SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-QSB

[x] Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 1998

OR

[ ] Transition report under Section 13 or 15(d) of the Exchange Act

For the transition period from to

Commission file number 0-23837

SurModics, Inc.
(Exact Name of Small Business Issuer as Specified in Its Charter)

MINNESOTA	41-1356149
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)

9924 West 74th Street
Eden Prairie, Minnesota 55344
(Address of Principal Executive Offices)

(612) 829-2700
(Issuer's Telephone Number, Including Area Code)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No X

As of April 30, 1998, there were 7,216,420 shares of Common Stock outstanding.

Traditional Small Business Disclosure Format (check one): Yes No X

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

SURMODICS, INC.
Condensed Balance Sheets
(In thousands, except share data)

ASSETS	March 31, 1998 (Unaudited)	September 30, 1997
CURRENT ASSETS:		
Cash & cash equivalents	$ 17,052	$ 492
Short-term investments	1,567	1,456
Accounts receivable, net	910	922
Inventories	307	264
Prepaids and other	259	74
Total current assets	20,095	3,208
PROPERTY AND EQUIPMENT, net	1,271	1,065
LONG-TERM INVESTMENTS	948	1,874
OTHER ASSETS, net	188	303
	$ 22,502	$ 6,450

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:		
Accounts payable	$ 106	$ 280
Accrued liabilities	755	493
Deferred revenues	242	308
Total current liabilities	1,103	1,081
DEFERRED REVENUES AND OTHER, less current portion	197	267
Total liabilities	1,300	1,348
COMMITMENT AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Series A convertible preferred stock- $.05 par value, 450,000 shares authorized; none and 376,828 shares issued and outstanding	--	19
Voting common stock- $.05 par value, 15,000,000 shares authorized; 7,216,420 and 3,400,868 shares issued and outstanding	361	170
Additional paid-in capital	28,901	13,492
Unearned compensation	(241)	(259)
Stock purchase notes receivable	(186)	(160)
Accumulated deficit	(7,633)	(8,160)
Total stockholders' equity	21,202	5,102
	$ 22,502	$ 6,450

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

SURMODICS, INC.
Condensed Statements of Operations
(In thousands, except per share data)
(Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	1998	1997	1998	1997
REVENUES:				
Royalties	$1,265	$ 807	$2,207	$1,410
License fees	60	25	60	257
Product sales	735	437	1,232	926
Research and development	519	597	989	928
Total revenues	2,579	1,866	4,488	3,521
OPERATING COSTS AND EXPENSES:				
Product	318	257	568	586
Research and development	1,102	1,010	2,060	1,822
Sales and marketing	441	266	744	488
General and administrative	430	316	727	621
Total operating costs and expenses	2,291	1,849	4,099	3,517
INCOME FROM OPERATIONS	288	17	389	4
OTHER INCOME, net	98	51	151	92
INCOME BEFORE PROVISION FOR INCOME TAXES	386	68	540	96
PROVISION FOR INCOME TAXES	10	--	13	2
NET INCOME	$ 376	$ 68	$ 527	$ 94
NET INCOME PER SHARE:				
Basic	$ 0.07	$ 0.01	$ 0.10	$ 0.02
Diluted	$ 0.06	$ 0.01	$ 0.09	$ 0.02
WEIGHTED AVERAGE SHARES OUTSTANDING:				
Basic weighted average common shares outstanding	5,573	4,863	5,236	4,841
Dilutive effect of outstanding stock options	495	511	475	482
Diluted weighted average common shares outstanding	6,068	5,374	5,711	5,323

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

SURMODICS, INC.
Condensed Statements of Cash Flows
(In thousands)
(Unaudited)

	Six Months Ended March 31, 1998	1997
OPERATING ACTIVITIES:		
Net income	$ 527	$ 94
Adjustments to reconcile net income to net cash provided by operating activities-		
Depreciation and amortization	283	231
Amortization of unearned compensation, net	37	46
Change in deferred rent	(8)	(1)
Change in assets and liabilities:		
Accounts receivable	12	(74)
Inventories	(43)	(26)
Accounts payable and accrued liabilities	88	(4)
Deferred revenues	(129)	(174)
Prepaids and other	(184)	28
Net cash provided by operating activities	583	120
INVESTING ACTIVITIES:		
Purchases of property and equipment, net	(481)	(83)
Purchases of short-term investments	(911)	(1,482)
Sales of short-term investments	800	725
Purchases of long-term investments	--	(905)
Sales of long-term investments	926	--
Other	107	(100)
Net cash provided by (used in) investing activities	441	(1,845)
FINANCING ACTIVITIES:		
Issuance of common stock, net of offering costs	15,536	--
Net increase (decrease) in cash and cash equivalents	16,560	(1,725)
CASH AND CASH EQUIVALENTS:		
Beginning of period	492	2,013
End of period	$ 17,052	$ 288

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

SURMODICS, INC.
Notes to Condensed Financial Statements
(Unaudited)

(1) Basis of Presentation:

In the opinion of management, the accompanying unaudited condensed financial statements have been prepared in accordance with generally accepted accounting principles and reflect all adjustments, consisting solely of normal recurring adjustments, needed to fairly present the financial results for these interim periods. These financial statements include some amounts that are based on management's best estimates and judgments. These estimates may be adjusted as more information becomes available, and any adjustment could be significant. The results of operations for the three months and six months ended March 31, 1998 are not necessarily indicative of the results that may be expected for the entire fiscal year.

According to the rules and regulations of the Securities and Exchange Commission, the Company has omitted footnote disclosures that would substantially duplicate the disclosures contained in the audited financial statements of the Company. Read together with the disclosures below, management believes the interim financial statements are presented fairly. However, these unaudited condensed financial statements should be read together with the financial statements for the year ended September 30, 1997 and footnotes thereto included in the Company's Registration Statement on Form SB-2 as filed with the Securities and Exchange Commission on March 4, 1998.

(2) New Accounting Pronouncements

The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (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 and is currently assessing its impact.

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 adopt the provisions of SFAS No. 131 in fiscal 1999 and is currently assessing its impact.

(3) Initial Public Offering

On March 9, 1998, the Company completed an initial public offering of 2.0 million shares of Common Stock. Subsequently, on March 25, 1998, the underwriters purchased an additional 300,000 shares of Common Stock pursuant to the exercise of an overallotment option. In total, the offering generated net proceeds to the Company of approximately $15.5 million after deducting all offering expenses.

(4) Preferred Stock Conversion

Each share of the Series A Convertible Preferred Stock was automatically converted into four shares of voting Common Stock upon the closing of the initial public offering. The authorized shares of Series A Convertible Preferred Stock were eliminated and this class of stock was canceled.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

General

The Company is a leading provider of surface modification solutions to medical device manufacturers. The Company's revenues have come from four primary sources: licensing of its patented technology to customers; royalties received from licensees based on their sales of products incorporating SurModics' technology; 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. In March 1998, the Company completed an initial public offering of 2.3 million shares of Common Stock with proceeds of approximately $15.5 million, net of related offering costs.

Results of Operations

Three Months Ended March 31, 1998 and 1997

Revenues. The Company's revenues were $2.6 million for the second quarter of fiscal 1998, an increase of $713,000, or 38.2%, over the same period of fiscal 1997. The revenue increase was primarily due to an increase in royalty revenue received from licensed customers of $458,000 or 56.8%. Within this total, royalties generated from PhotoLink(R) licenses increased 47.3% and royalties from diagnostic licensing increased 65.1%. Management expects to report a similar rate of overall, year-to-year royalty growth for the remainder of the fiscal year. However, the total royalty dollars generated in the next two quarters is not expected to increase over that generated in the second quarter due to seasonal fluctuations effecting the sales of certain of our licensees' products and the timing of the minimum royalty increases. In addition, sales of the Company's stabilization products increased $241,000 or 83.3% between periods. Much of this increase was attributable to additional shipments to an existing customer.

Product costs. The Company's product costs were $318,000 for the second quarter of fiscal 1998, an increase of $61,000, or 23.5%, over the same period of fiscal 1997. Overall product margins increased to 56.7% in the second quarter of fiscal 1998 from 41.0% in the same period of fiscal 1997. These improvements were primarily due to the continued impact of a formulation change in certain of the stabilization products, offset by an increase in the cost of manufacturing reagent chemicals.

Research and development expenses. Research and development expenses were $1,102,000 for the second quarter of fiscal 1998, an increase of $92,000, or 9.1%, over the same period of fiscal 1997. The change was primarily due to the added compensation and benefit costs associated with additional technical personnel added by the Company over the last year; increased depreciation expense associated with the build-out of some additional laboratory space; and offset by lower costs incurred on research studies performed by external laboratories.

Sales and marketing expenses. Sales and marketing expenses were $441,000 for the second quarter of fiscal 1998, an increase of $175,000, or 66.0%, over the same period of fiscal 1997. This increase was primarily due to the expense of additional marketing personnel, a related increase in recruitment costs, and the costs associated with a market research study recently completed by an external consulting firm.

General and administrative expenses. General and administrative expenses were $430,000 for the second quarter of fiscal 1998, an increase of $114,000, or 36.2%, over the same period of fiscal 1997. The increase was due to higher compensation costs, legal fees and other general business expenses incurred as a result of the Company's overall business growth.

Other income, net. The Company's net other income was $98,000 for the second quarter of fiscal 1998, an increase of $47,000, or 92.2%, over the same period of fiscal 1997 due primarily to increased interest income from the additional cash available for investment due to the proceeds received from the recent public stock offering.

Six Months Ended March 31, 1998 and 1997

Revenues. The Company's revenues were $4.5 million for the first six months of fiscal 1998, an increase of $967,000, or 27.5%, over the same period of fiscal 1997. The revenue increases were primarily due to an increase in royalty revenue of $797,000 or 56.5%; an increase in sales of the Company's stabilization products of $252,000 or 37.7%; and an increase in customer-funded research and development revenue of $174,000 or 56.0% between periods. Royalties generated from PhotoLink licenses increased 40.2% and royalties from diagnostic licensing increased 72.4%. Much of the increase in sales of stabilization products was due to additional shipments to an existing customer. The increase in customer-funded research and development was due to greater customer development activity, especially related to work on drug delivery from coatings. Offsetting these revenue increases was a reduction in license fees from $257,000 in the first six months of fiscal 1997 to $60,000 in the same period of fiscal 1998. The fiscal 1997 results included the receipt of one large license fee with no similar transaction in fiscal 1998.

Product costs. The Company's product costs were $568,000 for the first six months of fiscal 1998, a decrease of $18,000, or 3.2%, over the same period of fiscal 1997. Product margins increased to 53.9% in 1998 from 36.7% in 1997. These improvements were primarily due to the continued impact of a formulation change in certain of the stabilization products combined with increases in the efficiencies of manufacturing reagent chemicals.

Research and development expenses. Research and development expenses were $2,060,000 for the first six months of fiscal 1998, an increase of $238,000, or 13.1%, over the same period of fiscal 1997. The change was primarily due to the added compensation and benefit costs associated with additional technical personnel added by the Company over the last year; increased depreciation expense associated with the build-out of some additional laboratory space; and offset by lower costs incurred on research studies performed by external laboratories.

Sales and marketing expenses. Sales and marketing expenses were $744,000 for the first six months of fiscal 1998, an increase of $256,000, or 52.5%, over the same period of fiscal 1997. This increase was primarily due to the expense of additional marketing personnel, a related increase in recruitment costs, and the costs associated with a market research study recently completed by an external consulting firm.

General and administrative expenses. General and administrative expenses were $727,000 for the first six months of fiscal 1998, an increase of $106,000, or 17.0%, over the same period of fiscal 1997. The increase was primarily due to higher compensation and benefit costs.

Other income, net. The Company's net other income was $151,000 for the first six months of fiscal 1998, an increase of $59,000, or 64.1%, over the same period of fiscal 1997 due primarily to increased interest income from the additional cash available for investment due to the proceeds received from the recent public stock offering.

Year 2000 Compliance

The Company has evaluated its information technology infrastructure for Year 2000 compliance and does not expect that the cost to modify its information technology infrastructure to be Year 2000 compliant will be material to its financial condition or results of operations. The Company does not anticipate any material disruption in its operations as a result of any failure by the Company, or its suppliers or customers to be in compliance.

Liquidity and Capital Resources

On March 9, 1998, the Company completed an initial public offering of 2.0 million shares of Common Stock. Subsequently, on March 25, 1998, the underwriters purchased an additional 300,000 shares of Common Stock pursuant to the exercise of an overallotment option. In total, the offering generated net proceeds to the Company of approximately $15.5 million after deducting all offering expenses.

As of March 31, 1998, the Company had working capital of approximately $19.0 million. For the last three fiscal years and for the first six months of fiscal 1998, the Company has generated positive cash flow from operations.

As of March 31, 1998, the Company had cash, cash equivalents and investments totaling approximately $19.6 million. The Company's funds are currently invested in money market funds and investment grade, interest-bearing securities with maturity dates of less than two years. As of March 31, 1998, the Company had no debt, nor did it have any credit agreements.

Forward Looking Statements

The statements contained in this quarterly report relating to royalty revenue growth are based on current expectations and involve a number of risks and uncertainties. These statements are forward looking and are made pursuant to the safe harbor provisions of the Private Securities Reform Act of 1995. The following factors could cause royalty revenue to materially and adversely differ from that anticipated: the ability of the Company's licensees to successfully gain regulatory approval for, market and sell products incorporating the Company's technology; the amount and timing of resources devoted by the Company's licensees to market and sell products incorporating the Company's technology; the Company's ability to attract new licensees and to enter into agreements for additional applications with existing licensees; the Company's ability to maintain a competitive position in the development of technologies and products in its areas of focus; and business and general economic conditions.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 2. Changes in Securities and Use of Proceeds.

(a) On March 2, 1998, the Company issued 6,320 shares of common stock to a former employee at a price of $5.00 per share pursuant to the exercise of stock options. The Company relied on the exemption from registration available under section 3(b) of the Securities Act of 1933, as amended, and Rule 701 thereunder.

(b) Use of Proceeds for the period ending March 31, 1998.

(1)	Effective Date:	March 3, 1998	
	SEC File Number:	333-43217	
(2)	Offering Date:	March 3, 1998	
(4)(i)	The offering has terminated; all securities registered were sold.		
(4)(ii)	Managing Underwriter:	John G. Kinnard and Company, Incorporated	
(4)(iii)	Title of Securities:	Common Stock	
(4)(iv)	Amount Registered:		2,300,000
	Aggregate Offering Price:		$17,250,000
	Amount Sold:		2,300,000
	Aggregate Offering Price Sold:		$17,250,000
(4)(v)	Underwriting Discount and Commissions		$ 1,293,750
	Other Expenses		$ 435,148
	Total Expenses		$ 1,728,898
	All the above items represented direct or indirect payments to others.		
(4)(vi)	Net Offering Proceeds		$15,521,102
(4)(vii)	Use of Net Offering Proceeds:		
	Research and development		$ 5,600
	Sales and marketing		$ 97,900
	Equipment upgrades		$ 22,802
	Patent protection		$ --
	Working capital and general corporate purposes		$ 20,800
	Money market funds		$15,374,000
	All the above items represented direct or indirect payments to others.		

Item 3. Defaults Upon Senior Securities.

None.

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

(a) The Company held its Annual Meeting on January 26, 1998, prior to the Company becoming a publicly held company.

(b) The following individuals were elected as directors at the meeting: Dale R. Olseth, Donald S. Fredrickson, James J. Grierson, Patrick E. Guire, Kenneth H. Keller, David A. Koch, and Kendrick B. Melrose.

(c) The shareholders voted on four matters: (i) to set the number of directors at seven, (ii) to elect the Board of Directors to serve until the next annual meeting of shareholders, (iii) to amend the Company's Restated Articles of Incorporation to decrease the number of authorized shares of Series A Convertible Preferred Stock, and (iv) to amend the Company's Restated Articles of Incorporation to provide for the cancellation of the Series A Convertible Preferred Stock upon the completion of the Company's initial public offering. The shareholders approved all four matters by the following votes:

		Votes For	Votes Against	Votes Abstained
(i)	Set number of directors at seven	4,265,108	--	559,072
(ii)	Elect Directors			
	Dale R. Olseth............................	4,265,108	--	559,072
	Donald S. Fredrickson.....................	4,265,108	--	559,072
	James J. Grierson.........................	4,265,108	--	559,072
	Patrick E. Guire..........................	4,265,108	--	559,072
	Kenneth H. Keller.........................	4,265,108	--	559,072
	David A. Koch.............................	4,265,108	--	559,072
	Kendrick B. Melrose.......................	4,265,108	--	559,072
(iii)	Amend Articles to decrease authorized Preferred Stock	4,265,108	--	559,072
(iv)	Amend Articles to provide for the cancellation of Preferred Stock upon completion of IPO	4,265,108	--	559,072

Item 5. Other Information.

None.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits - 3.1 Restated Articles of Incorporation of the Company, as amended

27.1 Financial Data Schedule

(b) Reports on Form 8-K - None

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SurModics, Inc.

May 14, 1998

By: /s/ Stephen C. Hathaway
Stephen C. Hathaway
Vice President & CFO
Principal Financial Officer

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

EXHIBIT INDEX TO FORM 10-Q

SURMODICS, INC.

Commission File No.: 0-23837
For the quarter ended
March 31, 1998

Exhibit Number	Description
3.1	Restated Articles of Incorporation of the Company, as amended
27.1	Financial Data Schedule (filed with electronic version only)

STATEMENT OF CANCELLATION OF PREFERRED SHARES
OF
SURMODICS, INC. (f/k/a BSI CORPORATION)

SurModics, Inc. (f/k/a BSI Corporation) hereby cancels 376,828 shares of its authorized Series A Convertible Preferred Stock, $0.05 par value. After giving effect to the cancellation, the aggregate number of shares which the corporation shall have the authority to issue shall be 20,000,000, 15.0 million of which shall be designated Voting Common Stock, $.05 Par Value, and 5.0 million of which shall be undesignated.

This statement is pursuant to Section 302A.553 Subdivision 2. of the Minnesota Business Corporation Act.

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: April 16, 1998

/s/ David R. Busch
David R. Busch, Its Corporate Secretary

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

5

1,000
U.S. Dollars

6-MOS
SEP-30-1998
OCT-01-1997
MAR-31-1998
1
17,052
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527
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