem necessary or appropriate to qualify the issuance of the shares as exempt from the Securities Act of 1933 and any other applicable securities laws, and (b) represent that -n,pt-ioii.ee shall :not dispose of the shares of Common Stock in violation of -the Securities Act of 1933 or any other applicable securities laws. Company reserves the right to place a legend on any stock certificate issued upon exercise of an option granted pursuant to the Plan to assure compliance with this Section 12.

SECTION 13.

RIGHTS AS A SHAREHOLDER

An Optionee (or the Optionee's successor or successors) shall have no rights as a shareholder with respect to any shares covered by an option until the date of the issuance of a stock certificate evidencing such shares. No adjustment shall be made for dividends (ordinary or extraordinary, whether in cash, securities or other property), distributions or other rights for which the record date is prior to the date such stock certificate is actually issued (except as otherwise provided in Section 11 of the Plan).

SECTION 14.

AMENDMENT OF THE PLAN

The Board of Directors of the Company may from time to time, insofar as permitted by law, suspend or discontinue the Plan or revise or amend it in any respect; provided, however, that no such revision or amendment, except as is authorized in Sections 9 and 11, shall impair terms and conditions of any option which is outstanding on the date of such revision or amendment to the material detriment of the Optionee without the consent of the Optionee . Notwithstanding the foregoing, no such revision or amendment shall (i) materially increase the number of shares subject to the Plan except as provided in Section 11 hereof; (ii) change the designation of the class of employees eligible to receive options, (iii) decrease the price at which options may be granted, or (iv) materially increase the benefits accruing to Optionees under the Plan, unless such revision or amendment is approved by the shareholders of the Company. Furthermore, the Plan may not, without the approval of the shareholders, be amended in any manner that will cause options to fail to meet the requirements of "Incentive Stock options" as defined in Section 422A of the Internal Revenue Code.

SECTION 16.

NO OBLIGATION TO EXERCISE OPTION

The granting of an option shall impose no obligation upon the Optionee to exercise such option. Further, the granting of an option hereunder shall not impose upon the Company or any subsidiary any obligation to retain the Optionee in its employ for any period.

BIO-METRIC SYSTEMS, INC.

1987 INCENTIVE STOCK OPTION AGREEMENT

THIS AGREEMENT, made this _____ day of _____, 19 , by and between BIO-METRIC SYSTEMS, INC., a Minnesota corporation (the "Company"), and _____, the ("Optionee");

W I T N E S S E T H

WHEREAS, the Optionee on the date hereof is an employee of the Company; and

WHEREAS, to induce the Optionee to continue in his employ and to further the Optionee's efforts in its behalf, the Company desires to grant to the Optionee an option to purchase shares of its voting Common Stock;

WHEREAS, the Company's Board of Directors has adopted an incentive stock option plan known as the "Bio-Metric Systems, Inc. 1987 Incentive Stock Option Plan" (hereinafter referred to as the "Plan"); and

WHEREAS, on or before on the date hereof, the Company's Board of Directors authorized the grant of this option to the optionee;

NOW THEREFORE, in consideration of the premises and the mutual covenants herein contained, the Company and the Optionee hereby agree as follows:

1. GRANT OF OPTION. The Company hereby grants to the Optionee, on the date of this Agreement, the option to purchase _____ shares of voting common stock of the Company (the "Option Stock") subject to the terms and conditions herein contained, and subject only to adjustment in such number of shares as provided in Section 11 of the Plan.

2. OPTION PRICE. During the term of this option, the purchase price for the shares of Option Stock granted herein is $_____ per share (not less than the fair market value as of date of grant), subject only to adjustment of such price as provided in Section 11 of the Plan.

3. TERM OF OPTION. The term during which this option may be exercised expires five (5) years after the date of this Agreement unless terminated earlier under the provisions of Paragraphs 10, 11, or 12 below. This option shall be exercisable during the term of this Agreement only with respect to the following percentages of the Option Stock: (i) during the first year of the term, 20% of the Option Stock; (ii) during the second year of the term, 40% of the Option Stock; (iii) during the third year of the term, 60% of the Option Stock; (iv) during the fourth year of the term, 80% of the Option Stock; and (v) during the fifth year of the term, 100%

of the Option Stock. If this option has been granted prior to approval of the Plan by the Company's shareholders, this option shall not be exercisable until such approval is obtained. If this option terminates for any reason, including those set forth in Paragraphs 10, 11 and 12, all unexercised options (including those not yet exercisable) shall lapse.

4. PERSONAL EXERCISE BY OPTIONEE. This option shall, during the lifetime of the Optionee, be exercisable only by said Optionee and shall not be transferable by the optionee, in whole or in part, other than by will or by the laws of descent and distribution.

5. MANNER OF EXERCISE OF OPTION. This option is to be exercised by the Optionee (or by the Optionee's successor or successors) by giving written notice to the Company of an election to exercise such option. Such notice shall specify the number of shares to be purchased hereunder and shall be delivered to the Company at its principal place of business. An option shall be considered exercised at the time the Company receives such notice. Upon receipt of such notice and subject to the provisions of Paraqraph 9 below, the Company shall, within a reasonable time, and upon payment of the full purchase price for the shares to be purchased, deliver to the Optionee certificates for the shares so purchased. Payment for shares of Option Stock may be made in the form of cash or certified check. All requisite original issue or transfer documentary stamp taxes shall be paid by the Company.

6. RIGHTS AS A SHAREHOLDER. The optionee or a transferee of this option shall have no rights as a shareholder with respect to any shares covered by this option until the date of the issuance of a stock certificate for the Option Stock. No adjustment shall be made for dividends (ordinary or extraordinary, whether in cash, securities or other property), distributions or other rights for which the record date is prior to the date such stock certificate is issued, except as provided in Section 11 of the Plan.

7. STOCK OPTION PLAN. The option evidenced by this Agreement is granted pursuant to the Plan, a copy of which Plan is attached hereto or has been made available to the optionee and is hereby made a part of this Agreement. This Agreement is subject to and in all respects limited and conditioned as provided in the Plan. The Plan governs this option and the Optionee, and in the event of any question as to the construction of this Agreement or of a conflict between the Plan and this Agreement, the Plan shall govern, except as the Plan otherwise provides.

8. WITHHOLDING TAXES ON DISQUALIFYING DISPOSITION BY OPTIONEE. In the event of a disqualifying disposition of Option Stock by Optionee, optionee hereby agrees to inform the Company of such disposition. Upon notice of a disqualifying disposition or upon independently learning of such a disposition, the Company shall withhold from whatever payments are due Optionee appropriate state and federal income taxes as required by law. In the event the Company is unable to withhold such taxes, for whatever reason, optionee hereby agrees to pay to the Company an amount equal to the amount the Company would otherwise be required to withhold under state or federal law.

9. INVESTMENT PURPOSE. The Company may require as a condition to the grant and exercise of this option that any stock acquired pursuant to this option be acquired for only

investment if, in the opinion of counsel for the Company, such is required or deemed advisable under securities laws or any other applicable law, regulation or rule of any government or governmental agency. In this regard, if requested by the Company, the Optionee, prior to the acquisition of any shares pursuant to this option, shall execute an investment letter to the effect that the Optionee is acquiring shares pursuant to this option for investment purposes only and not with the intention of making any distribution of such shares.

10. TERMINATION OF EMPLOYMENT. If the Optionee ceases to be an employee of the Company for any reason (including termination of employment as a result of the reorganization, sale or liquidation by the Company) other than because of death or disability (as described below) this option shall terminate (notwithstanding Paragraph 3 of this Agreement) on the earlier of (i) three months after the date of such termination of employment and (ii) this option's originally stated expiration date.

11. TERMINATION OF EMPLOYMENT DUE TO DISABILITY. If the Optionee ceases to be an employee of the Company because such Optionee is disabled (as that term is defined in Section 105(d)(4) of the Internal Revenue Code), this option shall terminate (notwithstanding Paragraph 3 of this Agreement) on the earlier of (i) twelve months after the date of such termination of employment due to disability and (ii) this option's originally stated expiration date.

12. DEATH OF OPTIONEE. If the optionee dies (i) while an employee of the Company, or (ii) within a period of three months after the termination of his employment with the Company as provided in Paragraph 10, or (iii) within six months after the termination of employment with the Company as provided in Paragraph 11, this option shall terminate (notwithstanding Paragraph 3 of this Agreement) on the earlier of (i) twelve months after the date of death and (ii) this option's originally stated expiration date. In such period following the Optionee's death, this option shall be exercisable only by the optionee's legal representative or by the person or persons to whom the optionee's rights under this option shall pass by the Optionee's will or by the laws of descent and distribution.

13. RIGHT OF REPURCHASE OF OPTION STOCK BY COMPANY. In the event the Optionee exercises this option and purchases Option Stock, the Company shall have the right to repurchase all, but not part, of such Option Stock if the Optionee (i) transfers or attempts to transfer any such Option Stock to any person or entity, other than to a member of the optionee's family or another employee of the Company, or (ii) terminates employment with the Company for any reason other than death or disability as hereinabove defined, If the Optionee transfers Option Stock to a family member or another employee of the Company, the repurchase rights of the Company herein provided shall continue to apply to all such transferred stock as if the Optionee continued to hold such stock. The Company s a exercise its repurchase rights by giving written notice to the record holder of the Option Stock within six (6) months after (i) with respect to an unpermitted transfer of the Option Stock, the date when the Company is given written notice to transfer record ownership of the affected Option Stock, or (ii) with respect to termination of employment, the date of termination of employment. The Company shall pay to the record holder of the Option Stock so repurchased the Purchase Price, hereinafter defined, in cash, within 30 days after exercise of its repurchase right.

The Purchase Price for the Option Stock shall be determined as follows:

(a) If the Plan is in effect on the date of exercise of the Company's repurchase right, (or, if on such date there is any similar stock option plan of the Company which, under federal income tax law, requires a determination of fair market value of stock similar to the Option Stock to receive favorable tax treatment), the Purchase Price shall be the value last determined by the Board for the issuance of an option pursuant to the Plan (provided, however, that if such option were granted to an Optionee holding stock possessing more than 10% of the Company's voting power, as defined in the Plan, the Purchase Price shall be 91% of such amount) if such determination was made within two years of the exercise of the repurchase right.

(b) If the Purchase Price is not determinable in accordance with the preceding subparagraph, it shall be as determined by mutual agreement of the Company and the Optionee or, in the event that a mutually agreeable value is not determined within 30 days after the Company exercises its repurchase option, then either the Company or the Optionee may require that the Purchase Price be determined by appraisal. The appraisal shall be conducted by a single appraiser if the optionee and the Company are able to agree upon a single appraiser within 10 days after a demand for appraisal is made. Otherwise, the Company and the optionee shall each designate an appraiser, and the appraisers so designated shall appoint a third appraiser or if they are not able to agree upon a third person, the third appraiser shall be chosen by the chief judge of the District Court of Hennepin County, Minnesota). Upon the appointment of an appraiser or appraisers, the Purchase Price shall be the fair market value of the Option Stock as determined by the single appraiser, or by a majority of the three appraisers, which appraisers shall be required to issue a written report within 45 days after their appointment (either of the single appraiser or of the third of three appraisers). The Purchase Price as so determined shall be binding upon the Company and the optionee.

14. MISCELLANEOUS. This Agreement shall bind and inure to the benefit of the Company and its successors and assigns and the Optionee and any successor or successors of the Optionee permitted by Paragraph 4 above. It is intended that this option will qualify as an Incentive Stock option under the provisions of Section 422A of the Internal Revenue Code; provided, however, that Optionee hereby agrees to personally bear whatever income tax and other burden which may arise if this option does not so qualify and hereby releases the Company from and against any claim Optionee might otherwise have in the event this option is not so qualified.

IN WITNESS WHEREOF, the Company and the Optionee have executed this Agreement in the manner appropriate to each, as of the day and year first above written.

BIO-METRIC SYSTEMS, INC.

By

Its

Optionee

Optionee acknowledges receipt of a copy of the Plan concurrently with his execution of this Agreement.

BSI CORPORATION

1997 INCENTIVE STOCK OPTION PLAN

SECTION 1.
DEFINITIONS

As used herein, the following terms shall have the meanings indicated below:

(a) The "Company" shall mean BSI CORPORATION, a Minnesota corporation, and any subsidiary of the Company.

(b) "Common Stock" shall mean voting common stock of the Company.

(c) The "Plan" means the BSI Corporation 1997 Incentive Stock Option Plan, as amended hereafter from time to time, including the form of Option Agreement.

(d) The "Optionee" is an employee of the Company to whom an option has been granted under the Plan.

(e) The "Internal Revenue Code" is the Internal Revenue Code of 1986, as amended from time to time.

(f) "Committee" shall mean a Committee of three or more persons who may be appointed by, and serve at the pleasure of the Board and shall have such powers and authority as are granted to it by the Board. Each of the members of the Committee shall be a "disinterested" person within the meaning of Rule 16b-3, as then in effect, of the General Rules and Regulations under the Securities Exchange Act of 1934. As of the effective date of the Plan, a "disinterested" person under Rule 16b-3 means a person who, among other things, is not eligible and has not at any time within one year prior to appointment to the Committee been eligible to participate in the Plan or in any other plan of the Company entitling participants to acquire stock, stock options or stock appreciation rights.

SECTION 2.
PURPOSE

The purpose of the Plan is to promote the success of the Company by facilitating the employment and retention of competent personnel and by furnishing incentive to employees upon whose efforts the success of the Company will depend to a large degree.

It is the intention of the Company to carry out the Plan through the granting of stock options which will qualify as "Incentive Stock Options" under the provisions of Section 422 of the Internal Revenue Code. Adoption of this Plan shall be and is expressly subject to the condition of approval by the shareholders of the Company within 12 months before or after the adoption of such Plan by the Board of Directors.

SECTION 3.
EFFECTIVE DATE OF PLAN

The Plan shall be effective as of the date such Plan is adopted by the Board of Directors of the Company.

SECTION 4.
ADMINISTRATION

The Plan shall be administered by the Board of Directors of the Company (the "Board") or, to the extent empowered by the Board, by the Stock Option Committee as defined in Section 1(f) of this Plan. The Board shall have all of the powers vested in it under the provisions of the Plan, including but not limited to exclusive authority (where applicable and within the limitations described herein) to determine the employees to whom, and the time or times at which, options shall be granted, the number of shares subject to each option and the option price and terms and conditions of each option. Without limiting the generality of the foregoing, the Board may, in its sole discretion, determine the number of shares subject to an option, in proportion to an employee's compensation paid by the Company.

The Board, or the Committee if so empowered by the Board, shall have full power and authority to administer and interpret the Plan, to make and amend rules, regulations and guidelines for administering the Plan, to prescribe the form and conditions of the respective stock option agreements (which may vary from Optionee to Optionee) evidencing each option and to make all other determinations necessary or advisable for the administration of the Plan. The Board's interpretation of the Plan, or the Committee's interpretation if so empowered by the Board, and all actions taken and determinations made by it pursuant to the power vested hereunder, shall be conclusive and binding on all parties concerned. No member of the Board or the Committee shall be liable for any action taken or determination made in good faith in connection with the administration of the Plan.

In the event the Board appoints a Committee as provided hereunder, any action of the Committee with respect to the administration of the Plan shall be taken pursuant to a majority vote of the Committee members or pursuant to the written resolution of all Committee members.

SECTION 5.
PARTICIPANTS

The Board, or the Committee if so empowered by the Board, shall from time to time, at its discretion, and without approval of the shareholders, designate those employees of the Company to whom stock options shall be granted. Directors of the Company who are otherwise engaged as employees of the Company may be designated as participants. The Board, or the Committee if so empowered by the Board, may grant additional options to some or all participants then holding options or may grant options solely or partially to new participants. In designating participants, the Board, or the Committee, shall also determine the number of shares to be optioned to each such participant.

SECTION 6.
STOCK

The Stock to be optioned under this Plan shall consist of authorized but unissued shares of voting common stock. 150,000 shares of voting common stock shall be reserved and available for options under the Plan; provided, however, that the total number of shares of Common Stock reserved for options under this Plan shall be subject to adjustment as provided in Section 11 of the Plan. In the event that any outstanding option under the Plan for any reason expires or is terminated prior to the exercise thereof, the shares of Common Stock allocable to the unexercised portion of such option shall continue to be reserved for options under the Plan and may be optioned hereunder.

SECTION 7.
LIMITATIONS ON OPTIONS

The aggregate fair market value (determined as of the time an option is granted) of the stock with respect to which incentive stock options are exercisable for the first time by an Optionee during any calendar year under this Plan and any other plans of the Company under Section 422 of the Internal Revenue Code, shall not exceed $100,000.

SECTION 8.
DURATION OF PLAN

Options may be granted pursuant to the Plan from time to time for a period of 10 years from the earlier of the date the Plan is approved by the Board of Directors or the date it is approved by the shareholders of the Company.

SECTION 9.
PAYMENT

Optionees may pay for shares upon exercise of options granted pursuant to this Plan with cash, personal check, certified check, Common Stock valued at such stock's then Fair Market Value, or such other form of payment as may be authorized by the Company. The Company may, in its sole discretion, limit the form of the payment available to the Optionee and may exercise such discretion at any time prior to the termination of the option granted to Optionee or upon any exercise of the option by the Optionee. With respect to payment in the form of Common Stock of the Company, the Administrator may require advance approval or adopt such rules as it deems necessary to assure compliance with Rule 16(b)-3, or any successor provision, as then in effect, of the General Rules and Regulations under the Securities Exchange Act of 1934, if applicable.

SECTION 10.
TERMS AND CONDITIONS OF OPTIONS

Each option granted pursuant to the Plan shall be evidenced by a written stock option agreement (the "Option Agreement"). The Option Agreement shall be in such form as may be

approved by the Board, or the Committee if empowered by the Board, from time to time and may vary from Optionee to Optionee; provided, however, that each Optionee and each Option Agreement shall comply with and be subject to the following terms and conditions:

(a) NUMBER OF SHARES AND OPTION PRICE. The Option Agreement shall state the total number of shares covered by the Option. The option price per share shall not be less than 100% of the fair market value of the Common Stock per share on the date the Board or the Committee grants the option; provided, however that if an Optionee owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or of its parent or any subsidiary, the option price per share of an option granted to such Optionee shall not be less than 110% of the fair market value of the Common Stock per share on the date of the grant of the option. For purposes thereof, "fair market value" of the Common Stock per share shall be determined by the Board, or the Committee if so empowered by the Board, in its sole discretion by applying principles of valuation with respect to all such options. The Board shall have full authority and discretion in establishing the option price and shall be fully protected in so doing. If such stock is publicly traded as of the date the option is granted, the "fair market value" of the Common Stock shall be the mean between the "bid" and "asked" prices quoted by a recognized specialist in the Common Stock of the Company on the date the option is granted, or if there are no quoted "bid" and "asked" prices on such date, on the next preceding date for which there are such quotes; provided that if such stock is then listed upon an established stock exchange or exchanges, such "fair market value" shall be the highest closing price of such stock on such stock exchange or exchanges on the date the option is granted or, if no sale of such stock shall have occurred on any stock exchange on that date, on the next preceding day on which there was a sale of stock.

(b) TERM AND EXERCISABILITY OF OPTION. The term during which any option granted under the Plan may be exercised shall be established in each case by the Board, or the Committee if so empowered by the Board, but in no event shall any option be exercisable during a term of more than 10 years after the date on which it is granted. The Option Agreement shall state when the option becomes exercisable and shall also state the maximum term during which the option may be exercised. In the event an option is exercisable immediately, the manner of exercise of the option in the event it is not exercised in full immediately shall be specified in the Option Agreement. The Board, or the Committee if so empowered by the Board, may accelerate the exercise date of any option granted hereunder which is not immediately exercisable as of the date of grant.

(c) TRANSFER OF OPTION. No option shall be transferable, in whole or in part, by the Optionee other than by will or by the laws of descent and distribution and, during the Optionee's lifetime, the option may be exercised only by the Optionee. If the Optionee shall attempt any transfer of any option granted under the Plan during

his lifetime, such transfer shall be void and the option, to the extent not fully exercised, shall terminate.

(d) OTHER PROVISIONS. The Option Agreement authorized under this Section 10 shall contain such other provisions as the Board, or the Committee if so empowered by the Board, shall deem advisable. Any such Option Agreement shall also contain such limitations and restrictions upon the exercise of the option as shall be necessary to ensure that such option will be considered an "Incentive Stock Option" as defined in Section 422 of the Internal Revenue Code or to conform to any change therein.

(e) HOLDING PERIOD. The disposition of any shares of Common Stock acquired by an Optionee pursuant to the exercise of an option described above shall not be eligible for the favorable taxation treatment of Section 421(a) of the Internal Revenue Code unless any shares so acquired are held by the Optionee for at least 2 years from the date of the granting of the option under which the shares were acquired and at least one year after the acquisition of such shares pursuant to the exercise of such option. In the event of an Optionee's death, such holding period shall not be applicable pursuant to Section 421(c)(1) of the Internal Revenue Code.

(e) The disposition of any shares of Common Stock acquired by on Optionee pursuant to the exercise of an option describe above shall not be eligible for the favorable taxation treatment of Section 421(a) of the Internal Revenue Code unless any shares so acquired are held by the Optionee for at least 2 years from the date of the granting of the option under which the shares were acquired and at least one year after the acquisition of such shares pursuant to the exercise of such option. In the event of an Optionee's death, such holding period shall not be applicable pursuant to Section 421(c)(1) of the Internal Revenue Code.

SECTION 11.
RECAPITALIZATION

In the event of an increase or decrease in the number of shares of Common Stock resulting from a subdivision or consolidation of shares or the payment of a stock dividend or any other increase or decrease in the number of shares of Common Stock effected without receipt of consideration by the Company, the number of shares of Common Stock covered by each outstanding option and the price per share thereof shall be equitably adjusted by the Board of Directors to reflect such change. Additional shares which may be credited pursuant to such adjustment shall be subject to the same restrictions as are applicable to the shares with respect to which the adjustment relates.

Unless otherwise provided in the Option Agreement, in the event of the sale by the Company of substantially all of its assets and the consequent discontinuance of its business, or in the event of a merger, exchange, consolidation or liquidation of the company, the Board of Directors may in connection with the Board's adoption of the plan for sale, merger, exchange, consolidation or

liquidation, provide for the complete termination of this Plan and cancellation of outstanding options not exercised prior to a date (prior to the effectiveness of such sale, merger, exchange, consolidation or liquidation) specified by the Board or for the continuance of the Plan only with respect to the exercise of options which, under the terms of Paragraph (b) of Section 10, were exercisable as of the date of adoption by the Board of such plan for sale, merger, exchange, consolidation or liquidation; provided, however, that in any event Optionees holding options exercisable as of the date of the Board's adoption of the plan for sale, merger, exchange, consolidation or liquidation shall be given either (i) a reasonable time within which to exercise such exercisable portions of their options prior to the effectiveness of such sale, merger, exchange, consolidation or liquidation , or (ii) the right to exercise their respective options as to an equivalent number of shares of stock of the corporation succeeding the Company by reason of such sale, merger, exchange, consolidation or liquidation. The grant of an option pursuant to the Plan shall not limit in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure or to merge, exchange or consolidate or to dissolve, liquidate, sell or transfer all of any part of its business or assets.

SECTION 12.
INVESTMENT PURPOSE

No shares of Common Stock shall be issued pursuant to the Plan unless and until there has been compliance, in the opinion of Company's counsel, with all applicable legal requirements, including without limitation, those relating to securities laws and stock exchange listing requirements. As a condition to the issuance of Common Stock to Optionee, the Company may require Optionee to (a) represent that the shares of Common Stock are being acquired for investment and not resale and to make such other representations as the Board shall deem necessary or appropriate to qualify the issuance of the shares as exempt from the Securities Act of 1933 and any other applicable securities laws, and (b) represent that Optionee shall not dispose of the shares of Common Stock in violation of the Securities Act of 1933 or any other applicable securities laws. Company reserves the right to place a legend on any stock certificate issued upon exercise of an option granted pursuant to the Plan to assure compliance with this Section 12.

SECTION 13.
RIGHTS AS A SHAREHOLDER

As Optionee (or the Optionee's successor or successors) shall have no rights as a shareholder with respect to any shares covered by an option until the date of the issuance of a stock certificate evidencing such shares. No adjustment shall be made for dividends (ordinary or extraordinary, whether in cash, securities or other property), distributions or other rights for which the record date is prior to the date such stock certificate is actually issued (except as otherwise provided in Section 11 of the Plan).

SECTION 14.
AMENDMENT OF THE PLAN

The Board of Directors of the Company may from time to time, insofar as permitted by law, suspend or discontinue the Plan or revise or amend it in any respect; provided, however, that no such revision or amendment, except as is authorized in Section 9 and 11, shall impair terms and conditions of any option which is outstanding on the date of such revision or amendment to the material detriment of the Optionee without the consent of the Optionee. Notwithstanding the foregoing, no such revision or amendment shall (i) materially increase the number of shares subject to the Plan except as provided in Section 11 hereof; (ii) change the designation of the class of employees eligible to receive options, (iii) decrease the price at which options may be granted, or (iv) materially increase the benefits accruing to Optionees under the plan, unless such revision or amendment is approved by the shareholders of the Company. Furthermore, the Plan may not, without the approval of the shareholders, be amended in any manner that will cause options to fail to meet the requirements of "Incentive Stock Options" as defined in Section 422 of the Internal Revenue Code.

SECTION 15
NO OBLIGATION TO EXERCISE OPTION

The granting of an option shall impose no obligation upon the Optionee to exercise such option. Further, the granting of an option hereunder shall not impose upon the Company or any subsidiary any obligation to retain the Optionee in its employ for any period.

BSI CORPORATION

1997 INCENTIVE STOCK OPTION AGREEMENT

THIS AGREEMENT, made this _____ day of _____, 1997, by and between BSI CORPORATION, a Minnesota corporation (the "Company"), and _____, (the "Optionee");

WITNESSETH:

WHEREAS, the Optionee on the date hereof is an employee of the Company; and

WHEREAS, the Company's Board of Directors has adopted an incentive stock option plan known as the "BSI Corporation 1997 Incentive Stock Option Plan" (hereinafter referred to as the "Plan"); and

WHEREAS, the Company desires to grant the Optionee and option to purchase shares of its voting common stock ("Common Stock");

NOW THEREFORE, in consideration of the premises and the mutual covenants herein contained, the Company and the Optionee hereby agree as follows:

1. GRANT OF OPTION. The Company hereby grants to the Optionee, on the date of this Agreement, the option to purchase _____ shares of the Common Stock (the "Option Stock") subject to the terms and conditions herein contained, and subject only to adjustment in such number of shares as provided in Section 11 of the Plan.

2. OPTION PRICE. During the term of this option, the purchase price for the shares of Option Stock granted herein is $_____ per share (not less than the fair market value as of date of grant), subject only to adjustment of such price as provided in Section 11 of the Plan.

3. TERM OF OPTION. The term during which this option may be exercised expires five years after the date of this Agreement unless terminated earlier under the provisions of Paragraphs 10, 11, or 12 below. This option shall be exercisable during the term of this Agreement only with respect to the following percentages of the Option Stock: (i) during the first year of the term, 20% of the Option Stock; (ii) during the second year of the term, 40% of the Option Stock; (iii) during the third year of the term, 60% of the Option Stock; (iv) during the fourth year of the term, 80% of the Option Stock; and (v) during the fifth year of the term, 100% of the Option Stock. If this option has been granted prior to approval of the Plan by the Company's shareholders, this option shall not be exercisable until such approval is obtained. If this option terminates for any reason, including those set forth in Paragraphs 10, 11, and 12, all unexercised options (including those not yet exercisable) shall lapse.

4. PERSONAL EXERCISE BY OPTIONEE. This option shall, during the lifetime of the Optionee, be exercisable only by said Optionee and shall not be transferable by the Optionee, in whole or in part, other than by will or by the laws of descent and distribution.

5. MANNER OF EXERCISE OF OPTION. This option is to be exercised by the Optionee (or by the Optionee's successor or successors) by giving written notice to the Company of an election to exercise such option. Such notice shall specify the number of shares to be purchased hereunder and shall be delivered to the Company at its principal place of business. An option shall be considered exercised at the time the Company receives such notice. Upon receipt of such notice and subject to the provisions of Paragraph 9 below, the Company shall, within a reasonable time, and upon payment of the full purchase price for the shares to be purchased, deliver to the Optionee certificates for the shares so purchased. Payment for shares of Option Stock may be made in the form of cash, personal check, certified check, Common Stock of the Company valued at such stock's then fair market value, or such other form of payment as may be authorized by the Company of the Plan. All requisite original issue or transfer documentary stamp taxes shall be paid by the Company.

6. RIGHTS AS A SHAREHOLDER. The Optionee or a transferee of this option shall have no rights as a shareholder with respect to any shares covered by this option until the date of the issuance of a stock certificate for the Option Stock. No adjustment shall be made for dividends (ordinary or extraordinary, whether in cash, securities or other property), distributions or other rights for which the record date is prior to the date such stock certificate is issued, except as provided in Section 11 of the Plan.

7. STOCK OPTION PLAN. The option evidenced by this Agreement is granted pursuant to the Plan, a copy of which Plan is attached hereto or has been made available to the Optionee and is hereby made a part of this Agreement. This Agreement is subject to and in all respects limited and conditioned as provided in the Plan. This Plan governs this option and the Optionee, and in the event of any question as to the construction of this Agreement or of a conflict between the Plan and this Agreement, the Plan shall govern, except as the Plan otherwise provides.

8. WITHHOLDING TAXES ON DISQUALIFYING DISPOSITION BY OPTIONEE. In the event of a disqualifying disposition of Option Stock by Optionee, Optionee hereby agrees to inform the Company of such disposition. Upon notice of a disqualifying disposition or upon independently learning of such a disposition, the Company shall withhold from whatever payments are due Optionee appropriate state and federal income taxes as required by law. In the event the Company is unable to withhold such taxes, for whatever reason, Optionee hereby agrees to pay to the Company an amount equal to the amount the Company would otherwise be required to withhold under state and federal law.

9. INVESTMENT PURPOSE. The Company may require as a condition to the grant and exercise of this option that any stock acquired pursuant to this option be acquired for only investment if, in the opinion of counsel for the Company, such is required or deemed advisable under securities laws or any other applicable law, regulation or rule of any government or governmental agency. In this regard, if requested by the Company, the Optionee, prior to the acquisition of any shares pursuant to this option, shall execute an investment letter to the effect that the Optionee is acquiring share pursuant to this option for investment purposes only and not with the intention of making any distribution of such shares.

10. TERMINATION OF EMPLOYMENT. If the Optionee ceases to be an employee of the Company for any reason (including termination of employment as a result of the reorganization, sale or liquidation by the Company) other than because of death or disability (as described below) this option shall terminate (notwithstanding Paragraph 3 of this Agreement) on the earlier of (i) three months after the date of such termination of employment and (ii) this option's originally stated expiration date. Optionee acknowledges that Optionee is and shall remain an employee at-will; this option is not intended to and shall not affect the at-will nature of the employment relationship.

11. TERMINATION OF EMPLOYMENT DUE TO DISABILITY. If the Optionee ceases to be an employee of the Company because such Optionee is totally disabled, this option shall terminate (notwithstanding Paragraph 3 of this Agreement) on the earlier of (i) twelve months after the date of such termination of employment due to disability and (ii) this option's originally stated expiration date. Total disability shall not exist unless Optionee is permanently unable to engage in any substantial gainful activity by reason of a medically determinable physical and mental impairment which can be expected to continue for an uninterrupted period of not less than 12 months, and such total disability is demonstrated to the satisfaction of the Company, in its discretion.

12. DEATH OF OPTIONEE. If the Optionee dies (i) while an employee of the Company, or (ii) within a period of three months after the termination of his employment with the Company as provided in Paragraph 10, or (iii) within six months after the termination of employment with the Company as provided in Paragraph 11, this option shall terminate (notwithstanding Paragraph 3 of this Agreement) on the earlier of (i) twelve months after the date of death and (ii) this option's originally stated expiration date. In such period following the Optionee's death, this option shall be exercisable only by the Optionee's legal representative or by the person or persons to whom the Optionee's rights under this option shall pass by the Optionee's will or by the laws of descent and distribution.

13. MISCELLANEOUS. This Agreement shall bind and inure to the benefit of the Company and its successors and assigns and the Optionee and any successor or successors of the Optionee. It is intended that this option will qualify as an Incentive Stock Option under the provisions of Section 422 of the Internal Revenue Code; provided, however, that Optionee hereby agrees to personally bear whatever income tax and other burden which may arise if this option does not so qualify and hereby releases the Company from and against any claim Optionee might otherwise have in the event this option is not so qualified.

IN WITNESS WHEREOF, the Company and the Optionee have executed this Agreement in the manner appropriate to each, as of the day and year first above written.

BSI CORPORATION

By ----------

Its ----------

Optionee

Optinee acknowledges receipt of a copy of the Plan concurrently with his execution of this Agreement.

- ---

SURMODICS, INC.
RESTRICTED STOCK AGREEMENT/_____

THIS AGREEMENT, made this _____ day of _____, 19____, by and between SURMODICS, INC., a Minnesota corporation (the "Company"), and _____, (the "Employee").

WITNESSETH:

WHEREAS, the Company desires to keep personnel of experience and ability in the employ of the Company and to provide a mechanism for additional compensation to them dependent upon their continued employment with the Company and the growth and profits of the Company;

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the Company and the Employee hereby agree as follows:

1. GRANT OF BONUS SHARES. The Company hereby authorizes an award of _____ (_____) shares of voting common stock of the Company (the "Bonus Shares") at the times and subject to the terms and conditions hereinafter contained. In the event of any increase or decrease in the number of shares of the Company's voting common stock ("Common Stock") resulting from a subdivision or consolidation of shares or the payment of a stock dividend or any other similar increase or decrease in the number of shares of Common Stock effected without receipt of any consideration by the Company, the number of Bonus Shares subject to this Agreement shall be equitably adjusted by the Company to reflect such change; any additional shares of Common Stock which become part of the Bonus Shares shall be subject to all of the restrictions and conditions applicable to the Bonus Shares.

2. WAITING PERIOD/ISSUANCE OF STOCK. The Employee shall not be entitled to any of the Bonus Shares unless the Employee is employed by the Company at the end of the "Waiting Period", which shall be five years from the date of this Agreement. If the Employee remains in the employ of the Company at the end of the Waiting Period, the Company shall promptly thereafter issue to the Employee a stock certificate representing the Bonus Shares. Upon such issuance, the Employee shall have all of the rights of a shareholder with respect to such shares, subject, however, to all of the restrictions and conditions set forth in this Agreement. In aid of such restrictions, the Employee shall, immediately upon receipt of the certificate(s) representing such shares, appropriately endorse such certificate(s) in blank and deliver such certificate(s) to the Company to be held by the Company as hereinafter provided.

3. RESTRICTION PERIOD. The "Restriction Period" shall be the five years and seven months commencing on the date of this Agreement. During the Restriction Period, any Bonus Shares which have been issued to the Employee as a result of the expiration of the Waiting

Period applicable thereto, shall be known as "Restricted Bonus Shares" and be subject, during the Restriction Period, to the following restrictions:

a. The Restricted Bonus Shares may not be sold, exchanged, transferred, pledged, hypothecated, or otherwise disposed of voluntarily or involuntarily and any such attempted action shall be void and ineffective.

Until the end of the Restriction Period, all Restricted Bonus Shares shall, at the discretion of the Company, be imprinted with a legend stating the restrictions imposed by this Agreement. At the end of the Restriction Period, the Restricted Bonus Shares shall be free of the restrictions herein provided and the Company shall issue and deliver to the Employee a certificate or certificates representing such shares free of the legend described above, but with any such legend as the Company customarily places on its Common Stock.

4. TERMINATION OF EMPLOYMENT. Termination of employment shall occur if the Employee ceases to be an employee of the Company for any reason whatsoever (including, without limitation, voluntary resignation, involuntary termination with or without cause, death, disability, termination as a result of the reorganization, sale or liquidation of the company). Upon any such any termination of employment, the Employee's rights with respect to any Bonus Shares for which the Waiting Period has not yet expired shall fully and automatically lapse and terminate and Employee shall have no further rights whatsoever with respect to that portion of the Bonus Shares. With respect to that portion of the Bonus Shares for which the Waiting Period has expired such that Restricted Bonus Shares have been issued, the Employee's rights and obligations with respect thereto are described in the preceding paragraph. The Employee acknowledges that there have been no promises or representations concerning his or her continued employment and that such employment is and will continue to be an "at will" relationship.

5. CONFIDENTIALITY. The Employee agrees to maintain in strict confidence the terms of this Agreement and the issuance of shares which are the subject matter of this Agreement until and unless the Employee receives prior written consent to disclosure from the President of the Company.

6. MISCELLANEOUS.

a. The Employee acknowledges that he or she has no rights as a shareholder with respect to any shares covered by this Agreement until the date of issuance of a stock certificate with respect thereto. No adjustment shall be made for dividends, distributions, or other rights for which the record date is prior to the date such stock certificate is issued, except for the adjustment in shares as provided in Paragraph 1 hereof.

b. The Company may require as a condition to the issuance of any stock acquired pursuant to this Agreement that such stock be acquired for only investment if, in the opinion of counsel for the Company, such is required

or deemed advisable under securities laws or any other applicable law, regulation or rule of any government or governmental agency. In this regard, if and when requested by the Company, the Employee shall execute an investment letter to the effect that the Employee is acquiring such shares for investment purposes only and not with the intention of making any distribution thereof.

c. It is understood that the shares of Common Stock subject to this Agreement have not been registered under the Securities Act of 1933, as amended, or any applicable Blue Sky laws, or otherwise. It is further understood that the Company has no obligation and will have no obligation to register the shares of Common Stock subject to this Agreement.

d. The Company shall be entitled to withhold and deduct from future wages of the Employee, or make other arrangements for the collection of, all legally required amounts necessary to satisfy any and all federal, state and local withholding and employment-related tax requirements attributable to the Bonus Shares (whether by lapse or restrictions or otherwise), and shall be entitled to require the Employee to remit the amount of any such tax obligations to the Company before issuing any certificates relating to the Bonus Shares. The Employee understands that he or she will personally bear whatever income tax consequences may arise from the execution of this Agreement, issuance of the Bonus Shares, or the lapse of restrictions applicable thereto and the Employee acknowledges that he or she has been given no representations or warranties concerning the income tax consequences thereof.

e. This Agreement sets forth the entire understanding of the parties with respect to the subject matter hereof and supersedes all prior agreements, arrangements, and communications, whether oral or written. No change to or modification of this Agreement shall be valid unless it is in writing and executed by the Company and Employee.

f. This Agreement shall inure to the benefit of the Company, its successors and assigns, and shall be binding upon the Employee (as well as his personal representatives, successors, heirs and assigns); the Employee shall not assign this Agreement or any rights herein.

g. This Agreement shall be construed under the laws of the State of Minnesota.

h. Any notice required or permitted hereunder shall be in writing and shall be deemed served when delivered personally to the person or entity for whom intended or two days after deposit in the United States mail, postage

prepaid, addressed to the last known address of the person or entity for whom intended.

IN WITNESS WHEREOF, the Company and the Employee have executed this Agreement in the manner appropriate to each, as of the date and year first above written.

SURMODICS, INC.

By: _____

Its: _____

- _____

SURMODICS, INC.
NONQUALIFIED STOCK OPTION

THIS AGREEMENT, made this _____ day of _____, 19____ by and between SurModics, Inc., a Minnesota corporation (the "Company"), and ,(the "Optionee");

W I T N E S S E T H:

WHEREAS, on or before on the date hereof, the Company's Board of Directors authorized the grant of this option to the Optionee;

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the Company and the Optionee hereby agree as follows:

1. GRANT OF OPTION. The Company hereby grants to the Optionee, on the date of this Agreement, the option to purchase _____ shares of voting common stock of the Company (the "Option Stock") subject to the terms and conditions herein contained, and subject only to adjustment in such number of shares as provided in Paragraph 7 hereof.

2. OPTION PRICE. During the term of this option, the purchase price for the shares of Option Stock granted herein is _____ per share, subject only to adjustment of such price as provided in Paragraph 7 hereof.

3. TERM OF OPTION. The term during which this option may be exercised expires ten (10) years after the date of this Agreement. This option shall be exercisable during the term of this Agreement only with respect to the following percentages of the Option Stock: (i) during the first year of the term, 20% of the Option Stock; (ii) during the second year of the term, 40% of the Option Stock; (iii) during the third year of the term, 60% of the Option Stock; (iv) during the fourth year of the term, 80% of the Option Stock; and (v) during the fifth through the tenth year of the term, 100% of the Option Stock. If this option terminates for any reason, all unexercised options (including those not yet exercisable) shall lapse.

4. PERSONAL EXERCISE BY OPTIONEE. This option shall, during the lifetime of the Optionee, be exercisable only by said Optionee and shall not be transferable by the Optionee, in whole or in part, other than by will or by the laws of descent and distribution.

5. MANNER OF EXERCISE OF OPTION. This option is to be exercised by the Optionee (or by the Optionee's successor or successors) by giving written notice to the Company of an election to exercise such option. Such notice shall specify the number of

shares to be purchased hereunder and shall be delivered to the Company at its principal place of business. An option shall be considered exercised at the time the Company receives such notice. Upon receipt of such notice and subject to the provisions of Paragraph 8 below, the Company shall, within a reasonable time, and upon payment of the full purchase price for the shares to be purchased, deliver to the Optionee certificates for the shares so purchased. Payment for shares of Option Stock may be made in the form of cash or certified check. All requisite original issue or transfer documentary stamp taxes shall be paid by the Company.

6. RIGHTS AS A SHAREHOLDER. The Optionee or a transferee of this option shall have no rights as a shareholder with respect to any shares covered by this option until the date of the issuance of a stock certificate for the Option Stock. No adjustment shall be made for dividends (ordinary or extraordinary, whether in cash, securities or other property), distributions or other rights for which the record date is prior to the date such stock certificate is issued, except as provided in Paragraph 7 of this Agreement.

7. ADJUSTMENT. In the event of an increase or decrease in the number of shares of Common Stock resulting from a subdivision or consolidation of shares or the payment of a stock dividend or any other increase or decrease in the number of shares of Common Stock effected without receipt of consideration by the Company, the number of shares of Common Stock covered by each outstanding option and the price per share thereof shall be equitably adjusted by the Board of Directors to reflect such change. Additional shares which may be credited pursuant to such adjustment shall be subject to the same restrictions as are applicable to the shares with respect to which the adjustment relates.

Unless otherwise provided in the option agreement, in the event of the sale by the Company of substantially all of its assets and the consequent discontinuance of its business or in the event of a merger, exchange, consolidation or liquidation of the Company, the Board of Directors may in connection with the Board's adoption of the plan for sale, merger, exchange, consolidation or liquidation, provide for the complete termination of this Agreement and cancellation of outstanding options not exercised prior to a date (prior to the effectiveness of such sale, merger, exchange, consolidation or liquidation) specified by the Board or for the continuance of this Agreement only with respect to the exercise of options which are exercisable as of the date of adoption by the Board of such plan for sale, merger, exchange, consolidation or liquidation; provided, however, that if Optionee holds options exercisable as of the date of the Board's adoption of the plan for sale, merger, exchange, consolidation or liquidation, he shall be given either (i) a reasonable time within which to exercise such exercisable portions of his Option prior to the effectiveness of such sale, merger, exchange, consolidation or liquidation, or (ii) the right to exercise his Options as to an equivalent number of shares of stock of the corporation succeeding the Company

by reason of such sale, merger, exchange, consolidation or liquidation. The grant of this option shall not limit in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure or to merge, exchange or consolidate or to dissolve, liquidate, sell or transfer all or any part of its business or assets.

8. INVESTMENT PURPOSE. The Company may require as a condition to the grant and exercise of this option that any stock acquired pursuant to this option be acquired for only investment if, in the opinion of counsel for the Company, such is required or deemed advisable under securities laws or any other applicable law, regulation or rule of any government or governmental agency. In this regard, if requested by the Company, the Optionee, prior to the acquisition of any shares pursuant to this option, shall execute an investment letter to the effect that the Optionee is acquiring shares pursuant to this option for investment purposes only and not with the intention of making any distribution of such share.

9. RIGHT OF FIRST REFUSAL. Optionee shall not sell, assign, give, or otherwise transfer or dispose of any of his shares of stock of the Company acquired pursuant to this Agreement without first giving written notice to the Company of his intention to sell or make disposition thereof, which notice shall state the shares proposed to be disposed of, the amount of any consideration offered, and the name of the prospective purchaser or assignee. The Company, or such one or more of its shareholders as the Company may designate, shall have, for a period of ninety (90) days after receipt of such notice, an option to purchase all, but not part, of the shares of the stock specified in such notice on the same terms and conditions set out in the notice. If the Company shall fail, during the specified option period, to exercise the option, Optionee may, at any time within sixty (60) days after the expiration of the option period, sell or otherwise deal with or dispose of such stock in the manner and on the terms set forth in the notice provided above. If such sale or disposition is not made within such sixty (60) day period, Optionee must again comply with all provisions of this paragraph.

10. MISCELLANEOUS. This Agreement shall bind and inure to the benefit of the Company and its successors and assigns and the Optionee and any successor or successors of the Optionee permitted by Paragraph 4 above. Optionee hereby agrees to personally bear whatever income tax consequences may arise from the issuance of or exercise of this Option.

IN WITNESS WHEREOF, the Company and the Optionee have executed this Agreement in the manner appropriate to each, as of the day and year first above written.

SURMODICS, INC.

By

Its

FORM OF LICENSE AGREEMENT

THIS AGREEMENT by and between SurModics, Inc., a corporation of the State of Minnesota, which has an office at 9924 West 74th Street, Eden Prairie, MN 55344, (hereinafter referred to as SURMODICS), and ZZ, a corporation of XX, which has offices located at XX (hereinafter referred to as ZZ).

WHEREAS, SurModics is engaged in biological, chemical and technical research and has developed a body of technology and know-how, including reagents, processes and devices which the parties believe will improve the performance of various products and processes of ZZ.

WHEREAS, the technology of SurModics includes confidential information (including trade secrets and other know-how) which is proprietary to SurModics and SurModics is in the process of securing patent coverage for certain items of its technology, and continues to maintain the confidentiality of other portions of its technology.

WHEREAS, ZZ and SurModics are parties to a Mutual Confidential Disclosure Agreement dated XX ("Prior Disclosure Agreement");

WHEREAS, ZZ may desire to acquire additional licenses under SurModics's know-how and patent rights such licenses to be added to this Master Agreement;

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth below and for other good and valuable consideration of which receipt is acknowledged, the parties agree as follows:

1. DEFINITIONS

The following definitions apply to this Agreement and to all addenda thereto:

a. "Effective Date" means the date upon which this Agreement is fully executed.

b. "Licensed Product Effective Date" shall mean the date specified in Attachment B1, B2, and so forth, for that Licensed Product and all payments due upon execution for that Licensed Product are received by SurModics.

c. "Patent Rights" means the patent application(s) and patent(s) identified in Attachment A hereof, together with all foreign counterparts, divisions, and continuation applications based thereon, any patent issuing on any of said applications, and any reissues or extensions based on any of such patents. The term "Patent Rights" shall include Improvement Patents as defined in Paragraph 1(d).

d. "Improvement Patents" means any U.S. patents or patent applications, and all foreign counterparts, divisions, continuations, continuations in part, reissues and extensions thereof specifically pertaining to a Licensed Product:

i. which are filed on an invention conceived or reduced to practice by SurModics during the exclusive term (if any) of the license granted herein for that Licensed Product, and

ii. with respect to which SurModics has the right to grant a license, and

iii. which but for the license granted herein would be infringed by the manufacture, use or sale (or by a surface treatment process employed to produce that product or a reagent used in such process) by ZZ of Medical Products having a surface treated through the use of SurModics's Know-how.

e. "Medical Products" means products that are specifically described in Attachment B1, B2, and so forth.

f. "Licensed Products" means each of the separately sold Medical Products specifically described in Attachment B1, B2, and so forth, which bear a SurModics coating and which:

i. but for the license granted herein the manufacture, use or sale would infringe (or a surface treatment process employed to produce a product or a reagent used in such process would infringe) any claim of Patent Rights, or

ii. are produced through the use of SurModics's Know-how.

g. "Know-how" means SurModics's trade secrets and other technical information relating to the surface-treatment of medical devices and which SurModics has the right to transmit to others. Know-how includes but is not limited to information contained in pending patent applications of Patent Rights and information that is Confidential Information as defined in Paragraph 13.

h. "Future Know-how" with respect to any Licensed Product means Know-how that is acquired by SurModics during the exclusive term (if any) of the license granted herein for that Licensed Product.

i. "Net Sales" means the total actual billing for sales of Licensed Products, less the following deductions where they are applicable with respect to such billings and when separately shown on invoices:

i. discounts actually allowed and taken;

ii. any customs, duties, taxes or other governmental excise or charge upon or measured by the production, sale, transportation, delivery or use of Licensed Product and actually paid by ZZ;

iii. amounts allowed or credited on rejections or returns;

iv. transportation charges prepaid or allowed.

Notwithstanding the above, if any Licensed Product is sold both separately and as an integral part of a combination product containing one or more integral components in addition to that Licensed Product, then Net Sales of that Licensed Product resulting from sales of that combination product will be calculated by multiplying the Net Sales for the combination product as calculated above by the fraction A/B where A is the invoice price of the Licensed Product as sold separately and B is the invoice price of the combination product.

A Licensed Product shall be considered sold when it is shipped or when it is invoiced, whichever is earlier. To assure SurModics the full royalty payment contemplated in this Agreement, ZZ agrees that in the event any Licensed Product is sold to an Affiliate for purposes of resale, Earned Royalties for that Licensed Product shall be computed upon the selling price at which such Licensed Product would ordinarily be sold to a non-Affiliate, rather than on the selling price of ZZ to the Affiliate.

j. "Affiliate" means any entity which owns at least 50% of, is at least 50% owned by, or is under common (at least 50%) ownership with ZZ.

k. "Valid Claim" means a claim of Patent Rights that has not been held invalid by a court of competent jurisdiction beyond possibility of appeal.

2. LICENSE

a. With respect to the Licensed Product defined in each of Attachments B1, B2, and so forth, SurModics grants to ZZ, a separate worldwide license under SurModics's Patent Rights and Know-how to make, have made for it, use and sell that Licensed Product. The license granted herein does not include the right to sublicense and is expressly limited to the specific Licensed Products defined herein. Additional terms of each license are set out in the respective Attachments B1, B2, and so forth. To the extent of any inconsistency between the terms set forth in the text of this Agreement and the terms set forth in Attachments B1, B2, and so forth, the terms set forth in the text of this Agreement shall be controlling.

b. Subject to the limited license granted herein, SurModics shall retain all rights to the Patent Rights and the Know-how, including SurModics's right to use Patent Rights and Know-how for its own research purposes.

3. LICENSE FEES

License Fees paid to SurModics by ZZ for each license granted herein are set out in the respective Attachment B1, B2, and so forth.

4. ROYALTIES

For each license granted herein, ZZ shall pay to SurModics a royalty for each quarter calendar year during the term of this License Agreement which will be the greater of the royalties of Paragraphs 4(a) or 4(b).

a. Earned Royalties shall be calculated as provided for in the respective Attachment B1, B2, and so forth. No more than one Earned Royalty shall be paid by ZZ for any Licensed Product. However, if any Licensed Product is covered by more than one Attachment B1, B2, and so forth, then the Earned Royalty rate shall be the highest rate specified for such Licensed Product.

b. Minimum Royalties shall be paid for each Licensed Product as provided for in the respective Attachment B1, B2, and so forth.

5. ROYALTY PAYMENTS, REPORTS, RECORDS

a. During the term of this Agreement, and for each license granted hereunder, ZZ will make written reports and payments to SurModics within thirty (30) days after the last day of each calendar quarter ending March 31, June 30, September 30, and December 31. Each such report shall state the Net Sales, unit volumes, Earned Royalty, corrections of error in prior royalty payments, and data and calculations used by ZZ to determine such payments for each of the licenses corresponding to the respective Attachments B1, B2, and so forth. Each report shall be accompanied by payment in full of the royalty due SurModics for that quarter. The December 31 quarterly report shall also consist of a summary progress report regarding ZZ's relevant developmental, manufacturing scale-up, regulatory affairs, and marketing activities with respect to all Licensed Products along with a summary forecast of projected sales of Licensed Products and forecasted reagent usage for the next calendar year.

b. ZZ will maintain, for a period of five (5) years following the sale of Licensed Product, true and accurate records supporting the reports and payments made under this Agreement. SurModics shall have the right to carry out an audit of such records no more frequently than once per calendar year by a certified public accountant of its choice. Such accountant shall have reasonable access to ZZ's offices and the relevant records, files and books of account, and such accountant shall have the right to examine any other records reasonably necessary to determine the accuracy of the calculations provided by ZZ under Paragraph 5(a). Such audit shall be at SurModics's expense except that if cumulative underpayment errors for any period are found that exceed 5% of the payment made to SurModics during that period being audited, then ZZ will bear the cost of such audit.

c. All royalties on sales of each Licensed Product to be paid to SurModics by ZZ under this Agreement shall be paid in U.S. Dollars to SurModics in the United States. For the purpose of calculating Earned Royalties on sales outside the United States, ZZ shall utilize the average rate of exchange on the last business day of that calendar quarter as quoted in the Wall Street Journal.

d. Any sum required under U.S. tax laws (or the tax laws of any other government) to be withheld by ZZ from payment for the account of SurModics shall be promptly paid by ZZ for and on behalf of SurModics to the appropriate tax authorities, and ZZ shall furnish SurModics with official tax receipts or other appropriate evidence issued by the appropriate tax authorities sufficient to enable SurModics to support a claim for income tax credit in respect to any sum so withheld.

6. DEVELOPMENT FEES

ZZ agrees to pay SurModics for development efforts ("Development Fees") while working on ZZ's products at SurModics's then standard hourly rate for development efforts provided, however, that such development effort is pursuant to a mutually agreed upon project plan. SurModics's standard hourly rate includes direct labor costs plus direct labor overhead. SurModics shall additionally charge direct materials plus direct materials overhead of fifteen percent (15%). Direct materials may include expenses such as travel and special equipment, but only as mutually agreed upon in writing. SurModics shall invoice ZZ monthly for such Development Fees and payment is due within thirty (30) days thereafter.

7. TERM

a. Unless earlier terminated, each license herein granted shall begin upon the Licensed Product Effective Date set out in the respective Attachment B1, B2, and so forth, and shall extend for each Licensed Product so licensed until expiration of the last to expire patent of Patent Rights that covers that product or for a period of fifteen (15) years following the first bona fide commercial sale of such Licensed Product, whichever is longer; provided, however, that for a Licensed Product that embodies or is manufactured through the use of Future Knowhow, the license herein granted shall extend until expiration of the last to expire patent of Patent Rights that covers that Licensed Product or for a period of fifteen (15) years from the date of the first bona fide commercial sale by ZZ of that Licensed Product, whichever is longer.

b. Upon expiration of the full term of the license granted herein for any Licensed Product, and upon full payment by ZZ to SurModics of any monies due under this Agreement, the license with respect to Know-how licensed herein for that Licensed Product shall be deemed paid up and non-exclusive (if any such license was exclusive), and SurModics may negotiate additional license agreements with any other party for that Licensed Product.

8. PATENTS

a. ZZ shall see to it that all Licensed Products sold by ZZ shall be appropriately marked with the applicable patent numbers, in conformity with applicable law.

b. SurModics recognizes that it is an objective of ZZ to obtain patents on technology that it develops concerning chemicals having latent reactive groups and their uses. ZZ recognizes that a vital part of SurModics's business involves the licensing of others under SurModics's patents and know-how to make, use and sell products, and that it is an objective of SurModics to enable its present and future licensees to exploit patent licenses from SurModics to produce and sell products without interference from any patent that ZZ might obtain. A purpose of this Paragraph 8(b) is to establish a system under which each party may accomplish their respective objectives.

i. "ZZ Patents" means patents which (a) claim inventions conceived or first reduced to practice during the term of this Agreement solely by one or more ZZ employees or others who are required to assign inventions to ZZ, and (b) claim inventions relating to chemical species having photo-reactive or other latent reactive groups for the purpose of bonding chemicals such as synthetic polymers and biologically active materials onto surfaces or into matrices or to other molecules, the use of such chemicals species, or the products resulting from such use, and (c) which could be infringed by the manufacture, use or sale of any product or process covered by any claim of any patent that SurModics has the right to license to others.

ii. During the term of this Agreement, ZZ will provide SurModics with a copy of each proposed patent application for a ZZ Patent, and SurModics will provide comments concerning such application, including comments regarding inclusion of SurModics's Confidential Information, prior work done by SurModics in connection with the claimed invention, and the state of the art. No application for a ZZ Patent shall be made without SurModics's prior written permission. If SurModics can fairly show that it had substantial knowledge of the invention of any ZZ Patent application before receiving from ZZ that patent application, SurModics shall promptly notify ZZ and the parties shall cooperate in comparing records of conception of that invention to determine in good faith which party was the earliest to conceive the invention.

iii. SurModics shall have and is hereby granted a noncancelable, nonexclusive, worldwide license, with the right to sublicense, to make, have made for it, use and sell products and processes covered by each ZZ Patent to the extent that such manufacture, use or sale also is covered by any claim of any patent that SurModics has the right to license to others. If ZZ was the earliest to conceive the invention of that patent, then the license granted to SurModics, and SurModics's right to sublicense, shall exclude the right to manufacture, use or sell Medical Products.

iv. In return for such license, SurModics will pay ZZ a total of five percent (5%) of the royalties (regardless of the number of ZZ Patents that are licensed to SurModics or the number of licenses involved) that SurModics receives from its sublicensees based on sales by its sublicensees of products that but for such sublicenses would infringe any Valid Claim of ZZ Patents. Notwithstanding the above, if SurModics was the earliest to conceive the invention of any ZZ Patent, then the license granted to SurModics shall be considered paid-up.

c. Each party shall own an undivided one-half interest in inventions made jointly by one or more employees (or others who are required to assign inventions to a party) of each party ("Joint Inventions"). With respect to Joint Inventions, the parties agree that mutually acceptable patent counsel shall be retained to render an opinion as to the patentability thereof and to prepare, file, and prosecute such patent applications as may reasonably be required to provide protection for such inventions. Jointly owned patents resulting therefrom ("Jointly Owned Patents") shall be considered Patent Rights in determining payment of royalties to SurModics under Paragraphs 4. With respect to Jointly Owned Patents:

i. SurModics agrees it will not grant licenses for the manufacture, use or sale of Medical Products as specified in Attachment B1, B2, and so forth, as of the filing date of such Jointly Owned Patents, without the advance written consent of ZZ.

ii. ZZ agrees it will not grant any licenses other than for the manufacture, use or sale of Medical Products as specified in Attachments B1, B2, and so forth, as of the filing date of such Jointly Owned Patents, without the advance written consent of SurModics.

iii. The limitations of Paragraphs 8(c)(i) and 8(c)(ii) apply only to Jointly Owned Patents and not to any other patents owned by either party.

iv. Should either party choose to bring suit for infringement by a third party of any Jointly Owned Patent, the party bringing suit shall have the right to join the other party as a party to the suit to the extent required by law.

d. The parties agree to execute and exchange upon request such documents as may be necessary or desirable to carry out the provisions of Paragraphs 8(b) and 8(c).

9. ALLOCATION OF ROYALTIES

After five (5) years from the Licensed Product Effective Date, the Earned Royalty rate with respect to any Licensed Product shall be prospectively reduced to seventy percent (70%) of the Earned Royalty rate set out in Paragraph 4(a) and the respective Attachments B1, B2, and so forth, to the extent that and during the term that the

manufacture, use or sale of that specific Licensed Product (or a surface treatment process or a reagent used in such process) is not covered by any Valid Claim of Patent Rights. The provisions of this Paragraph 9 shall not apply to payment of Minimum Royalties as provided in Paragraph 4(b) and the respective Attachments B1, B2, and so forth.

10. TERMINATION

a. For each license granted herein:

i. ZZ shall have the right to terminate the respective Attachment B1, B2, and so forth, under which such license was granted, but only in its entirety, at any time upon ninety (90) days advance written notice. Upon termination of such license, ZZ shall have no further rights under Patent Rights or Know-how. However, ZZ shall be allowed to sell any inventory of Licensed Products existing at the time of termination for a period of six (6) months thereafter (thereafter destroying any remaining inventory), provided ZZ accounts for such sales of inventory and pays SurModics the appropriate Earned Royalty for such sales as set out in Paragraph 4(a) of this Agreement.

ii. SurModics may terminate this Agreement in whole or with respect to any license granted herein upon thirty (30) days written notice for any material breach or default by ZZ, including without limitation, failure to comply with the confidentiality provisions of Paragraph 13, failure to make reports and payments when due, failure to pay Minimum Royalties, and withholding or notice of intent to withhold any royalties provided for in this Agreement. Said termination under this Paragraph 10(a)(ii) shall become effective at the end of the thirty (30) day period unless during that period ZZ shall first cure such breach or default.

iii. Upon termination of any license under any of the provisions of this Paragraph 10, but subject to the provisions of Paragraph 10(a)(i), referring to the sale of inventory, ZZ shall cease making, having made for it, using and selling the Licensed Products of such license that are produced through the use of SurModics's Know-how. SurModics shall have the right to seek equitable relief to enforce the provisions of this Paragraph 10(a)(iii).

b. Either party may terminate this Agreement if the other party hereto is involved in insolvency, dissolution, bankruptcy or receivership proceedings affecting the operation of its business.

c. Notwithstanding the provisions of Paragraph 20, failure of ZZ to bring to market any Licensed Product by the date set out for that Licensed Product in the respective Attachment B1, B2, and so forth, to this Agreement shall permit SurModics to terminate the license for that Licensed Product upon thirty (30) days written notice at any time prior to the date ZZ begins bona-fide commercial sales of that Licensed Product.

d. In the event that all licenses granted herein are terminated, SurModics shall have the right to terminate this Agreement in its entirety upon written notice.

11. CONTINUING OBLIGATIONS SUBSEQUENT TO TERMINATION

a. Upon any termination of this Agreement or any of the licenses granted herein, the following rights and obligations shall continue to the degree necessary to permit their complete fulfillment or discharge:

i. SurModics's right to receive and ZZ's obligation to pay royalties to the extent owed; and

ii. ZZ's obligation to maintain records and SurModics's right to audit under Paragraph 5, with respect to sales made and to be made under Paragraph 10(a)(i); and

iii. Any cause of action or claim of either party, accrued or to accrue, because of any breach or default by the other party; and

iv. ZZ's obligation to maintain confidentiality under Paragraph 13; and

v. ZZ's obligation to forebear from use of SurModics's Know-how as provided in Paragraph 10(a)(iii); and

vi. The parties' obligations under Paragraphs 8(b) and 8(c) with respect to filing patent applications and payment of royalties on issued patents.

b. Within thirty (30) days of the date of termination of this Agreement, ZZ shall return to SurModics all copies of documents and other materials containing or disclosing any of SurModics's Confidential Information.

12. REPRESENTATIONS AND WARRANTIES

a. Each party warrants to the other that it has not accepted and will not accept commitments or restrictions with respect to its rights or obligations under this Agreement which will materially affect the value of the rights granted by SurModics nor the obligations undertaken by ZZ.

b. Each party has the full and unrestricted right to enter into this Agreement.

c. Nothing in this Agreement shall be construed as:

i. A warranty or representation by SurModics as to the validity or scope of any Patent Rights; or

ii. A warranty or representation that anything made, used, sold, or otherwise disposed of, or any process practiced, under any License granted in this Agreement is or will be free from infringement of patents of third persons; or

iii. A requirement that SurModics file any patent application, secure any patent, or maintain any patent in force; or

iv. An obligation to bring or prosecute actions or suits against third parties for infringement of any patent; or

v. An obligation to furnish any manufacturing or technical information not encompassed within Know-how; or

vi. Conferring any right on either party to use in advertising, publicity, or otherwise any trademark or trade name of the other; or

vii. Granting by implication, estoppel, or otherwise any licenses or rights under patents or other proprietary information of SurModics other than those included within Patent Rights and Know-how.

d. With respect to photo-reactive reagents supplied at any time by SurModics, SurModics disclaims all warranties, express or implied, including but not limited to warranties of merchantability, noninfringement and fitness for a particular purpose. Notwithstanding anything to the contrary, SurModics shall not be liable for incidental, consequential, special, extraordinary or punitive damages of any description, whether for damage to reputation or goodwill, lost profits, claims of third parties or otherwise, whether such asserted damage purports to be based on warranty or guarantee, indemnity or other contract, contribution, negligence or other tort, or otherwise.

e. SurModics does not make any representations, extend any warranties of any kind, either express or implied, or assume any responsibilities whatever with respect to use, sale, or other disposition by ZZ or its vendees or transferees of Licensed Products incorporating or made by use of the Patent Rights and Know-how licensed under this Agreement.

f. ZZ represents that it will take action to reasonably bring to market and to sell Licensed Product throughout ZZ's world-wide marketing territory during the term of this Agreement. Failure to adequately promote and market Licensed Product may, at SurModics's option, be interpreted as a material breach or default of this Agreement. SurModics expects ZZ to demonstrate appropriate product development activities, participate in clinical trials, submit appropriate regulatory or governmental filings for appropriate marketing clearances, integrate the Licensed Product into ZZ's manufacturing operations, educate appropriate sales and marketing staff, and introduce and actively market the Licensed Product upon completion of product development and obtaining appropriate regulatory approvals.

13. CONFIDENTIALITY

a. Each party agrees to retain in confidence all Know-how and other information received from the other, including without limitation, information required to be maintained in confidence under prototype development or manufacturing scale-up or postscale-up relationships between the parties, for a period of fifteen (15) years from the date of disclosure or five (5) years from the date of termination of this Agreement, whichever is longer. Each party agrees not to disclose any of such Know-how or other information to third parties nor to use the same except in accordance with this Agreement. Each party's obligation of nondisclosure and non-use shall not apply to information which:

i. at the time of its disclosure to the receiving party is available to the public;

ii. after disclosure becomes available to the public through no fault of the receiving party;

iii. the receiving party can show was in its possession at the time of disclosure to it by the other;

iv. the receiving party can show was received by it from a third party without breach of a confidential obligation; or

v. is required to be disclosed by any governmental agency.

Even after any of such information becomes available to the public, each party shall not disclose without the other's prior written approval the fact that such information was furnished by or originated with the other.

b. For the purpose of this entire Paragraph 13, Know-how or other information which is specific shall not be deemed to be within any of the specified exceptions merely because it is embraced by more general information in such exception. In addition, any combination of features shall not be deemed to be within any of the specified exceptions merely because individual features are in such exception, but only if the combination itself and its principle of operation are in such exception.

c. Notwithstanding the above, ZZ specifically agrees that it will not disclose to any Affiliates or other third party any of SurModics's Know-how relating to the manufacture of SurModics's chemical reagents, the precise chemical composition of such reagents, how such reagents are tested, how they are quality controlled, and any other specific information concerning the production of such reagents.

d. The provisions of this entire Paragraph 13 shall survive termination of this Agreement for any reason.

e. Nothing herein shall in any way affect the obligations of the parties under any prior secrecy or confidential disclosure agreements, including the Prior Disclosure Agreement, which obligations shall continue in accordance with the terms of each such agreement to the extent not inconsistent with the present Agreement.

14. ASSIGNMENT

This Agreement shall be binding upon and inure to the benefit of the parties hereto and their successors to the entire assets and business of the respective parties hereto. Either party may assign its rights and obligations under this Agreement to a financially responsible third party, but only in connection with a complete transfer to the third party of the business to which this Agreement pertains. The assigning party will so inform the other party to this Agreement without delay of any assignment made in accordance with the conditions of this Agreement. This Agreement shall not otherwise be assignable by either party without the prior written consent of the other party. Any and all assignments of this Agreement or any interest therein not made in accordance with this paragraph shall be void.

15. GOVERNMENT APPROVAL

ZZ shall have the sole responsibility, at ZZ's sole expense, for obtaining any government approvals that may be required for the investigation or marketing of Licensed Products.

16. PRODUCT LIABILITY

ZZ will defend and indemnify SurModics against all losses, liabilities, lawsuits, claims, expenses (including attorney's fees), costs, and judgments incurred through personal injury, property damage, or other claims of third parties, arising from the design, manufacture, use, or sale of Licensed Products.

17. NO WAIVER

Any waiver of any term or condition of this Agreement by either party shall not operate as a waiver of any other or continued breach of such term or condition, or any other term or condition, nor shall any failure to enforce a provision hereof operate as a waiver of such provision or of any other provision hereof.

18. NOTICES

All communications or other notices required or permitted under this Agreement shall be in writing and shall be deemed to be given when personally delivered, or when mailed by registered or certified mail, postage prepaid, and addressed as follows:

If to SurModics:
License Administration
SurModics, Inc.
9924 West 74th Street
Eden Prairie, MN 55344

If to ZZ:
X
X
X

Either party shall have the right to change the person and/or address to which notices hereunder shall be given, by notice to the other party in the manner set out above.

19. CAPTIONS

The captions and headings of this Agreement are for convenience only and shall in no way limit or otherwise affect any of the terms or provisions contained herein. This Agreement shall be construed without regard to any presumption or other rule requiring construction hereof against the party drafting this Agreement.

20. FORCE MAJEURE

Neither party shall be liable for failure to perform as required by any provisions of this Agreement where such failure results from a cause beyond such party's reasonable control such as acts of God, regulation or other acts of civil or military authority, required approval(s) of government bodies, fires, strikes, floods, epidemics, quarantine restrictions, riot, delays in transportation and inabilities to obtain necessary labor, materials, or manufacturing facilities. In the event of any delay attributable to any of the foregoing causes, the time for performance affected thereby shall be extended for a period equal to the time lost by reason of such delay. The cumulative effect of all such delays under this Paragraph 20 shall not exceed one (1) year.

21. NO AGENCY

Nothing in this Agreement authorizes either SurModics or ZZ to act as agent for the other as to any matter, or to make any representations to any third party indicating or implying the existence of any such agency relationship. SurModics and ZZ shall each refrain from any such representations. The relationship between SurModics and ZZ is that of independent contractors.

22. SEVERABILITY

Should any provision of this Agreement, or the application thereof, to any extent be held invalid or unenforceable, the remainder of this Agreement and the application thereof

other than such invalid or unenforceable provisions shall not be affected thereby and shall continue valid and enforceable to the fullest extent permitted by law or equity.

23. GOVERNING LAW

For all purposes under this Agreement, the parties agree and admit that jurisdiction and venue are proper in the Federal District Court, District of Minnesota. This Agreement shall for all purposes be governed and interpreted in accordance with the laws of the State of Minnesota, except for its conflict of laws provisions.

24. ARBITRATION

a. In the event of any dispute concerning this Agreement, including its interpretation, performance, breach or termination, the procedures of this Paragraph 24 shall apply; provided, however, that either party shall have the unrestricted right at any time to seek a court injunction prohibiting the other party from making unauthorized disclosure or use of Confidential Information as provided for in Paragraph 13 or unauthorized use of SurModics's Knowhow as provided for in Paragraph 10(a)(iii).

b. Both parties will use good faith and reasonable efforts to resolve any dispute informally and as soon as practical. If any such dispute is not resolved informally within a reasonable period, then the Chief Executive Officers of the parties will meet at a mutually agreeable time and place to attempt to resolve the dispute.

c. If the parties are unable to resolve a dispute as provided immediately above, either party may submit the dispute for resolution by mandatory, binding arbitration in the city of Minneapolis, MN (or such other place as the parties may mutually agree) under the auspices of the American Arbitration Association under it's Commercial Arbitration Rules. Each party shall select one independent, qualified arbitrator and the two arbitrators so selected shall then select a third arbitrator in accordance with the Commercial Rules. Each party reserves the right to object to any individual arbitrator (no matter by whom chosen) who has been employed by or affiliated with a competing organization.

d. The arbitrators, who shall act by majority vote, shall be empowered to decree any and all relief of an equitable nature, including but not limited to temporary restraining orders, temporary injunctions, and/or permanent injunctions, and shall also be able to award damages, with or without an accounting of costs. Judgement on the award rendered by the arbitrator(s) may be entered into any court having jurisdiction thereof. Each party shall bear its own costs and divide other reasonable arbitrator costs equally.

25. ENTIRE AGREEMENT

This Agreement, together with the Prior Disclosure Agreement and all addenda, attachments, and writings required or contemplated hereby, constitutes the entire agreement between the parties with respect to the Licenses granted herein, and no party

shall be liable or bound to the other in any manner by any warranties, representations or guarantees except as specifically set forth herein. This Agreement shall not be altered or otherwise amended except by an instrument in writing signed by both parties.

IN WITNESS WHEREOF, the parties have executed this Agreement on the date last written below.

SurModics, Inc.	ZZ
By: _____	By: _____
Its: _____	Its: _____
Date: _____	Date: _____
Secondary approval: _____	Secondary approval: _____

ATTACHMENT A

SURMODICS, INC. U.S. PATENTS

1. METHOD OF IMPROVING THE BIOCOMPATIBILITY OF SOLID SURFACES
   U.S. Patent No. 4,973,493 issued 11/27/90

2. BIOCOMPATIBLE COATINGS FOR SOLID SURFACES
   U.S. Patent No. 4,979,959 issued 12/25/90

3. BIOCOMPATIBLE DEVICE WITH COVALENTLY BONDED BIOCOMPATIBLE AGENT
   U.S. Patent No. 5,263,992 issued 11/23/93

4. BIOMOLECULE ATTACHMENT TO HYDROPHOBIC SURFACES
   U.S. Patent No. 5,217,492 issued 6/8/93

5. METHOD OF BIOMOLECULE ATTACHMENT TO HYDROPHOBIC SURFACES
   U.S. Patent No. 5,258,041 issued 11/2/93

6. PREPARATION OF POLYMERIC SURFACES VIA COVALENTLY ATTACHING POLYMERS
   U.S. Patent No. 5,002,582 issued 3/26/91

7. RESTRAINED MULTIFUNCTIONAL REAGENT FOR SURFACE MODIFICATION
   U.S. Patent No. 5,414,075 issued 5/9/95

8. PREPARATION OF POLYMERIC SURFACES (Divisional)
   Filed 5/29/92, allowed 11/1/95

SURMODICS, INC. U.S. PATENT APPLICATIONS

1. IMMOBILIZATION OF CHEMICAL SPECIES IN CROSSLINKED MATRICES
   Filed 2/13/92

2. VIRUS INACTIVATING COATINGS
   Filed 6/7/95

3. METHOD AND IMPLANTABLE ARTICLE FOR PROMOTING ENDOTHELIALIZATION
   Filed 5/26/95

4. WATER SOLUBLE CROSSLINKING AGENTS
   Filed 11/3/95

SURMODICS, INC. FOREIGN PATENTS

1. IMPROVEMENT OF THE BIOCOMPATIBILITY OF SOLID SURFACES
   Canadian Patent No. 1305068, issued 7/14/92
   Australian Patent No. 615637, issued 10/16/87
   EPO Patent No. 0326579, issued 1/11/95

2. BIOMOLECULE ATTACHED TO A SOLID SURFACE BY MEANS OF A SPACER AND METHODS OF ATTACHING BIOMOLECULES TO SURFACES
   Canadian Patent No. 1335721, issued 5/30/95

SURMODICS, INC. FOREIGN PATENT APPLICATIONS

1. BIOCOMPATIBLE COATINGS
   Filed in Canada, Europe, Japan, Denmark, and Norway

2. PREPARATION OF POLYMERIC SURFACES
   Filed in Canada, Europe, Japan, Denmark, and Norway

3. IMMOBILIZATION OF CHEMICAL SPECIES IN CROSSLFNKED MATRICES
   Filed in Canada, Europe, Australia, Japan

4. IMPROVEMENT OF THE BIOCOMPATIBILITY OF SOLID SURFACES
   Filed in Japan

5. RESTRAINED MULTIFUNCTIONAL REAGENTS FOR SURFACE MODIFICATION
   Filed in Canada, Europe, Australia and Japan

ATTACHMENT B1
Title of Attachment

1. MEDICAL PRODUCTS
"Medical Products" means X.

2. LICENSED PRODUCT
"Licensed Products" means Medical Products which are surface-treated with _____.

3. GRANT OF LICENSE The license granted under this Attachment is non-exclusive.

4. LICENSE FEES
ZZ will pay to SurModics a one-time, nonrefundable License Fee of $_____ upon execution of this Agreement.

5. ROYALTY PAYMENTS
ZZ shall pay to SurModics a royalty, for the Patent Rights and Know-how license granted herein, which will be the greater of Paragraphs a) or b) as follows:

a. Earned Royalties on Net Sales ($U.S.) of Licensed Products sold in each calendar year of:

Net Sales In Each Calendar Year	Earned Royalty Rate
On the first $10,000,000	? %
On the next $10,000,000	? %
On Net Sales over $20,000,000	? %

b. Quarterly Minimum Royalties for all Attachment B1 Products as follows:

For Each Quarter Calendar Year Beginning	Quarterly Minimum Royalty
January 1, 1998	$?
January 1, 1999	$?
January 1, 2000	$?

For the quarter calendar year commencing with January 1, XXXX, and each year thereafter, the quarter calendar year Minimum Royalty shall be the prior year's quarterly Minimum Royalty adjusted by a percentage equal to the percentage change in the "Consumer Price Index For All Urban Consumers" for the prior calendar year as reported by the U.S. Department of Labor.

6. PERFORMANCE

Notwithstanding the provisions of Paragraph 20 of the Master License Agreement:

a. Failure of ZZ to begin bona fide commercial sales by January 1, XXXX of a Licensed Product as defined in this Attachment, shall permit SurModics to terminate the license for that Licensed Product upon thirty (30) days written notice at any time prior to the date ZZ begins bona-fide commercial sales of that Licensed Product.

b. If, after January 1, XXXX, there are four (4) consecutive quarters in which ZZ fails to generate Earned Royalties under Paragraph 5(a) of this Attachment then upon thirty (30) days written notice given to ZZ, the license granted herein shall, at SurModics's option, be terminated.

The Licensed Product Effective Date of this Attachment shall be the date last written below.

SurModics, Inc.	ZZ
By: _____	By: _____
Its: _____	Its: _____
Date: _____	Date: _____
Secondary approval: _____	Secondary approval: _____

AMENDED LICENSE AGREEMENT

THIS AGREEMENT shall be effective on the last date of execution hereof, by and between Bio-Metric Systems, Inc. ("BSI"), a corporation of the State of Minnesota, having a principal place of business at 9924 West Seventy-Fourth Street, Eden Prairie, Minnesota 55344, and Abbott Laboratories ("ABBOTT"), a corporation of the State of Illinois, having a principal place of business at Abbott Park, Illinois 60064-3500. This Agreement amends and supersede that License Agreement between BSI and ABBOTT ("The Parties") dated May 30, 1989.

WHEREAS, BSI is engaged in biological, chemical and technical research, has developed a body of proprietary technology useful in reagents, processes and devices related thereto, and possesses certain intellectual property including patents, patent applications, trade secrets, know-how and other information related to such proprietary technology;

WHEREAS, ABBOTT has expertise in developing and marketing diagnostic products and intends to develop and market diagnostic products that utilize, in whole or in part, such proprietary technology of BSI;

WHEREAS, ABBOTT desires to receive an exclusive license under such proprietary technology of BSI;

NOW, THEREFORE, in consideration of the mutual promises and covenants herein, the parties agree as follows:

ARTICLE 1

DEFINITIONS

1.01 "PROPRIETARY RIGHTS" shall mean the rights under:

(a) all foreign and United States Patent applications related in whole or in part to BSI's United States Patent Applications Serial No. 467,229 (filed February 23, 1983) and Serial No. 356,459 (filed March 9, 1982);

(b) all continuation, continuation-in-part, divisional, reissue and reexamination applications and any foreign or United States equivalent of such applications described above;

(c) all patents that issue on the applications defined in (a) and (b) above; and

(d) related trade secrets and know-how of BSI and which are based in whole or in part upon BSI's technology exemplified in such applications described above.

1.02 "DIAGNOSTIC APPLICATIONS" shall mean the four following fields of application of PROPRIETARY RIGHTS: HUMAN DIAGNOSTICS, VETERINARY DIAGNOSTICS, FOOD/AGRICULTURAL DIAGNOSTICS and ENVIRONMENTAL DIAGNOSTICS.

1.03 "HUMAN DIAGNOSTICS" shall mean the detection and measurement of substances in human source materials.

1.04 "VETERINARY DIAGNOSTICS" shall mean the detection and measurement of substances in non-human animal source materials.

1.05 "FOOD/AGRICULTURAL DIAGNOSTICS" shall mean the detection and measurement of substances in human or animal feedstuffs, including but not limited to toxins, nutrients, contaminants and the like.

1.06 "ENVIRONMENTAL DIAGNOSTICS" shall mean the detection and measurement of substances in materials not included in the other three fields of DIAGNOSTIC APPLICATIONS as defined in Paragraphs 1.03, 1.04 and 1.05.

1.07 "LICENSED PRODUCT(S)" shall mean an apparatus sold by ABBOTT or an ABBOTT AFFILIATE which but for the license granted herein:

(a) for each country where a patent(s) exist the manufacture, use or sale of such apparatus in such country would infringe a valid and enforceable claim of an unexpired patent included in PROPRIETARY RIGHTS; or

(b) utilizes trade secrets or know-how included in PROPRIETARY RIGHTS.

As used herein a "valid and enforceable claim" is a claim that has not been held invalid or unenforceable by order of a court of competent jurisdiction from which no appeal is taken.

1.08 "AFFILIATE" shall mean any corporation or other business entity controlled by, controlling, or under common control with the affected party, wherein control means direct or indirect ownership of at least thirty percent (30%) of the voting stock, or at least thirty percent (30%) interest in the equity, of such corporation or other business entity, or in either case the maximum amount allowed by law.

1.09 "NET SALES" shall mean the total invoiced price for sales by ABBOTT, an ABBOTT AFFILIATE or an ABBOTT sublicensee of LICENSED PRODUCTS less:

(a) actual credited allowances to customers for spoiled, damaged, outdated or returned LICENSED PRODUCTS;

(b) any taxes or other governmental charges levied or measured or both by sales and included in the billing price; and

(c) amounts for transportation, insurance, handling or shipping charges to purchasers.

In the event that a LICENSED PRODUCT is increased in price to include an amount to cover instrument system recovery under a Reagent Agreement Plan, Reagent Rental Plan, or other successor or similar plan (collectively referred to herein as 'RAP"), the NET SALES for such LICENSED PRODUCT sold under a RAP shall be reduced as follows: Total instrument depreciation and service charges (determined according to generally accepted accounting principles and not primarily for the purpose of avoiding royalties under this Agreement) applicable to both licensed and unlicensed products sold under a RAP shall be divided by total sales under a RAP on a quarterly basis to determine an overall RAP factor percentage. The RAP factor percentage shall then be multiplied by quarterly Net Sales of Licensed Products sold under RAP to determine the amount by which Net Sales shall be reduced under this paragraph. The depreciation rate for the instruments shall be calculated by generally accepted accounting principles, an in any event, such instruments shall not be depreciated over a period less than three (3) years. In no event shall the NET SALES for a LICENSED PRODUCT under a RAP plan be less than the invoiced price, less the above-identified credits under (a) through (c) of this Paragraph 1.09, of LICENSED PRODUCTS sold in other than RAP sales.,

1.10 "FIRST COMMERCIAL SALE" shall mean the earlier of the first sale by ABBOTT, an ABBOTT AFFILIATE or an ABBOTT sublicensee for monetary or other valuable consideration of a LICENSED PRODUCT to (a) a customer, who is not an AFFILIATE, or (b) to an AFFILIATE for consumption by the AFFILIATE.

1.11 "REAGENTS" shall mean substances, used in LICENSED PRODUCTS for detecting the presence or quantity of analyte in a sample, which have physical properties that are applicable to such detection or which, because of their chemical or biological activity,

produce reactions that are applicable to such detection; or substances which improve the stability or efficacy of such substances used in LICENSED PRODUCTS.

ARTICLE 2

LICENSE TO ABBOTT

2.01 BSI hereby grants to ABBOTT a worldwide, exclusive license, with the right to grant sublicenses with BSI's prior written approval, under PROPRIETARY RIGHTS to make, have made, use and sell LICENSED PRODUCTS for DIAGNOSTIC APPLICATIONS. Such exclusive license, with respect to patents included within PROPRIETARY RIGHTS, shall continue until the expiration of the last to expire of such patents, and with respect to unpatented aspects of PROPRIETARY RIGHTS, shall be perpetual.

2.02 ABBOTT shall inform BSI in advance of ABBOTT's desire to grant sublicenses hereunder, the identity of the proposed sublicensee and the terms of the proposed sublicense. BSI approval of such proposed sublicenses shall NOT be unreasonably withheld.

2.03 If, within four (4) years following May 30, 1989, ABBOTT or an ABBOTT sublicensee have not, in each field of DIAGNOSTIC APPLICATIONS, either (a) submitted an application for governmental regulatory approval required for the sale of a LICENSED PRODUCT, or (b) made a FIRST COMMERCIAL SALE of a LICENSED PRODUCT which does not require governmental regulatory approval, BSI shall, after the expiration of said four (4) year period, have the option to convert ABBOTT's exclusive license under Paragraph 2.01 to a non-exclusive license for each field of DIAGNOSTIC APPLICATIONS in which neither (a) nor (b) above has occurred, provided that BSI provides ABBOTT with ninety (90) days written notice prior to exercise of such option for each such field. After such four (4) year period has expired, for each field of DIAGNOSTIC APPLICATIONS in which ABBOTT or a sublicensee

has performed either (a) or (b) above, prior to notification by BSI to ABBOTT that BSI is exercising the option under this Paragraph 2.03, BSI's option shall terminate.

ARTICLE 3

LICENSE FEES, CONSIDERATION

3.01 As consideration for the license granted hereunder to ABBOTT, ABBOTT has paid to BSI a QQ Indicates that material has been omitted pursuant to a request for confidential treatment. Such material has been filed separately with the SEC., in accordance with a certain Letter of Intent between ABBOTT and BSI dated December 29, 1988, a copy of which is appended hereto as Exhibit A.

3.02 As further consideration for the license granted hereunder to ABBOTT, ABBOTT shall pay to BSI during the term of this Agreement *. Such annual license fee shall be payable until the minimum royalty payments under Article 5 hereof commence or until ABBOTT's exclusive license hereunder with respect to all DIAGNOSTIC APPLICATIONS has been converted to non-exclusive as provided under Paragraph 2.03 hereof, whichever event occurs earlier. Each such annual license fee payment shall be due within thirty (30) days of May 30th beginning with May 30, 1990.*

3.03 ABBOTT shall mark LICENSED PRODUCTS made or sold in the United States with the appropriate patent marking under 35 USC 287.

ARTICLE 4

ROYALTIES

4.01 As additional consideration for the license granted hereunder to ABBOTT, ABBOTT shall pay to BSI a royalty of * of NET SALES, commencing upon the FIRST COMMERCIAL SALE of LICENSED PRODUCT manufactured and sold in countries which are not countries that have granted patents included within PROPRIETARY RIGHTS, and continuing for so long as such LICENSED PRODUCT is so manufactured or sold during the *, in accordance with a certain Letter of Intent between ABBOTT and BSI dated December 29, 1988, a copy of which is appended hereto as Exhibit A.

3.02 As further consideration for the license granted hereunder to ABBOTT, ABBOTT shall pay to BSI during the term of this Agreement *. Such annual license fee shall be payable until the minimum royalty payments under Article 5 hereof commence or until ABBOTT's exclusive license hereunder with respect to all DIAGNOSTIC APPLICATIONS has been converted to non-exclusive as provided under Paragraph 2.03 hereof, whichever event occurs earlier. Each such annual license fee payment shall be due within thirty (30) days of May 30th beginning with May 30, 1990.*

3.03 ABBOTT shall mark LICENSED PRODUCTS made or sold in the United States with the appropriate patent marking under 35 USC 287.

ARTICLE 4

ROYALTIES

4.01 As additional consideration for the license granted hereunder to ABBOTT, ABBOTT shall pay to BSI a royalty of * of NET SALES, commencing upon the FIRST COMMERCIAL SALE of LICENSED PRODUCT manufactured and sold in countries which

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*Indicates that material has been omitted pursuant to a request for confidential treatment. Such material has been filed separately with the SEC.

are not countries that have granted patents included within PROPRIETARY RIGHTS, and continuing for so long as such LICENSED PRODUCT is so manufactured or sold during the * period following the Effective Date of this Agreement, with the exception that no such royalty obligation shall apply to ABBOTT products having only one analyte measuring zone unless such products utilize trade secrets or know-how included in PROPRIETARY RIGHTS. After the expiration of such * period, the royalty obligation under this Paragraph 4.01 shall cease.

4.02 In lieu of payments of royalty due under Paragraph 4.01 hereof, if the manufacture, use or sale of a LICENSED PRODUCT would infringe, in the absence of this Agreement, any claims of a patent included within PROPRIETARY RIGHTS, ABBOTT shall pay to BSI * of NET SALES for the full term set out in Paragraph 8.0 4 (a).

4.03 ABBOTT shall pay to BSI, in addition to any royalty payable under Paragraphs 4.01 or 4.02 hereof, a royalty of * of NET SALES of LICENSED PRODUCTS that incorporate REAGENTS developed by BSI for said LICENSED PRODUCTS.

4.04 In the event that a license from a third party is necessary in order to manufacture, use or sell any LICENSED PRODUCT, solely because of the incorporation in such LICENSED PRODUCT of technology included in PROPRIETARY RIGHTS, any royalty payments or other monetary consideration paid by ABBOTT to such third party for such license shall be credited * of the royalty due BSI for that LICENSED PRODUCT in any one year, on a year-by-year basis until fully credited.

4.05 In any one year, the sum of the amounts creditable, under Paragraphs 3.02 and 4.04, against royalties due BSI shall not exceed * of the royalty due BSI in such year.

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*Indicates that material has been omitted pursuant to a request for confidential treatment. Such material has been filed separately with the SEC.

4.06 Only one royalty shall be due BSI on NET SALES of any specific LICENSED PRODUCT hereunder irrespective of the number of covering patents, patent claims, trade secrets or know-how included in PROPRIETARY RIGHTS which may be embodied in or utilized by such LICENSED PRODUCT.

4.07 LICENSED PRODUCT shall be considered as sold when invoiced to a customer by ABBOTT, an ABBOTT AFFILIATE or an ABBOTT sublicensee. Royalty shall be due for sales to an ABBOTT AFFILIATE only if LICENSED PRODUCT is consumed by such AFFILIATE, in which case, royalty shall be calculated from the invoiced price to such AFFILIATE or a reasonable arms-length invoice price if such AFFILIATE is treated on a more favorable basis than the general trade. Otherwise, royalty shall be due when sold by such AFFILIATE to a third party and NET SALES calculated based on the invoiced price to such third party.

4.08 If during the term hereof, for all DIAGNOSTIC APPLICATIONS for which BSI converts the exclusive license granted to ABBOTT to non-exclusive as provided in Paragraph 2.03 hereof, BSI grants a license to a third party other than an AFFILIATE of BSI to make, have made, use or sell LICENSED PRODUCT with a more favorable royalty to such licensee than that set forth in Paragraphs 4.01, 4.02 and 4.03 above, BSI shall so notify ABBOTT in writing and the royalty set forth in Paragraphs 4.01, 4.02 and 4.03 above shall thereupon become the same as the royalty to such third party licensee.

ARTICLE 5

MINIMUM ROYALTIES

5.01 ABBOTT shall pay to BSI a first minimum royalty of * six (6) months after the date of the FIRST COMMERCIAL SALE.

5.02 ABBOTT shall pay to BSI a second minimum royalty of * eighteen (18) months after the date of the FIRST COMMERCIAL SALE.

5.03 ABBOTT shall pay to BSI a third minimum royalty of * thirty (30) months after the date of the FIRST COMMERCIAL SALE, and further minimum royalty payments of * each twelve (12) months thereafter for the term of this Agreement.

5.04 Each minimum royalty payment under Paragraphs 5.01, 5.02 and 5.03 above shall be one-hundred percent (100%) credited against royalties that become due hereunder as a result of the sale of LICENSED PRODUCTS during the twelve (12) month period that follows each minimum royalty payment.

5.05 Minimum royalty payments hereunder shall be due within thirty (30) days of the dates specified in Paragraphs 5.01, 5.02 and 5.03 above.

5.06 In the event that the exclusive licenses for all DIAGNOSTIC APPLICATIONS have been converted under Paragraph 2.03 herein to non-exclusive licenses, * royalty payments shall be due.

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*Indicates that material has been omitted pursuant to a request for confidential treatment. Such material has been filed separately with the SEC.

ARTICLE 6

ROYALTY PAYMENTS, REPORTS, RECORDS

6.01 ABBOTT, ABBOTT AFFILIATES and ABBOTT sublicensees shall keep complete and accurate records containing all information required for the computation and verification of the royalties to be paid hereunder.

6.02 On or before sixty (60) days following each consecutive three (3) month period beginning on the date of FIRST COMMERCIAL SALE and continuing through the remainder of the term of this Agreement, ABBOTT shall deliver to BSI a written statement of account of NET SALES of LICENSED PRODUCT of such three (3) month period and a calculation of the royalty due thereon to BSI. Such statement shall show the gross sales of LICENSED PRODUCT and shall itemize the deductions allowed in calculating NET SALES as defined in Paragraph 1.09 hereof.

6.03 Payment of royalties shall accompany the statements to be submitted in accordance with Paragraph 6.02 above.

6.04 If royalties are not paid when due, interest shall be accrued on the unpaid royalties from the date due until paid, at a rate per annum which shall be the lesser of either the prime rate of the Citibank, N.A., New York, then in force for short-term borrowing, or the maximum legal rate then permitted under the laws of the State of Minnesota.

6.05 All royalties due hereunder shall be payable in United States Dollars. All royalties due for sales in countries foreign to the United States shall be converted (for the purposes of calculation only) into equivalent United States funds at the exchange rate published by the Wall Street Journal on the last business day of the reporting period.

6.06 Payment of royalties on sales of LICENSED PRODUCT shall be subject to any restrictions imposed by the local government. If foreign exchange is not freely available, BSI shall have the option to accept payment in the currency of the country from which royalties are due. In the event that local law restricts such royalty payment, the royalty due shall be paid to the extent permitted by local law. In the event that a withholding or other tax is imposed on a royalty payment due hereunder, the amount of royalty payable shall be the amount due less the amount of such tax actually paid.

6.07 ABBOTT shall, upon written request of BSI, permit an independent public accountant selected by BSI and acceptable to ABBOTT to have access during ordinary business hours to examine such records referred to in paragraph 6.01 as may be necessary to determine either the accuracy of any report or the sufficiency of any royalty payment made under this Agreement. ABBOTT shall only be obligated to permit access once each year during the term of this Agreement and to such of its records which directly relate to such royalty payments which accrued or occurred within three (3) years prior to such request.

ARTICLE 7

CONFIDENTIALITY

7.01 Information and materials exchanged between the parties in performing hereunder shall be deemed Confidential Matter as provided below.

7.02 Confidential Matter received by a party from the other shall not be disclosed by such receiving party to any third party, or used by such receiving party for its own benefit, or for the benefit of a third party, except as expressly provided herein.

7.03 To be accorded treatment as Confidential Matter, however, such Matter:

(a) must be first disclosed to the receiving party in writing and plainly marked "Confidential" or words to the same effect; or

(b) if first disclosed orally, must be summarized in writing by the disclosing party and plainly marked "Confidential", or words to the same effect, and delivered to the receiving party within thirty (30) days of its first oral disclosure to the receiving party; or

(c) if a physical thing, must be marked "Confidential", or words to the same effect, or be accompanied by a writing specifically identifying such thing as "Confidential".

Information and material provided by one party to the other hereunder which is not identified as "Confidential" as provided above shall be considered as given and received without any obligation of confidentiality or nonuse and the receiving party shall be free to use such information in any way it sees fit, subject only to any rights that the disclosing party may have under applicable United States or foreign Patent Laws.

7.04 Subject to Paragraph 15.01 (a) and (b), the specific terms of this Agreement and the identity of the parties shall be considered Confidential Matter.

7.05 Further, the obligations of confidentiality and nonuse of this Article 7 shall not apply to information or material:

(a) which is known by the receiving party prior to receipt from the disclosing party as evidenced by documents in the possession of the receiving party at the time of disclosure,

(b) which, after receipt from the disclosing party, is disclosed to the receiving party by a third party having the legal right to do so,

(c) which is available to the public at the time of receipt from the disclosing party,

(d) which becomes available to the public after receipt from the disclosing party through no fault of the receiving party,

(e) which is independently developed by employees of the receiving party not having access to Confidential Matter of the disclosing party,

(f) which is required, in the opinion of legal counsel of the receiving party, to be disclosed for securing approval of governmental regulatory agencies, including but not limited to the U.S. Food and Drug Administration, to market LICENSED PRODUCTS, provided that the receiving party shall use its reasonable efforts to seek to obtain from such agencies such protection for such information against public disclosure as may be legally available,

(g) which is required, in the opinion of legal counsel of the receiving party, to be disclosed for the filing of patent applications by the receiving party, provided that the disclosing party is timely advised of the receiving party's intention to include such information in a patent application of the receiving party and the disclosing party does not notify the receiving party within thirty (30) days of its objection to such disclosure, or

(h) which is reasonably necessary to be disclosed by the receiving party to its individual agents or third parties who require knowledge thereof in order to perform their normal duties or services, such as legal counsel, certified public accountants, and the like, provided that such agents and third parties are advised of and acknowledge the confidential nature of such disclosure and agree in writing to maintain the confidential nature of the disclosed information under terms no less rigid than those imposed upon the parties to this Agreement.

7.06 Each party shall use the same level of care in complying with the obligations hereof respecting Confidential Matter as it does with respect to its own information of similar nature. The parties mutually represent and warrant that each and every employee who will have access to the other party's Confidential Matter hereunder shall be under contractual obligation not to disclose or use such Confidential Matter except as directed by such other party.

ARTICLE 8

TERM AND TERMINATION

8.01 Either party may terminate this Agreement at any time if the other party fails to perform any material obligation, covenant, condition, or limitation herein, provided such other party shall not have remedied its failure within ninety (90) days after receipt of written notice of such failure.

8.02 If performance of this Agreement or any part hereof by either party shall be rendered unenforceable or impossible under, or in conflict with any law, regulation, or official action by any government agency having jurisdiction over such party, then such party shall not be considered in default by reason of failure to perform and the validity of all remaining provisions hereof shall not be affected by such result.

8.03 Abbott may terminate this Agreement beginning three (3) years after May 30th, 1989, upon ninety (90) days prior written notice. Such termination shall not relieve ABBOTT of the obligation to pay royalties or make any other payments owed to BSI which accrues prior to the termination date.

8.04 Unless earlier terminated as provided in Paragraphs 8.01 and 8.03 above, this Agreement shall continue: (a) with respect to issued patents under PROPRIETARY RIGHTS, until the expiration of the last to expire patent included within PROPRIETARY RIGHTS, and (b) with respect to unpatented aspects of PROPRIETARY RIGHTS, perpetually.

8.05 Upon expiration or earlier termination of this Agreement, the obligations under Article 7 hereof shall survive and continue in effect for the longer of three (3) years following such expiration or termination, or seven (7) years from the effective date of this Agreement.

8.06 Neither party shall be liable in damages for, nor shall this Agreement be terminable or cancellable by reason of, any delay or default in any such party's performance hereunder if such default or delay is caused by events beyond such party's reasonable control including, but not limited to, acts of God, regulation or law or other action of any government or agency thereof, war or insurrection, civil commotion, destruction of production facilities or materials by earthquake, fire, flood or storm, labor disturbances, epidemic, or failure of suppliers, public utilities or common carriers. Each party agrees to endeavor to resume its performance hereunder if such performance is delayed or interrupted by reason of such forces majeure as listed above.

ARTICLE 9

WARRANTIES

9.01 BSI warrants that BSI has good, clear title to the PROPRIETARY RIGHTS.

9.02 Each party warrants and represents that it has the full and unrestricted right to enter into this Agreement, and that the terms of this Agreement are not inconsistent with any other contractual arrangement it may have.

9.03 Nothing in this Agreement shall be construed as:

(a) A warranty or representation by BSI as to the scope or validity of any claim or patent in PROPRIETARY RIGHTS;

(b) A warranty or representation by BSI that any product made, used, or sold by ABBOTT under any license granted hereunder is or will be free from infringement of patents of any third parties;

(c) An obligation to furnish any manufacturing or technical information not encompassed within PROPRIETARY RIGHTS;

(d) Conferring any right to use in advertising, publicity or otherwise any trademark or trade name of BSI;

(e) Granting by implication, estoppel or otherwise any licenses or rights under patents or other proprietary information of BSI other than those included within PROPRIETARY RIGHTS; or

(f) A representation, a warranty or assumption of responsibility with respect to use, sale or other disposition by ABBOTT, ABBOTT's AFFILIATES, sublicensees, vendees or transferees of LICENSED PRODUCT.

9.04 BSI shall promptly notify ABBOTT if at any time BSI learns of any matter which does or might materially and adversely affect or differ from the representations and warranties made pursuant to this Article 9.

ARTICLE 10

PATENT INFRINGEMENT, INTERFERENCE & PROSECUTION

10.01 In the event that a party becomes aware of an infringement or potential infringement of any patent included in PROPRIETARY RIGHTS, that party shall inform the other in writing of all details available.

10.02 In the event of infringement by any third party of any patent included in PROPRIETARY RIGHTS, BSI shall have the right, at BSI's own expense, to enforce by appropriate legal proceedings or otherwise, such patent against such third party infringer. All recoveries by way of costs, royalties, damages, lost profits, royalties or settlements shall be retained by BSI. ABBOTT may, at ABBOTT's own expense, be represented by ABBOTT's counsel, acting in an advisory but not controlling capacity.

10.03 In the event of infringement by any third party as described in Paragraph 10.02, if BSI fails to proceed against such infringer within ninety (90) days after receipt of a written request by ABBOTT to do so, or if BSI does not exercise due diligence in legal proceedings instituted pursuant to Paragraph 10.02, then ABBOTT, at ABBOTT's own discretion, during the term of exclusivity of any patent licensed under this Agreement, shall have the right but not the obligation to prosecute the infringer by appropriate legal proceedings in the name of BSI at ABBOTT's own expense, and may collect and retain, for ABBOTT's own use, any and all recoveries by way of costs, damages, lost profits, royalties or settlements. BSI, at BSI's own expense, may be represented in such proceedings by BSI's own counsel, acting in an advisory but not controlling capacity. BSI shall complete all acts and execute all documents as may be necessary in order to permit ABBOTT to exercise ABBOTT's right pursuant to this clause.

10.04 At ABBOTT's expense, ABBOTT shall prepare, file and prosecute, or have prepared, filed and prosecuted by a patent lawyer in independent practice who shall be nominated by ABBOTT and approved by BSI, any foreign or United States patent application related to United States Patent Applications Serial No. 467,220 (filed February 23, 1983) and Serial No. 356,459 (filed March 9, 1982), including without limitation any and all continuation, continuation-in part, divisional, reissue and reexamination applications or the equivalent thereof, and such expense shall include BSI's reasonable expense, having ABBOTT's prior written approval, for BSI's attorney's review of such applications and prosecution documents.

(a) Any patent which issues from such patent applications shall be assigned to BSI, shall be included in PROPRIETARY RIGHTS and shall be subject to the terms and conditions of this Agreement.

(b) BSI shall disclose to ABBOTT, and the patent lawyer referred to above, all information in BSI's possession pertaining to PROPRIETARY RIGHTS which may be necessary for the preparation, filing and prosecution of such patent applications.

(c) BSI and ABBOTT shall consult in the preparation, filing and prosecution of such applications, and BSI shall cooperate with ABBOTT in executing such documents and taking such other reasonable actions necessary or appropriate to obtain patents issuing from such applications, provided that:

i) Each party shall promptly transmit to the other all official communications sent to or received from any patent office, court or opposing party,

ii) Each party shall submit to the other for consideration and advice all applications and responses to official communications before filing such applications and responses in sufficient time to enable the receiving party to appropriately review the applications or responses before such are filed,

iii) Each party shall file only those applications and responses approve the other, which approval shall not be unreasonably withheld,

iv) ABBOTT shall reimburse BSI for its employee's time, its out-of-pocket expenses (including reasonable travel and lodging expenses) for efforts made under Article 10(b) and (c), including any actions required by court order relating to any of such patents or patent applications. For the time spent by BSI's technical employees under 10(b), ABBOTT will reimburse BSI at a reasonable rate (the rate on the

date of execution being * per employee hour). ABBOTT will make such reimbursements within sixty (60) days of receipt of BSI's invoice,

v) BSI and ABBOTT shall pursue the broadest possible patent claims and shall continue the prosecution of such applications as long as this action is in the best interest of both parties, and

vi) ABBOTT shall do nothing to inhibit the issuance of the patent or patents drawn to the originally claimed multi-zone invention of Patent Application Serial No. 467,220 as amended or refiled.

(d) If at any time during the life of this Agreement, ABBOTT intends to allow any such application or patent issuing therefrom to lapse or become abandoned or forfeited without having first filed a substitute, ABBOTT shall notify BSI of such intention at least sixty (60) days before the date on which the application is due to lapse or to become abandoned or forfeited.

(e) If a patent claim is allowed for a single zone test strip device or a method of using same, royalties due under Article 4.02 shall begin accruing no later than forty-five (45) days following Notice of Allowability of such claims.

10.05 In consideration of ABBOTT's payments to BSI under this Agreement, and the financial and other support provided by ABBOTT with respect to the patent applications set forth in Paragraph 10.04, BSI shall make no claims against and hereby waives any claim BSI may have or acquire against ABBOTT, ABBOTT's employees or agents for injury, loss or damage resulting from acts or omissions by ABBOTT, ABBOTT's employees or agents in

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*Indicates that material has been omitted pursuant to a request for confidential treatment. Such material has been filed separately with the SEC.

connection with such patent applications prepared, filed or prosecuted in accordance with the provisions set forth in Paragraph 10.04.

ARTICLE 11

NOTICES

11.01 Any notice required or permitted by this Agreement shall be in writing. A notice shall be considered served when deposited in the national postal system in a sealed envelope with sufficient postage affixed and addressed to the party to whom such notice is directed at the post office address given below:

If to BSI: Bio-Metric Systems, Inc.
9924 West 74th Street
Eden Prairie, MN 55344

If to ABBOTT: Director, Technology Assessment and Acquisition
Abbott Diagnostics Division
One Abbott Park Road
Abbott Park, IL 60064-3500

copy to: Office of General Counsel
Abbott Laboratories
One Abbott Park Road
Abbott Park, IL 60064-3500

11.02 Either party shall have the right to change the person and/or address to which notices hereunder shall be given, by notice to the other party in the manner set out in Paragraph 11.01.

ARTICLE 12

INTERPRETATION

12.01 This Agreement shall be construed and the rights of the parties hereunder shall be determined in the State of Minnesota in accordance with the laws thereof.

12.02 All section captions or titles are inserted herein for reference only and are without contractual significance or effect.

ARTICLE 13

ASSIGNMENT

13.01 Except where the assignee is a successor to substantially the entire business to which this license pertains, a party hereto must have the prior written consent from the other party in order to assign this Agreement in whole or in part.

ARTICLE 14

ENTIRE AGREEMENT; MISCELLANEOUS

14.01 This writing constitutes the entire agreement between the parties relating to the subject matter hereof. There are no other understandings, representations, or warranties of any kind except as expressly set forth herein.

14.02 This Agreement may not be waived, altered, extended, or modified except by written agreement of the parties.

14.03 Any waiver of any term or condition of this Agreement by either party shall not operate as a waiver of any other term or condition, nor shall any failure to enforce a provision hereof operate as a waiver of such provision or of any other provision hereof.

14.04 Should any provision of this Agreement, or the application thereof, to any extent be held invalid or unenforceable, the remainder of this Agreement and the application thereof other than such invalid or unenforceable provisions shall not be effected thereby and shall continue valid and enforceable to the fullest extent permitted by law or equity.

ARTICLE 15

PUBLIC DISCLOSURE OF AGREEMENT

15.01 No public disclosure of this Agreement shall be made by either party without prior review and consent of the other party, which consent shall not be unreasonably withheld. Notwithstanding the foregoing:

(a) Either party may disclose the existence and nature of this Agreement to its shareholders, but only to the extent necessary to comply with applicable securities laws:

(b) BSI may disclose any or all of the following information, but not in greater detail than that which follows:

> Minneapolis, Minnesota - October 17, 1990 - Bio-Metric Systems, Inc. (BSI) announced it has entered into an agreement with Abbott Laboratories, Abbott Park, Illinois, relating to diagnostic products developed by BSI.
>
> Bio-Metric Systems, Inc. of Minneapolis, Minnesota is a privately-held company, developing advanced biological coatings and diagnostic formats.
>
> Abbott Laboratories is a world leader in diagnostics and offers a broad and diversified line of human health care products and services.

15.02 Neither party shall use the name of the other party in connection with any commercial activity, advertising or sales promotion without the prior written consent of the other party.

IN WITNESS WHEREOF, the parties hereto have caused this instrument to be executed by their respective duly authorized officers or representatives on the respective dates indicated below.

ABBOTT LABORATORIES	BIO-METRIC SYSTEMS, INC.
By: /s/David V. Milligan	By: /s/Dale R. Olseth
David V. Milligan, Ph.D. Corporate Vice President Diagnostic Products Research and Development	Dale Olseth President and Chief Executive Officer
Date: 11-12-90	Date: 11-20-90

June 11, 1992

Dale Olseth
President and Chief Executive officer
Bio-Metric Systems, Inc.
9924 West Seventy-Fourth Street
Eden Prairie, MN 55344

Dear Mr. Olseth,

The Amended License Agreement between Abbott Laboratories and Bio-Metric Systems, Inc., executed November 11th, 1990 and November 20th 1990 respectively, contains a typographical error. Article 1.01 (a) should read, "all foreign and United States applications related in whole or in part to BSI's United States Patent Applications Serial No. 467,229 (filed February 23, 1983) an Serial No. 356,459 (filed March 9, 1982)."

Your signature will confirm your acknowledgment of the error and your acceptance of the change to our Amended License Agreement.

Please return one signed copy to my attention. If you have any questions, please give me a call at 708-937-5437.

ABBOTT LABORATORIES	BIO-METRIC SYSTEMS, INC.
By: /s/Brian B. Spear	By: /s/Dale R. Olseth
Brian B. Spear, Ph.D. Director, Technology Assessment and Acquisitions Diagnostic Division	Dale Olseth President and Chief Executive Officer
Date: June 25, 1992	Date: June 29, 1992

AMENDMENT TO THE BSI-ABBOTT

LICENSE AGREEMENT

The License Agreement between Bio-Metric Systems, Inc. (now known as BSI Corporation) and Abbott Laboratories dated May 30, 1989, as amended November 20, 1990, is further amended as follows:

Delete Articles 4.04 and 4.05.

Add the following new Article 4.09:

4.09 ABBOTT shall have the right prospectively to credit against royalties otherwise payable to BSI under Articles 4.01-4.03, inclusive, but only against such royalties,* per calendar quarter or * of such royalties otherwise due for such quarter, whichever is less, beginning with royalties for sales for the calendar quarter beginning July 1, 1994, up to a maximum credit of *. The right granted to ABBOTT in this Article 4.09 is accepted by ABBOTT as a final settlement of all royalties payable to BSI for sales made through March 31, 1994 and as final settlement of all credits and offsets against such royalties for sales made through March 31, 1994 that were taken or that could have been taken by ABBOTT. In no event will BSI have any obligation to repay any of the royalties received as of July 1, 1994.

Article 10.02 is replaced with the following new Article 10.02:

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*Indicates that material has been omitted pursuant to a request for confidential treatment. Such material has been filed separately with the SEC.

10.02

a. In the event ABBOTT believes any third party is infringing any patent included in PROPRIETARY RIGHTS, ABBOTT shall have the right, but not the obligation, to prosecute the infringer by diligent and appropriate legal proceedings, (including the Abbott Laboratories v. Biosite Diagnostics, Inc., currently pending in the United States District Court, N.D. IL), at ABBOTT's own expense and in ABBOTT's own name, provided, however, that ABBOTT shall first fully appraise BSI of the infringing product.

b. In the event that ABBOTT prosecutes such a proceeding and BSI becomes a party, ABBOTT shall select counsel to represent BSI and shall indemnify and hold harmless BSI from any damages, liabilities (excluding lost royalties), cost and expense resulting from any such proceeding. ABBOTT will provide BSI with copies of all pleadings and BSI may be represented by BSI's own counsel, acting in an advisory but not controlling capacity. ABBOTT shall promptly reimburse BSI for its costs of retaining outside counsel, as determined under Article 10.02(d), in such proceedings. ABBOTT will retain the decision-making power on behalf of ABBOTT and BSI in pursuit or settlement of such a proceeding. All recoveries by way of cost, judgment, damages, lost profits or settlements shall be retained by ABBOTT. Notwithstanding the foregoing, ABBOTT will not indemnify BSI in the event such damages, liabilities, cost and expense is the result of any proceeding (i) brought by BSI against ABBOTT, or (ii) brought by the third party against BSI which is not related to the subject matter of this License Agreement.

c. In the event that ABBOTT prosecutes such a proceeding and BSI does not become a party, ABBOTT will provide BSI with copies of all pleadings and BSI may be represented by BSI's own counsel, acting in an advisory but not controlling capacity. ABBOTT shall promptly reimburse BSI for its costs of retaining outside counsel, as determined under

Article 10.02(d), in such proceedings. BSI's outside counsel's duties are expected to be directed primarily to assist ABBOTT in the areas of document discovery, witness preparation, attendance at depositions of BSI employees, and preparing answers to interrogatories. BSI may request attendance of BSI counsel at hearings and trial, however, reimbursement for such attendance shall require the consent of ABBOTT, which consent shall not be unreasonably withheld.

d. The parties contemplate that BSI's outside counsel fees in any one proceeding under Article 10.02(b) or 10.02(c) will not exceed * and *, respectively. In the event that BSI's outside counsel fees in any one proceeding under Article 10.02(b) or 10.02(c) exceed such amounts, BSI shall bear the expense of fifty percent (50%) of such fees in excess of such amount.

e. For any proceeding brought under Article 10.02, ABBOTT shall have the right to settle such litigation, but only upon the advance written permission of BSI, which shall not be unreasonably withheld. Settlement by way of sublicense from ABBOTT which provides BSI with at least a * prospective royalty based on sales by the sublicensee or its designees shall not require BSI's advance written permission. For any other settlement terms, ABBOTT and BSI shall meet in good faith to determine mutually acceptable terms. In the event of settlement by way of a sublicense, ABBOTT shall have the right to recover the amount reimbursed to BSI under Articles 10.02(b), 10.02(c) and 10.02(d) for its outside counsel fees by reducing by * the royalty payments due BSI resulting from said sublicense until such reimbursed amount has been fully recovered by ABBOTT.

Article 10.03 is replaced with the following new Article 10.03.

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*Indicates that material has been omitted pursuant to a request for confidential treatment. Such material has been filed separately with the SEC.

10.03 In the event of infringement by any third party as described in Article 10.02, if ABBOTT fails to proceed against such infringer within one hundred eighty (180) days after receipt of a written request by BSI to do so, or if ABBOTT does not exercise due diligence in legal proceedings instituted pursuant to Article 10.02 within sixty days (60) days after receipt of a written request by BSI to do so, then BSI at its own discretion shall have the right but not the obligation to prosecute the infringer by appropriate legal proceedings in the name of BSI at BSI's own expense, and BSI may collect and retain for its own use any and all recoveries by way of costs, damages, lost profits, past royalties or settlements relating to the foregoing. ABBOTT, at ABBOTT's own expense, may be represented in such proceedings by ABBOTT's own counsel, acting in an advisory but not controlling capacity. ABBOTT shall complete all acts and execute all documents as may be necessary in order to permit BSI to exercise BSI's right pursuant to this clause.

IN WITNESS WHEREOF, the parties have caused this instrument to be executed by their duly authorized officers or representatives on the dates indicated below.

ABBOTT LABORATORIES	BIO-METRIC SYSTEMS, INC.
By: /s/James Koziarz	By: /s/Dale R. Olseth
James Koziarz, Ph.D.	Dale Olseth
Corporate Vice President	President and
Diagnostic Products	Chief Executive Officer
Research & Development	
Date: 11/10/94	Date: 11/23/94

SECOND AMENDMENT TO
AMENDED LICENSE AGREEMENT

THIS SECOND AMENDMENT TO AMENDED LICENSE ("Second Amendment") shall be effective April 19, 1996 ("Effective Date") and is entered into by and between Abbott Laboratories, an Illinois corporation having principal place of business at 100 Abbott Park Road, Abbott Park, Illinois 60064-3500 ("Abbott"), and BSI Corporation, a Minnesota corporation having a principal place of business at 9924 West Seventy-Fourth Street, Eden Prairie, Minnesota 55344 ("BSI").

WHEREAS, BSI and Abbott entered into a License Agreement dated May 30, 1989 ("License Agreement") pursuant to which Abbott acquired an exclusive license under Proprietary Rights to make, have made, use and sell Licensed Products for Diagnostic Applications;

WHEREAS, BSI and Abbott entered into an Amended License dated November 20, 1990 ("Amended License") which amended and superseded the License Agreement and pursuant to which Abbott made a First Commercial Sale of a Licensed Product in the Field of Human Diagnostics thereby eliminating the field of Human Diagnostics from BSI's option under Paragraph 2.03 of the Amended License;

WHEREAS, BSI and Abbott entered into an Amendment to the BSI-Abbott License Agreement dated November 23, 1994 ("First Amendment") which addressed certain royalty and infringement issues; and

WHEREAS, BSI and Abbott desire to further amend the Amended License to extend the term of Abbott's exclusivity under the license grant.

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements contained herein, the parties hereto agree as follows:

1. DEFINITIONS. The capitalized terms used herein shall have the same meanings ascribed to them in the Amended License.

2. LICENSE TO ABBOTT. For a period of four (4) years following the Effective Date of this Second Amendment, BSI shall not have the option to convert Abbott's exclusive license under Paragraph 2.01 of the Amended License to a non-exclusive license for the fields of Veterinary Diagnostics, Food/Agricultural Diagnostics and Environmental Diagnostics. Thereafter, BSI shall have such option under the same terms and conditions set forth in Paragraph 2.03 of the Amended License.

3. LICENSE FEE. Not withstanding any other provisions of the Amended License or the First Amendment, as consideration for extending the term of exclusivity for the fields of Veterinary Diagnostics, Food/Agricultural Diagnostics and Environmental

Diagnostics, Abbott shall pay BSI a non-refundable, non-creditable license fee of * within 30 days of execution this Amendment.

4. PREVIOUS AGREEMENT. Except as otherwise provided herein, all other terms and conditions of the Amended License and the First Amendment shall remain in full force and effect.

IN WITNESS WHEREOF, the parties hereto have caused this Second Amendment to Amended License to be executed by their duly authorized representatives as of the later date written below.

ABBOTT LABORATORIES	BIO-METRIC SYSTEMS, INC.
By: /s/James Koziarz	By: /s/Andrew B. Summerville
James Koziarz, Ph.D.	Andrew B. Summerville
Corporate Vice President Diagnostic Products Research & Development	Vice President
Date: 4/18/96	Date: Apr. 11, 1996

*Indicates that material has been omitted pursuant to a request for confidential treatment. Such material has been filed separately with the SEC.

PROMISSORY NOTE

Employee Name: _____

Social Security Number: _____

Address: _____

_____

Amount of Note: _____

Date of Note: _____

FOR VALUE RECEIVED, the undersigned (the "Maker") promises to pay to the order of SurModics, Inc, a Minnesota corporation (the "Payee"), the principal sum of $_____ together with interest on the unpaid principal amount outstanding from time to time from the date hereof at ___ % per annum. Accrued interest shall be payable on each annual anniversary of the date hereof. The total unpaid principal and interest on this Note shall be due and payable on the fifth anniversary of the date hereof, with full right of prepayment.

Notwithstanding the previous paragraph, the total unpaid principal and interest on this Note shall be due and payable on the earlier of the 90th day following the date on which the Maker leaves the employ of the Payee or the 180th day following the first date on which the Maker is able to sell his or her SurModics, Inc. stock in the public market.

Any payments made by the Maker shall be applied by the Payee when received, first to the payment of interest and then to the reduction of unpaid principal balance. Interest as determined hereunder shall in no event exceed the maximum amount permitted by law.

This Note is secured by a security interest in _____ shares of Maker's SurModics, Inc. stock.

If any one or more of the following events of default shall occur:

(a) Maker shall fail to pay any sum hereunder when due and such failure shall continue for ten (10) days after such payment is due;

(b) Maker shall become insolvent, unable to pay his debts as they mature, or admit in writing his inability to pay his debts as they mature;

(c) Maker shall make a general assignment for the benefit of creditors;

(d) Maker shall become or be adjudicated bankrupt or shall voluntarily file a petition for bankruptcy; or

(e) Maker shall apply for appointment of a receiver or a trustee for any substantial portion of his property or assets or shall permit the appointment of such receiver or trustee who is not discharged within a period of 30 days after such appointment.

then, upon the occurrence of any one or more such events of default, any holder of this Note may immediately require the unpaid principal balance of and all interest accrued on this Note to be immediately due and payable, and the unpaid balance of and accrued interest on this Note shall thereupon be due and payable without further demand, presentment, protest, or further notice of any kind, all of which are hereby waived.

The Maker shall pay on demand all costs reasonably incurred by the holder hereof in effecting collection of the principal of and interest on this Note, including the fees and disbursements of counsel.

No delay or omission on the part of the holder hereof in exercising any right, power or privilege hereunder shall operate as a waiver hereof, nor shall single or partial exercise of any right, power or privilege hereunder include other or further exercise thereof or the exercise of any other right, power or privilege.

The rights and powers granted and evidenced hereby shall extend to any holder of this Note and shall be binding upon the Maker and shall be applicable to this Note and to all renewals and/or extensions thereof.

The Maker hereby waives presentment, demand, notice of dishonor and notice of protest.

Dated this ____ day of _____, 19__

- ---------- ----------

Maker Witness

Exhibit 11

SURMODICS, INC.

Computation of Pro Forma Per Share Earnings

For the Years Ended September 30

	1995	1996	1997
NET INCOME (LOSS)	$ (322,179)	$ (193,727)	$ 235,673
WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING:			
Common shares outstanding	3,206,126	3,268,286	3,334,853
Conversion of Series A Convertible Preferred Stock into common stock	1,507,312	1,507,312	1,507,312
Common stock equivalents	-	-	487,637
Common stock equivalents calculated pursuant to Securities and Exchange Commission Staff Bulletin No. 83(1)	75,525	75,525	63,229
WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING (PRO FORMA)	4,788,963	4,851,123	5,393,031
NET INCOME (LOSS) PER COMMON AND COMMON EQUIVALENT SHARE (PRO FORMA)	$ (.07)	$ (.04)	$ .04

(1) Reflects the issuance of restricted voting common stock and stock options issued to purchase voting common stock within the 12-month period prior to the Company's proposed initial public offering at a price less than the proposed public offering price using the treasury stock method.

Exhibit 23.2

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the use of our report and to all references to our firm included in or made a part of this registration statement.

ARTHUR ANDERSEN LLP

Minneapolis, Minnesota,
December 23, 1997

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1,000

YEAR	
	SEP-30-1997
	OCT-01-1996
	SEP-30-1997
	492
	1,456
	951
	(29)
	264
	3,208
	3,912
	2,847
	6,450
	1,081
	0
	0
	19
	170
	4,913
	6,450
	2,159
	7,582
	1,432
	7,545
	0
	24
	2
	236
	0
	236
	0
	0
	0
	236
	.04
	.04