Table of Contents

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended September 30, 2002

Commission file number 0-23837

SURMODICS, INC.
(Exact Name of Registrant as Specified in Its Charter)

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

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

(952) 829-2700
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, $.05 par value

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required by file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The aggregate market value of the Common Stock held by shareholders other than officers, directors or holders of more than 5% of the outstanding stock of the registrant as of December 13, 2002 was approximately $389 million (based upon the closing sale price of the registrant's Common Stock on such date).

The number of shares of the registrant's Common Stock outstanding as of December 13, 2002 was 17,298,489.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Registrant's Annual Report to Shareholders for the fiscal year ended September 30, 2002 are incorporated by reference into Part II.

2. Portions of the Registrant's definitive Proxy Statement for the Registrant's 2003 Annual Meeting of Shareholders are incorporated by reference into Part III.

TABLE OF CONTENTS

PART I

ITEM 1. BUSINESS

General

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 coating technologies through 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 and infection resistance, 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 differentiate their products in a highly competitive marketplace.

In recent years, the Company has developed and is now marketing a specialized coating that allows for the controlled release of drugs from the surface of a medical device. This polymer blend differs from PhotoLink in that it is not a light-activated coating technology. Therapeutic drugs can be entrapped within the polymer coating to provide controlled, site-specific release of the drug into the surrounding tissue. This application was licensed by Cordis Corporation, a Johnson & Johnson company, to reduce the occurrence of restenosis. Cordis is currently selling a SurModics-coated drug-eluting stent in Europe and is awaiting FDA approval to sell the coated stent in the U.S.

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 Company’s coating technology include guidewires, catheters, stents and similar devices used in interventional cardiology, neurology and urology markets. The surface properties created by the PhotoLink technology have greatly reduced procedure times in catheter-based vascular procedures and have shown the potential to enhance the long-term performance of implantable devices by improving infection resistance, hemocompatability and promoting host cell attachment, growth and subsequent tissue integration. PhotoLink also has applications in the genomics market. The Company licensed its genomics technology to Motorola Life Sciences in fiscal 2000, which included the rights to a coated glass slide used to orient DNA strands for analysis. During fiscal 2002, Amersham plc purchased this genomics business from Motorola.

The Company has commercialized its coating technology through licensing arrangements with medical device manufacturers who apply the 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 license fees, development revenue, minimum royalties, and royalties based on a percentage of licensees’ product sales. The Company manufactures and sells the chemical reagents used in the coating process.

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. Finally, the Company manufactures and sells coated glass slides to the genomics market and offers a line of stabilization products used to extend the shelf life of immunoassay diagnostic tests.

The Company was organized as a Minnesota corporation in June 1979.

Markets and Need for Surface Modification

Recent trends in healthcare toward improved patient outcomes and reduced costs have resulted in intense competition for the development of medical devices that demonstrate superior product performance, reduced procedure times, improved outcomes, and patient comfort and overall cost effectiveness. Medical device manufacturers have attempted to address these competitive pressures by developing innovative medical devices manufactured from a wide variety of synthetic 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 enables device manufacturers to provide medical devices with desired surface characteristics including improved lubricity, hemocompatability and infection resistance, as well as the ability to deliver drugs and promote cell growth and tissue integration.

Surface modification 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, guidewires *Hemocompatability*: vascular stents, catheters, distal protection devices *Therapeutic drug incorporation and release*: vascular stents, catheters *Infection resistance*: catheters, implantable ports
Cardiac rhythm management	*Lubricity*: pacemaker and defibrillator leads, electrophysiology devices *Hemocompatability*: electrophysiology devices
Cardiothoracic surgery	*Infection resistance*: heart valves *Hemocompatability*: minimally invasive bypass devices, vascular grafts, ventricular assist devices *Cell growth and tissue integration*: heart valves, vascular grafts
Interventional neurology and neurosurgery	*Lubricity*: catheters, guidewires *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 and cartilage growth *Infection resistance*: orthopedic implants

In addition to the above-identified market segments, the Company's technology is also relevant in genomics applications. During fiscal 1999, SurModics launched its 3D-Link Activated Slide to the genomics market. These coated glass slides are used by genomics researchers to prepare microarrays for DNA analysis. During fiscal 2000, SurModics licensed its genomics technology to Motorola Life Sciences. In addition to providing Motorola exclusive rights to the Company's genomics technology, the agreement calls for collaborative research on further technology advances. Motorola's genomics business, including our agreement, was recently purchased by Amersham plc.

The SurModics Solution

SurModics has developed its PhotoLink and drug-eluting coating technologies to address the need for surface modification. 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 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). When the reagent is exposed to a direct light source, typically ultraviolet light, 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. The Company's drug-elution technology is a polymer blend that differs from PhotoLink in that it involves non-photochemical reagents. Therapeutic drugs can be entrapped within the polymer coating to provide controlled, site-specific release of the drug into the surrounding tissue.

SurModics' proprietary PhotoLink reagents work directly on most polymer-based (e.g., plastic) and biological substrates (latex rubber, cellulose, tissue and natural fibers). Metal and glass substrates generally require a polymer pretreatment to make a hydrocarbon-containing surface for bonding prior to the application of the Company's 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 reagents providing new product features while expanding the number and type of substrates on which the reagents can be applied.

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

- *Flexibility.* 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 the dimensions or physical properties of the device.

- *Variety of Surface Properties.* The coating process can be tailored to provide licensees with the ability to improve the performance of their devices by choosing the specific coating properties desired for particular applications. The coating technology also provides the medical device manufacturer with the ability to combine multiple surface-enhancing characteristics on the same device.

- *Ease of Use.* The coating process is a relatively simple process that does not require expensive special equipment and does not subject the coated products to harsh chemical or temperature conditions or lengthy processing time. Further, the coatings are compatible with generally accepted sterilization processes, so the surface attributes are not lost when the medical device is sterilized prior to packaging.

Surface Properties

SurModics' coating technology has been used by manufacturers of pacemaker leads, drug infusion catheters, laser and balloon angioplasty catheters, urinary drainage catheters, vascular closure devices, wound drains, guidewires, stent delivery catheters, angiography catheters, ureteral stents and hydrocephalic shunts, among other devices. The coating 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, guidewires 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 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 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 also developed synthetic, non-biological coatings that provide medical device surfaces with improved blood compatibility without the use of heparin.

- *Infection Resistance.* Antimicrobial coatings are advantageous for most implantable medical devices where the risk of infection is a concern. PhotoLink technology can provide passive coatings which significantly reduce microbial adhesion to the device or active coatings incorporating antimicrobial agents which kill microbes on the device. Testing by the Company has demonstrated that a PhotoLink coating can reduce the adherence of microorganisms to biomaterial surfaces by up to 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-Eluting Coating.* SurModics provides coatings that address two fundamental challenges of coronary stents, restenosis (progressive narrowing of vessels due to tissue growth) and thrombosis (blood clot formation which abruptly obstructs blood flow). To address restenosis, SurModics has developed proprietary polymer coating reagents and application methods, that do not require light activation (i.e. non-PhotoLink), to create durable stent coatings which serve as reservoirs for therapeutic drugs. The drugs can then be released from the coating on a controlled basis. When a stent with this drug coating is implanted in a patient, the drug diffuses out from the surface of the stent into the blood vessel wall where it can act to inhibit unwanted tissue growth, thereby reducing the occurrence of restenosis. Cordis Corporation is currently selling a SurModics-coated drug-eluting stent in Europe and is awaiting FDA approval to sell the coated stent in the U.S. SurModics also has developed blood compatible coatings

(containing heparin, for example) that are bound to the surfaces of stents to inhibit thrombosis that can occur as blood flows over the stent surface. The hemocompatible coating is designed to provide protection from thrombosis until the natural healing process covers the stent with a thin layer of tissue, which masks the stent from the flowing blood.

- *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%. Some 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 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 a readout can be dramatically reduced and the consistency can be greatly improved with PhotoLink technology.

- *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. Company studies have shown that biomedical devices (such as vascular grafts and ocular implants) coated with photoreactive collagen and other proteins have improved attachment, growth of cells and acceptance by surrounding tissues. In fiscal 2002, the Company made an investment in Novocell, Inc., which is pursuing a treatment for diabetes by implanting encapsulated islet cells. SurModics had performed research using similar techniques. 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 microarray. These microarrays are used by the pharmaceutical industry to screen for new drugs, by genome mappers to sequence human, animal or plant genomes, or by diagnostic companies to search a patient sample for disease-causing bacteria or viruses. However, DNA does not readily adhere to most surfaces. The Company has demonstrated a versatile method for the immobilization of DNA on various surfaces which led to the Motorola contract discussed previously.

Current Licensing Arrangements

The Company has commercialized its technology through licensing arrangements with medical device manufacturers who apply the coatings to their products in their own facility. 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 coating technology. The Company's licensing agreements are designed to allow manufacturers to incorporate the process into their own manufacturing processes so the licensee can control production and quality without the need to send product outside their facility.

The licensing process begins with the customer 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. Once the feasibility has been proven, the customer typically funds a SurModics' development project to optimize the coating formulation to meet

the customer's specific technical needs. Once the customer is satisfied with the performance of the coating, a license agreement is executed granting the licensee the rights to use the technology. SurModics' technical personnel then transfer the coating technology into the licensee's manufacturing process. The Company also manufactures and sells the chemical reagents used by all licensees in the coating process, thus creating another source of recurring revenue. The Company often supports its customers by providing coating assistance for parts required in animal and human clinical trials. However, the customer generally performs all coating work internally once the product has been approved and is being sold on the market.

The term of a license agreement is generally for a period of 10 to 15 years or the life of SurModics' patents, whichever is longer, although a license generally may be terminated by the licensee for any reason upon 90 days written notice. The worldwide license can be either exclusive or nonexclusive, but over 90% 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 $1,000,000 and quarterly "earned" royalties on the sales of products incorporating SurModics' technology. The royalty rate on a substantial number of the contracts is in the 2% to 3% range, but there are certain contracts with lower or higher rates. The amount of the license fee and the royalty rate are based on various factors including whether the arrangement is exclusive or nonexclusive, the perceived value of the coating application to the device and the size of the potential market. Most of SurModics' agreements also incorporate a minimum royalty to be paid by the licensee. In most cases, payment of these minimum royalties will not commence until several months after the execution of an agreement for a particular application. On a quarterly basis, a client will pay the greater of earned or minimum royalties to SurModics. The earned royalties are always paid on a quarter-lag basis, and are based on the client's actual sales of coated products in the prior quarter.

Revenue from Cordis Corporation (38%), Medtronic, Inc. (14%), Amersham plc (12%) and Abbott Laboratories (11%) together represented approximately 75% of the Company's total revenue for the year ended September 30, 2002. The loss of one or more of these clients could have a material adverse effect on our business, financial condition and results of operations, as discussed in more detail below.

Other Products

Stabilization Products

Although the primary focus of the Company is the development and marketing of its coating technology, the Company also markets stabilization products for use by manufacturers of immunoassay diagnostic tests. SurModics' StabilCoat, StabilGuard 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.

Diagnostic Royalties

SurModics also licensed a format for *in vitro* diagnostic tests developed during the early years of the Company. This format has found broad application in the area of rapid point-of-care diagnostic testing, such as pregnancy and strep tests, and generated $2.4 million of royalty revenue to the Company in fiscal 2002 pursuant to a license agreement with Abbott Laboratories. Limited additional research and development is being undertaken in this area.

Research and Development

SurModics' research and development personnel support the sales staff in performing feasibility studies, providing technical assistance to potential licensees, optimizing the coating methodologies for specific licensee applications, training licensees and integrating the Company's technology and know-how into licensee manufacturing operations. In addition, these personnel work to enhance and expand the coating technology through the development of new reagents and new applications.

As medical devices become more sophisticated and complex, the Company believes the need for surface modification will grow. The Company intends to continue its development efforts to expand its coating technology providing additional optimized surface properties to meet these needs. The Company's technical strategy is to target selected coating characteristics for further development, in order to facilitate and shorten the license cycle. The Company continues to perform research into applications for future products both on its own and in conjunction with some of its licensees. Some of the research and development projects currently being worked on include additional coatings for site-specific drug delivery, enhanced tissue growth, long-term blood compatibility and new DNA immobilization methods. In addition to expanding the number of medical applications that may use the Company's technology, SurModics is working on improving the coating process for metals, developing a process for coating the interior diameter of medical devices and developing coatings activated with sources other than UV light.

The technical staff of the Company consists of 105 employees, including 12 with Ph.D. degrees, 8 with Masters degrees and over 50 with Bachelor degrees, with expertise in chemistry, biomedical engineering, biology, microbiology, cell biology and biochemistry. The technical staff is organized into several specialization areas: hydrophilicity, microbiology, hemocompatibility, biochemistry, tissue engineering, drug delivery and surface characterization. In addition, a chemistry group supports the synthesis of new reagents needed by the other groups.

In fiscal 2002 and 2001, the Company's research and development expenses were $9.7 million and $8.0 million, respectively. A portion of these expenses is billed to customers for coating optimization and other development work on customer product applications. Research and development revenue was approximately $8.0 million in fiscal 2002 and $4.2 million in fiscal 2001.

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, 145 research contracts resulting in revenues of over $26 million have been awarded to SurModics, primarily under the SBIR program. Grant proposals are generally directed toward the overall business 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' customers. Grant funding has allowed SurModics to maintain a larger and more technologically diverse employee base than would otherwise be possible.

Patents and Proprietary Rights

The Company has taken steps intended to protect its coating technology and related inventions through a series of patents covering a variety of coating methods, reagents and formulations, as well as particular medical device applications. The Company has 36 issued U.S. patents, 21 pending U.S. patent applications, 57 issued foreign patents, and 73 pending foreign patent applications related to its coating technologies. The Company generally files international patent applications (primarily in Australia,

Canada, Europe, Japan, and Mexico) in parallel with its U.S. applications. In addition to the patents related to its coating technologies, SurModics has 7 issued and 5 pending U.S. patents, 23 issued foreign patents and 10 pending foreign patent applications related to its diagnostic and genomics technology. There can be no assurance that any of the pending patent applications will be allowed.

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 coating throughout the world using a direct sales force consisting of three market development managers who focus on specific markets and companies. 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 Company's technology is licensed on a nonexclusive basis to medical device manufacturers for use on specific products. This strategy enables the Company to license its technology to multiple licensees in the same market. SurModics also targets new product applications within 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.

As part of its marketing strategy, the Company publishes technical literature on each surface capability of the coating technology (*i.e.*, lubricity, hemocompatibility, etc.). In addition, the Company exhibits 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. This service and support begins with a coating feasibility study at no charge to the licensee and also includes additional services such as assistance in the transfer of the technology to the licensee, further coating optimization, process control and trouble shooting, coating of product for clinical studies, and assistance with regulatory submissions for coated product approval. Most of these services are billable to the client.

Competition

Competition in the medical device industry has resulted in increased competition in the surface modification market. The Company's coating technology competes with technologies developed by Biocompatibles International plc, Carmeda (a division of Norsk Hydro, ASA), AST, Specialty Coatings Systems, 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. Overall, the

Company believes the worldwide market is very fragmented with no competitor marketing to third parties having more than a 10% market share. Some of the Company's existing and potential competitors (especially medical device manufacturers pursuing coating solutions through their own research and development efforts) have greater financial, technical and marketing resources than the Company.

SurModics attempts to differentiate itself from its competitors 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 coating 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 sale.

Because a significant portion of the Company's revenue is dependent on the receipt of royalties based on sales of medical devices incorporating the Company's coatings, SurModics 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 technology to multiple competing manufacturers of a device. However, competition in the medical device markets could also have an adverse effect 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 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 SurModics technology will be successfully commercialized by the Company's licensees or that such licensees will otherwise be able to effectively compete.

Manufacturing

In accordance with its licensing strategy, the Company generally does not coat medical devices to be sold by its licensees. However, the Company often supports its clients by coating products for human clinical trials. The Company also manufactures most of the reagent chemicals used by its customers in the coating process, allowing it to maintain the quality of the reagents and their proprietary nature, while providing an additional source of revenue. Reagents are polymer chemicals that are prepared using a proprietary formula in relatively small batch processes (as contrasted with commodity chemicals prepared by large continuous methods). The reagents are sold dry, requiring the licensee, in most cases, to simply add water, a water and isopropyl alcohol mix, or a solvent to put them into solution 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 3D-Link Activated Slides for sale to Motorola, now Amersham. Standard glass slides are cleaned and pretreated in a multiple-step process. The Company applies its proprietary PhotoLink coating in a clean room environment, tests the slides to assure they meet quality standards, and packages slides in a box and seals them in moisture-proof packaging.

The Company also produces its stabilization products. These products are 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 sealed and labeled.

The Company maintains multiple sources of supply for the key raw materials used to manufacture its products. The Company does, however, purchase some raw materials from single sources, but it believes that additional sources of supply are readily available. Further, to the extent additional sources of supply are not readily available, the Company believes that it could manufacture such raw materials.

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 the Company's coating technology itself is not directly regulated by the U.S. Food and Drug Administration ("FDA"), the medical devices incorporating its 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 coating technology may generally be marketed only after 510(k) or PMA applications have been submitted to and approved by the FDA, which process can take anywhere from six months for a 510(k) application, to two or three years for a PMA application. These applications are prepared by the manufacturer and contain results of extensive biocompatibility and clinical evaluations conducted by the manufacturer.

The Company maintains confidential Device Master Files at the FDA regarding the nature, chemical structure and biocompatibility of its reagents. Although the Company's licensees do not have direct access to these files, the licensees may, with the permission of the Company, reference these files in their medical device submission to the FDA. This process allows the FDA to understand in confidence the details of the coating 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 manufacture the device in the U.S. and export it for sale in international markets. This generally allows 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, 2002, SurModics had 153 employees of whom 88 were engaged in technical and 17 in manufacturing positions, with the remainder in sales, marketing, quality or administrative positions. Of SurModics' employees, 13 hold Ph.D. degrees and 16 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.

Factors That Could Affect Future Results

Certain statements made in this Annual Report on Form 10-K are forward-looking statements based on our current expectations, assumptions, estimates and projections about our business and our industry. As such, they are considered "forward-looking statements" that provide current expectations or forecasts of future events. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by the use of terminology such as "anticipate," "believe," "estimate," "expect," "intend," "may," "could," "possible," "plan," "project," "will," and similar words or expressions. Our forward-looking statements generally relate to our growth strategy, financial results, product development programs, sales efforts, and the impact of certain customer relationships, including the relationship with Cordis Corporation. These forward-looking statements involve risks and uncertainties. Our business, financial condition and results of operations could differ materially from those anticipated in these forward-looking statements as a result of certain factors, as more fully described below and elsewhere in this Form 10-K. You should consider carefully the risks and uncertainties described below, which are not the only ones facing the Company. Additional risks and uncertainties also may impair our business operations. Forward-looking statements speak only as of the date on which they are made. We undertake no obligation to update any forward-looking statements.

The loss of one or more of our major clients could significantly reduce our revenue and earnings.

Revenue from Cordis Corporation (38%), Medtronic, Inc. (14%), Amersham plc (12%) and Abbott Laboratories (11%) together represented approximately 75% of our total revenue for the year ended September 30, 2002. There can be no assurance that revenue from any customer will continue at their historical levels. Loss of one or more of our current clients, particularly the four companies listed above, could have a material adverse effect on our business, financial condition and results of operations. If we cannot broaden our customer base, we will continue to depend on a few clients for the majority of our revenue.

We rely on third parties to market, distribute and sell the products incorporating our coating technologies and those third parties may not perform or agreements with those parties could be terminated.

The principal element of our business strategy is to enter into licensing arrangements with medical device companies that manufacture products incorporating our technologies. For the fiscal years ended September 30, 2002, 2001 and 2000, we derived approximately 40%, 49% and 53% of our revenue, respectively, from royalties. We do not currently manufacture, market or sell our own medical devices nor do we intend to do so in the foreseeable future. Thus, our prospects are substantially dependent on the receipt of royalties from licensees of our technologies. The amount and timing of such royalties are, in turn, dependent on the ability of our licensees to successfully gain regulatory approval for, market and sell products incorporating our technologies. Failure of certain licensees to gain regulatory approval or market acceptance for such products could have a material adverse effect on our business, financial condition and results of operations.

Our clients manufacture, market and sell the products incorporating our licensed technologies. If one or more of our licensees fails to pursue the development or marketing of these products as planned, our revenue and profits may not reach our expectations, or may decline. We do not control the timing and other aspects of the development or commercialization of products incorporating our licensed technologies because our clients may have priorities that differ from ours or their development or marketing efforts may be unsuccessful resulting in delayed or discontinued products. Hence, the amount and timing of royalty payments received by us will fluctuate, and such fluctuations could have a material adverse effect on our business, financial condition and results of operations.

Under our standard license agreements, licensees can terminate the license for any reason upon 90 days prior written notice. 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 terminate its relationship with us could materially adversely affect our business, financial condition and results of operations.

We need to expand our licensing base to reduce our reliance upon several major clients.

SurModics intends to continue pursuing a strategy of licensing its technology to a diversified base of medical device manufacturers, thereby expanding the licensing base for its coating technology. Success will depend, in part, on our ability to attract new licensees, to enter into agreements for additional applications with existing licensees and to develop and market new applications. There can be no assurance that we will be able to identify, develop and adapt our technology for new applications in a timely and cost effective manner; that new license agreements will be executed on terms favorable to us; that new applications will be accepted by manufacturers in our target markets; or that products incorporating newly licensed technology, including new applications, will gain regulatory approval, be commercialized or gain market acceptance. Delays or failures in these efforts could have an adverse effect on our business, financial condition and results of operations.

Surface modification is a competitive market and carries the risk of technological obsolescence.

SurModics operates in a competitive and evolving field and new developments are expected to continue at a rapid pace. Our success depends, in part, upon our ability to maintain a competitive position in the development of technologies and products in the field of surface modification. Our coating technologies compete with technologies developed by Biocompatibles International plc, Carmeda (a division of Norsk Hydro ASA), AST, Specialty Coatings Systems, 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. Competition may also result from development efforts by existing and potential licensees who have no obligation to deal exclusively with us in utilizing or developing surface modification technologies. Some of our existing and potential competitors (especially medical device manufacturers pursuing coating solutions through their own research and development efforts) have greater financial and technical resources and production and marketing capabilities than SurModics. Competitors may succeed in developing competing technologies or obtaining governmental approval for products before us. The products of our competitors may gain market acceptance more rapidly than our products. Developments by competitors may render our products or potential products noncompetitive or obsolete. Furthermore, there can be no assurance that new products or technologies developed by others, or the emergence of new industry standards, will not render our products or technologies or licensees' products incorporating our technologies noncompetitive or obsolete. Any new technologies which make our coating technology less competitive or obsolete would have a material adverse effect on our business, financial condition and results of operations.

If we cannot adequately protect our technology and proprietary information, we may be unable to sustain a competitive advantage.

Our success depends, in large part, on our ability to obtain and maintain patents, maintain trade secret protection, operate without infringing on the proprietary rights of third parties and protect our proprietary rights against infringement by third parties. We have been granted U.S. and foreign patents and have U.S. and foreign patent applications pending related to our coating technologies. There can be no assurance that any pending patent application will be approved; that we will develop additional proprietary technology that is patentable; that any patents issued will provide us with competitive advantages or will not be challenged or invalidated by third parties; or that the patents of others will not prevent the commercialization of products incorporating our technology. Furthermore, there can be no assurance that others will not independently develop similar technology, duplicate any of our technology or design around our patents. There can be no assurance that our trade secrets or confidentiality agreements with employees, potential licensees or other parties will provide meaningful protection for our unpatented proprietary information.

SurModics' commercial success also will depend, in part, on our 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 us 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 we were found to be infringing any third-party patent or other intellectual property right, we could be required to pay significant damages, alter our products or processes, obtain licenses from others, which we may not be able to do on commercially reasonable terms, if at all, or cease commercialization of our products and processes. Any of these outcomes could have a material adverse effect on our business, financial condition and results of operations.

Patent litigation or U.S. Patent and Trademark Office interference proceedings may also be necessary to enforce any patents issued or licensed to us or to determine the scope and validity of third-party proprietary rights. These activities could result in substantial cost to us, even if the eventual outcome is favorable to us. An adverse outcome of any such litigation or interference proceeding could subject us to significant liabilities to third parties, require disputed rights to be licensed from third parties or require us 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 our management and technical personnel, regardless of outcome, and could have a material adverse effect on our business, financial condition and results of operations.

We may face product liability claims related to participation in clinical trials or the use or misuse of our products.

The development and sale of medical devices and component products involves an inherent risk of product liability claims. Although we expect that devices incorporating our technologies 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 us for such devices or that such manufacturers will not seek indemnification or other relief from us for any such claims. In addition, there can be no assurance that product liability claims will not be filed directly against us with respect to our own products. There can be no assurance that our current product liability insurance will continue to be available to us on acceptable terms, if at all, or that, if available, the coverages will be adequate to protect us against any future product liability claims. Furthermore, we do not expect to be able to obtain insurance covering our

costs and losses as a result of any recall of its products or devices incorporating our technology due to alleged defects, whether such recall is instituted by a device manufacturer or SurModics or required by a regulatory agency. A product liability claim, recall or other claim with respect to uninsured liabilities or for amounts in excess of insured liabilities could have a material adverse effect on our business, financial condition or results of operations.

We are dependent upon key personnel and may not be able to attract qualified personnel in the future.

SurModics is highly dependent upon our ability to retain and attract highly qualified management and technical personnel. We face intense competition for such qualified personnel. We do not maintain key person insurance nor do we have employment agreements with any of our employees. Although we have non-compete agreements with most employees, there can be no assurance that such agreements will be enforceable. The loss of the services of one or more key employees or the failure to attract and retain additional qualified personnel could have a material adverse effect on our business, financial condition and results of operations.

Our products are subject to continuing regulations and we may be subject to adverse consequences if we fail to comply with applicable regulations.

Although coating technology itself is not directly regulated by the FDA, the medical devices incorporating the technology are subject to FDA regulation. The burden of securing FDA approval for these medical devices rests with our licensees (the medical device manufacturers). However, we have prepared Device Master Files which may be accessed by the FDA to assist it in its review of the applications filed by our licensees. Historically, most medical devices incorporating a coating have been subject to the FDA's 510(k) marketing approval process, which typically lasts from six to nine months. Supplemental or full pre-market approval ("PMA") reviews require a significantly longer period, delaying commercialization. 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 our licensees will be able to obtain regulatory approval for their coated medical devices 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 our technologies or subject us to additional regulation. Failure or delay of our 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 our business, financial condition and results of operations.

Certain of our activities are regulated by federal and state agencies in addition to the FDA. For example, activities in connection with waste disposal are subject to regulation by the U.S. Environmental Protection Agency. Some of our reagent chemicals 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 our business, financial condition and results of operations.

We use hazardous materials in some of our research, development and manufacturing processes.

Our research activities sometimes involve the controlled use of various hazardous materials. Although we believe that our 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 we currently maintain insurance in amounts which we believe are appropriate in light of the risk of accident, we could be held liable for any damages that might result from any such event. Any such liability could exceed our insurance and available resources and could have a material adverse effect on our business, financial condition and results of operations.

Our stock price has been volatile and may continue to be volatile.

The trading price of our common stock has been, and is likely to continue to be, highly volatile. The market value of your investment in our common stock may fall sharply at any time due to this volatility. In the year ended September 30, 2002, the closing sale price for our common stock ranged from $19.95 to $46.50 per share. As of December 26, 2002, the last reported sale price of our stock was $29.76 per share. The market prices for securities of medical technology, drug delivery and biotechnology companies historically have been highly volatile, and the market has experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. Factors that could adversely affect our stock price include:

- fluctuations in our operating results;
- announcements of the status of license agreements, innovations or new products by us or our competitors;
- governmental regulations;
- developments in patent or other proprietary rights owned by us or others;
- the results of pre-clinical testing and clinical studies or trials by our licensees or our competitors;
- litigation;
- decisions by our licensees relating to the products incorporating our technologies;
- actions by the FDA in connection with submissions related to the products incorporating our technologies;
- general market conditions; and
- the realization of any of the risks described in this section.

We have a single manufacturing facility and we may lose revenue and be unable to maintain our client relationships if we lose our production capacity.

We manufacture all of the products we sell in our existing production labs in our Eden Prairie facility. If our existing production facility becomes incapable of manufacturing products for any reason, we may be unable to meet production requirements, we may lose revenue and we may not be able to maintain our relationships with our licensees. Without our existing production facility, we would have no other means of manufacturing products incorporating our coating technologies until we were able to restore the manufacturing capability at our facility or develop an alternative manufacturing facility. Although we carry business interruption insurance to cover lost revenue and profits in an amount we consider adequate, this insurance does not cover all possible situations. In addition, our business interruption insurance would not compensate us for the loss of opportunity and potential adverse impact on relations with our existing licensees resulting from our inability to produce products for them. Although we are currently in the process of adding a second manufacturing site at our Bloomington, Minnesota facility to reduce this risk, we may encounter unforeseen difficulties or delays in doing so.

ITEM 2. PROPERTIES

The Company conducts its operations in two facilities located in suburban Minneapolis-St. Paul, Minnesota. In May 1999, SurModics purchased the land and building it currently occupies in Eden Prairie, Minnesota for approximately $3.2 million. The building has approximately 64,000 square feet of space. In October 2001, the Company purchased a 135,000 square foot facility on 27 acres of land in Bloomington, Minnesota for approximately $7.1 million and expended an additional $4.0 million throughout fiscal 2002 on capital improvements. As of September 30, 2002, the Bloomington facility was largely unoccupied. The Company intends to gradually remodel this facility and move operations to it. The purchases of these two properties were internally funded and remain unencumbered. The Company believes that projected capacity of both the manufacturing area and research and development labs are adequate to service the needs of its licensees for the foreseeable future.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders during the fourth quarter of fiscal 2002.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

(a) The information required by Item 5 relating to the Company's Common Stock and other shareholder matters is incorporated herein by reference to the section entitled "Stock Listing and Price History" which appears on page 33 of the Company's 2002 Annual Report to Shareholders.

(b) The Company made no sales of unregistered securities during the quarter-ended September 30, 2002.

ITEM 6. SELECTED FINANCIAL DATA

The selected consolidated financial data presented below for the five fiscal years ended September 30 is derived from the audited financial statements. The financial data set forth below should be read in conjunction with the Company's consolidated financial statements and "Management's Discussion and Analysis of Financial Condition and Results of Operation" contained in Item 7.

	Fiscal Year				
(Dollars in thousands, except per share data)	2002	2001	2000	1999	1998
Income Statement Data:					
Total revenue	$29,488	$22,693	$18,279	$13,494	$ 9,779
Operating income	10,709	7,566	5,333	2,419	948
Net income	7,796	5,109	4,240	4,360*	1,637
Diluted net income per share	.44	.29	.25	.27*	.12
Pro forma amounts assuming the accounting change was applied retroactively:					
Net income	7,796	6,814	3,669	4,199*	1,633
Diluted net income per share	.44	.38	.22	.26*	.12
Balance Sheet Data:					
Cash and short-term investments	$13,149	$14,840	$17,357	$ 5,922	$ 4,870
Total assets	77,248	60,583	50,749	31,958	24,305
Retained earnings (accumulated deficit)	14,982	7,186	2,077	(2,163)	(6,523)
Total stockholders' equity	69,995	55,700	48,303	29,719	22,698
Pro forma amounts assuming the accounting change was applied retroactively:					
Retained earnings (accumulated deficit)	14,982	7,186	372	(3,297)	(7,496)
Total stockholders' equity	69,995	55,700	46,598	28,585	21,725

* Net income for the year ended September 30, 1999 includes the reversal of an income tax valuation reserve totaling $2,074,000. To make the results comparable between years, excluding the income tax reversal would result in net income of $2,286,000 and diluted earnings per share of $0.14.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The Section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the 2002 Annual Report to Shareholders is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

SurModics' investment policy requires investments with high credit quality issuers and limits the amount of credit exposure to any one issuer. The Company's investments principally consist of U.S. government and government agency obligations and investment-grade, interest-bearing corporate debt securities with varying maturity dates, the majority of which are five years or less. Because of the credit criteria of the Company's investment policies, the primary market risk associated with these investments is interest rate risk. SurModics does not use derivative financial instruments to manage interest rate risk or to speculate on future changes in interest rates. A one percentage point increase in interest rates would result in an approximate $520,000 decrease in the fair value of the Company's available-for-sale securities as of September 30, 2002, but no material impact on the results of operations or cash flows. Management believes that a reasonable change in raw material prices would not have a material impact on future earnings or cash flows because the Company's inventory exposure is not material.

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The balance sheets as of September 30, 2002 and 2001 and the statements of income, stockholders' equity and cash flows for each of the three years in the period ended September 30, 2002 together with the Reports of Independent Public Accountants contained on pages 18 through 31 of the Company's Annual Report to Shareholders for the year ended September 30, 2002 are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Previously reported.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The names, ages and positions of the Company's executive officers are as follows:

Name	Age	Position
Dale R. Olseth	72	Chairman and Chief Executive Officer
James C. Powell	53	President and Chief Operating Officer
Stephen C. Hathaway	47	Vice President and Chief Financial Officer
Patrick E. Guire, Ph.D.	66	Senior Vice President of Research and Chief Scientific Officer
Robert W. Elliot, Jr.	48	Vice President, Licensing Counsel
Marie J. Versen	41	Vice President of Quality Management and Regulatory Compliance

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 since 1988. Mr. Olseth also serves on the Board of Directors of The Toro Company and the Boards of Otologics LLC and the University of Minnesota Foundation. 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.

James C. Powell joined the Company in 1987. He became Vice President of Technical Operations in 1992 and was elected President and Chief Operating Officer in 1998. 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.

Stephen C. Hathaway joined the Company as its Vice President and Chief Financial Officer in 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 from Miami University in 1977 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 Chief Scientific Officer 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.

Robert W. Elliott, Jr. joined the Company in 2002 and currently serves as Vice President, Licensing Counsel. He worked in various legal positions at Motorola, Inc. from 1993 to 2002, most

recently as Director of Contracts for Motorola Life Sciences. He also held legal positions at Novatel Communications, Inc. from 1990 to 1992, Diversified Energies, Inc. from 1987 to 1990 and Eli Lilly and Company from 1980 to 1987. Mr. Elliott received a B.S. degree in chemistry from Purdue University in 1975 and his law degree from Indiana University School of Law in 1978.

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.

The executive officers of the Company are elected by and serve at the discretion of the Board of Directors.

The information required by Item 9 relating to directors and compliance with Section 16(a) of the Securities Exchange Act of 1934 is incorporated herein by reference to the sections entitled “Election of Directors” and “Section 16(a) Beneficial Ownership Reporting Compliance” which appear in the Company’s definitive proxy statement for its 2002 Annual Meeting of Shareholders.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated herein by reference to the section entitled “Executive Compensation” which appears in the Company’s definitive Proxy Statement for its 2003 Annual Meeting of Shareholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by Item 12 is incorporated herein by reference to the sections entitled “Principal Shareholders”, Management Shareholdings” and “Equity Compensation Plan Information” which appear in the Company’s definitive Proxy Statement for its 2003 Annual Meeting of Shareholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

ITEM 14. CONTROLS AND PROCEDURES

Our Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the Company’s disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) as of a date within 90 days prior to the filing of this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission’s rules and forms. Subsequent to the date of this evaluation, there have not been any significant changes in our internal controls or, to our knowledge, in other factors that could significantly affect the Company’s internal controls.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Exhibits. See “Exhibit Index” on the page following signatures.

(b) Reports on Form 8-K- A report on Form 8-K dated August 12, 2002 was filed on August 14, 2002, reporting under Item 9 the issuance of correspondence to the Securities and Exchange Commission certifying that the Quarterly Report on Form 10Q for the quarter ended June 30, 2002 complies with the requirements of 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in such Report fairly presents the financial condition and results of operations of the Company.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

SURMODICS, INC.
("Registrant")

Dated: December 20, 2002 By: /s/ Dale R. Olseth

Dale R. Olseth
Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant, in the capacities, and on the dates indicated.

(Power of Attorney)

Each person whose signature appears below constitutes and appoints DALE R. OLSETH and STEPHEN C. HATHAWAY as his true and lawful attorneys-in-fact and agents, each acting alone, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any or all amendments to this Annual Report on Form 10-K and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all said attorneys-in-fact and agents, each acting alone, or his substitute or substitutes, may lawfully do or cause to be done by virtue thereof.

Signature	Title	Date
/s/ Dale R. Olseth Dale R. Olseth	Chairman, Chief Executive Officer and Director (principal executive officer)	December 20, 2002
/s/ Stephen C. Hathaway Stephen C. Hathaway	Vice President and Chief Financial Officer (principal financial and accounting officer)	December 30, 2002
Jose H. Bedoya	Director	
/s/ Gerald B. Fischer Gerald B. Fischer	Director	December 19, 2002

Signature	Title	Date
/s/ Patrick E. Guire	Director	December 20, 2002
Patrick E. Guire		
/s/ Kenneth H. Keller	Director	December 17, 2002
Kenneth H. Keller		
/s/ David A. Koch	Director	December 17, 2002
David A. Koch		
/s/ Kendrick B. Melrose	Director	December 18, 2002
Kendrick B. Melrose		
/s/ John A. Meslow	Director	December 17, 2002
John A. Meslow		

CERTIFICATION

I, Dale R. Olseth, Chief Executive Officer of SurModics, Inc., certify that:

1. I have reviewed this annual report on Form 10-K of SurModics, Inc.

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report.

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function);

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: December 20, 2002

Signature: /s/ Dale R. Olseth

Dale R. Olseth
Chief Executive Officer

CERTIFICATION

I, Stephen C. Hathaway, Chief Financial Officer of SurModics, Inc., certify that:

1. I have reviewed this annual report on Form 10-K of SurModics, Inc.

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report.

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function);

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: December 30, 2002

Signature: /s/ Stephen C. Hathaway

Stephen C. Hathaway
Chief Financial Officer

Table of Contents

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

EXHIBIT INDEX TO FORM 10-K

For the Fiscal Year Ended September 30, 2002

SURMODICS, INC.

Exhibit	Description
3.1	Restated Articles of Incorporation, as amended—incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-QSB for the quarter ended December 31, 1999, SEC. File No. 0-23837
3.2	Bylaws, as amended to date—incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-QSB for the quarter ended December 31, 1998, SEC. File No. 0-23837.
10.1*	Company's Incentive 1987 Stock Option Plan, including specimen of Incentive Stock Option Agreement—incorporated by reference to Exhibit 10.2 to the Company's Registration Statement on form SB-2, Reg. No. 333-43217
10.2*	Company's Incentive 1997 Stock Option Plan, including specimen of Incentive Stock Option Agreement—incorporated by reference to Exhibit 10.3 to the Company's Registration Statement on form SB-2, Reg. No. 333-43217
10.3*	Form of Restricted Stock Agreement—incorporated by reference to Exhibit 10.4 to the Company's Registration Statement on form SB-2, Reg. No. 333-43217
10.4*	Form of Non-qualified Stock Option Agreement—incorporated by reference to Exhibit 10.5 to the Company's Registration Statement on form SB-2, Reg. No. 333-43217
10.5	Form of License Agreement—incorporated by reference to Exhibit 10.6 to the Company's Registration Statement on form SB-2, Reg. No. 333-43217
10.6	License Agreement with Abbott Laboratories dated November 20, 1990, as amended—incorporated by reference to Exhibit 10.7 to the Company's Registration Statement on form SB-2, Reg. No. 333-43217
10.7	Purchase and Sale Agreement dated March 31, 1999 between the Company and Prairie View Jack Ltd.—incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-QSB for the quarter ended March 31, 1999, SEC. File No. 0-23837.
10.8*	SurModics, Inc. Executive Income Continuation Plan—incorporated by reference to Exhibit 10 to the Company's Quarterly Report on Form 10-QSB for the quarter ended June 30, 1999, SEC. File No. 0-23837.

Exhibit	Description
10.9	Purchase Agreement dated August 15, 2001, between Seagate Technology, LLC and DRB#10, LLC (a wholly-owned subsidiary entity of the Company)—incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2001, SEC File No. 0-23837.
10.10	Series C. Purchase Agreement between Novocell, Inc. and the Company dated December 10, 2001—incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2001, SEC File No. 0-23837.
10.11	Adjusted License Agreement by and between the Company and Cordis Corporation effective as of January 1, 2003.**
10.12	Reagent Supply Agreement by and between the Company and Cordis Corporation effective as of January 1, 2003.**
13	Portions of Annual Report to Shareholders for the fiscal year ended September 30, 2002 incorporated by reference in this Form 10-K.
23	Consent of Deloitte & Touche LLP
24	Power of Attorney (included on signature page of this Form 10-K).
99.1	Certification of Chief Executive Officer Pursuant to Section 906 of Sarbanes-Oxley Act of 2002
99.2	Certification of Chief Financial Officer Pursuant to Section 906 of Sarbanes-Oxley Act of 2002

* Management contract or compensatory plan or arrangement.

** Portions of this document, which have been separately filed with the Securities and Exchange Commission, have been omitted pursuant to a request for confidential treatment.

ADJUSTED LICENSE AGREEMENT

THIS AGREEMENT, dated January 1, 2003, 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 Cordis Corporation, which has offices located at 14201 NW 60th Street, Miami Lakes, Florida 33126 (hereinafter referred to as CORDIS).

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 Cordis.

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, SurModics and Cordis desire to cancel the Stent License Agreement dated October 24, 1996, as amended;

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 January 1, 2003;

b. [Intentionally Omitted]

c. "Patent Rights" means the patent application(s) and patent(s) having a worldwide priority date earlier than the Effective Date and identified in Attachment A hereof, together with all foreign counterparts, divisions, continuations and continuations in part applications based thereon, any patent issuing on any of said applications, and any reissues or extensions based on any of such patents.

d. [Intentionally Omitted]

e. [Intentionally Omitted]

f. "Licensed Products" means those items specifically described in Attachment B (the "Exclusive Products") and Attachment C (the "Non-Exclusive Products") 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 Valid Claim of Patent Rights, or

ii. are produced through the use of SurModics Licensed Technology.

g. "SurModics Licensed Technology" means those items described on Attachment D, including, to the extent those items in paragraph 2 of Attachment D were not known to the public at the time of their disclosure by SurModics to Cordis.

h. [Intentionally Omitted]

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 Cordis;

iii. amounts allowed or credited on rejections or returns;

iv. transportation charges prepared or allowed

v. Licensed Product distributed for use in clinical trials, prior to receiving regulatory approval for commercial sale for a particular indication in a particular country.

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. It is understood that if any Licensed Product is sold only as an integral part of a combination product, then Net Sales of that Licensed Product will include the entire sales 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, Cordis 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 is then resold to a non-Affiliate, rather than on the selling price of Cordis to the Affiliate; Cordis shall promptly report sales to Affiliates and be responsible for accurately reporting the ultimate sales to a non-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 Cordis.

k. "Valid Claim" means a claim of an issued patent of Patent Rights that has not been held invalid by a court of competent jurisdiction, or other appropriate governmental body of competent jurisdiction, beyond possibility of appeal.

2. LICENSE

a. SurModics grants to Cordis a world-wide license under the SurModics' Patent Rights and the SurModics Licensed Technology, to make, have made for it, use, sell, or import into the United States, the Licensed Products. The license granted herein is **.

b. **.

c. Subject to the limited license granted herein, SurModics shall retain all other rights to the Patent Rights and the SurModics Licensed Technology.

3. [Intentionally Omitted]

4. ROYALTIES

Cordis will pay to SurModics royalties as follows:

a. Earned Royalties as provided for in Attachment E.

b. Minimum Royalties as provided for in Attachment F.

5. ROYALTY PAYMENTS, REPORTS, RECORDS

a. Cordis will make written reports and payments to SurModics within sixty (60) 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 worldwide Net Sales, unit volumes, Earned Royalty, Minimum Royalty, corrections of error in prior royalty payments, and data and calculations used by Cordis to determine such payments. Each report shall be accompanied by payment in full of the royalty due SurModics for that quarter.

b. Cordis will maintain, in accordance with its conventional accounting practices, 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 Cordis' 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 Cordis under Paragraph 5(a). Such audit shall be at SurModics expense except that if cumulative underpayment errors for any period are found that exceed **% of the payment made to SurModics during that period being audit, then Cordis will bear the cost of such audit.

c. All royalties on sales of each Licensed Product to be paid to SurModics by Cordis 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, Cordis 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 Cordis from payment for the account of SurModics shall be promptly paid by Cordis for and on behalf of SurModics to the appropriate tax authorities, and Cordis 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. Any such tax required to be withheld shall be an expense of and borne by SurModics.

6. [Intentionally Omitted]

7. TERM

a. The license granted herein under the Patent Rights shall begin on the Effective Date and shall extend until expiration of the last to expire patent of Patent Rights, unless earlier terminated pursuant to the provisions of this Agreement. The license granted herein under SurModics Licensed Technology shall begin on the Effective Date and shall extend for ** thereafter subject to the provisions of Paragraph 7(b).

b. If the license with respect to SurModics Licensed Technology continues for the ** stated above, and upon full payment by Cordis to SurModics of any monies due under this Agreement, the license herein granted with respect to SurModics Licensed Technology shall be deemed **.

8. PATENTS

a. To the best of its ability, Cordis shall see to it that all Licensed Products sold by Cordis shall be appropriately marked with the applicable patent numbers, in conformity with applicable law.

b. [Intentionally Omitted]

c. [Intentionally Omitted]

d. [Intentionally Omitted]

9. [Intentionally Omitted]

10. TERMINATION

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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 right to receive and Cordis' obligation to pay royalties to the extent owed; and

ii. Cordis' obligation to maintain records and SurModics right to audit under Paragraph 5, with respect to sales; 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. Cordis' and SurModics' obligation to maintain confidentiality under Paragraph 13; and

v. If this Agreement, or License granted in this Agreement, has been terminated, Cordis' obligation to forebear from use of SurModics Licensed Technology.

vi. [Intentionally Omitted]

b. [Intentionally Omitted]

12. REPRESENTATIONS AND WARRANTIES

a. [Intentionally Omitted]

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 (except as provided in Paragraph 12A); or

v. An obligation to furnish any manufacturing or technical information not encompassed within SurModics Licensed Technology; 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 SurModics Licensed Technology.

d. [Intentionally Omitted]

e. Except as provided in a certain agreement regarding sale of Reagent, 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 Cordis, its Affiliates or its vendees or transferees of Licensed Products incorporating or made by use of the Patent Rights and SurModics Licensed Technology.

f. [Intentionally Omitted]

12A. INFRINGEMENT LITIGATION

To the extent that any Patent Rights licensed hereunder may be infringed by the manufacture, use, sale or importation of any Licensed Product by any third party, SurModics shall have the right, but not the obligation, if such Licensed Product is a Non-Exclusive Product, to prosecute at its own expense, or at the expense of Cordis if Cordis so requests, any action SurModics deems necessary. If SurModics fails to commence prosecution of such action within ninety (90) days following written request by Cordis or if the Licensed Product is an Exclusive Product, then Cordis may, in its own name and at its own expense, prosecute such action. If Cordis prosecutes any such action, it will not without the advance written consent of SurModics admit to the invalidity or unenforceability of any patent or claims within the Patent Rights or grant a license to a third party to any such patents or claims. SurModics shall cooperate and, if necessary, become a named party to the action. Should Cordis prosecute such action, Cordis shall indemnify, defend, and hold harmless SurModics from any claims or counterclaims related to the patent or patents in suit, lawsuit expenses (including attorneys fees), costs and judgments arising out of such litigation, but excluding adverse judgments regarding the validity, enforceability or claim interpretation of the patent or patents in suit. If SurModics elects to prosecute any such action, and it does so at its own expense, then it shall have the right to control the litigation. If Cordis elects to prosecute any such action, and it does so at its own expense, then it shall have the right to control the litigation. If SurModics prosecutes such action at Cordis' expense, the proceeds of the litigation, if any, shall first be used to reimburse Cordis for its expense of the litigation and the remainder, if any, shall be divided equally between SurModics and Cordis. In any such action, the prosecuting party shall promptly notify the non-prosecuting party of its decision to prosecute.

13. CONFIDENTIALITY

a. Cordis agrees to maintain in confidence SurModics Licensed Technology for a period of ** from the Effective Date. Cordis agrees not to disclose any of SurModics Licensed Technology nor to use the same except in accordance with this Agreement, except to a governmental agency as required by law (and only to the extent required by law and with appropriate safeguards to its confidentiality), and in the event such requirement for disclosure is to a non-United States governmental entity then Cordis shall review such disclosure with SurModics prior to submission to such entity.

b. [Intentionally Omitted]

c. [Intentionally Omitted]

d. [Intentionally Omitted]

e. [Intentionally Omitted]

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, such as in the event the SurModics transfers its ** coatings business or if Cordis transfers its ** business. 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

Cordis shall have the sole responsibility, at Cordis' sole expense, for obtaining any government approvals that may be required for the investigation or marketing of Licensed Products.

16. PRODUCT LIABILITY

Cordis will defend and indemnify SurModics under this Agreement 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 provisions 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 Cordis:

Vice President, New Business Development
Cordis Corporation
7 Powder Horn Drive
Warren, NJ 07040

copy to:
Chief Patent Counsel
Johnson & Johnson
One Johnson & Johnson Plaza
New Brunswick, NJ 08933

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 Cordis 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 Cordis shall each refrain from any such representations. The relationship between SurModics and Cordis is that of independent contractors.

22. SEVERABILITY

Should any provisions 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 the purposes under this Agreement, the parties agree and admit that jurisdiction and venue are proper in a federal district court in Chicago, Illinois. This Agreement shall for all purposes be governed and interpreted in accordance with the laws of the State of Illinois, 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 Licensed Technology.

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 or those having equivalent/corresponding rank 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. Said arbitration shall take place in Newark, New Jersey, if requested by SurModics and in Minneapolis, Minnesota, if requested by Cordis, and shall take place under the auspices of the American Arbitration Association under its 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. Judgment

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. Both parties waive any right to any punitive damages.

25. ENTIRE AGREEMENT

This Agreement, together with other written agreements executed contemporaneously herewith, 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.

26. PUBLICITY

Neither Cordis or SurModics will originate any news release, promotional material or press statements concerning the existence of this Agreement or the terms herein without the prior written consent of the other party (excepting as required by law and in that case with adequate prior notice to the other party seeking consent and comments).

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

SURMODICS, INC.	CORDIS CORPORATION
By _____	By _____
Its _____	Its _____

Schedule of Attachments

** CONFIDENTIAL TREATMENT REQUESTED

ATTACHMENT A

PATENT RIGHTS

1. United States Patent No. 6,214,901 B1 to Chudzik et al, issued April 10, 2001, titled BIOACTIVE AGENT RELEASE COATING

2. United States Patent No. 6,344,035 B1 to Chudzik et al, issued February 5, 2002, titled BIOACTIVE AGENT RELEASE COATING

3. United States Patent Application Ser. No. **

4. United States Patent Application Ser. No. **

5. United States Patent Application Ser. No. **

6. United States Patent Application Ser. No. **

7. United States Patent Application Ser. No. **

8. United States Patent Application Ser. No. **

** CONFIDENTIAL TREATMENT REQUESTED

ATTACHMENT B

EXCLUSIVE PRODUCTS

1. **.

** CONFIDENTIAL TREATMENT REQUESTED

ATTACHMENT C

NON-EXCLUSIVE PRODUCTS

1. **.

** CONFIDENTIAL TREATMENT REQUESTED

ATTACHMENT D

SURMODICS LICENSED TECHNOLOGY

1. All Patent Rights of Attachment A.

2. All of the following:

RELATED TO **

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** CONFIDENTIAL TREATMENT REQUESTED

ATTACHMENT E

EARNED ROYALTY

1. ** percent (**%) of Net Sales for each unit of Licensed Products sold.

2. In addition to the amount computed pursuant to Paragraph 1, Cordis will pay the following amounts:

a. **.

b. **.

c. **.

** CONFIDENTIAL TREATMENT REQUESTED

ATTACHMENT F

MINIMUM ROYALTIES

For each calendar quarter beginning on the Adjusted License Agreement Effective Date, Minimum Royalties will **.

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** CONFIDENTIAL TREATMENT REQUESTED

EXHIBIT 10.12

REAGENT SUPPLY AGREEMENT

THIS AGREEMENT (the "Reagent Supply Agreement") is made as of the 1st day of January, 2003 Agreement Effective Date") by and between SurModics, Inc., a corporation under the laws of the State of Minnesota ("Supplier") and Cordis Corporation, a corporation under the laws of the State of Florida ("Customer").

RECITALS:

A. Supplier and Customer are parties to a certain Adjusted License Agreement ("Adjusted License Agreement"), dated January 1, 2003.

B. Supplier has previous sold to Customer commercial quantities of a product described on Attachment A hereto ("Reagent") which has been tested and determined by Customer to meet the standards described on Attachment B hereto ("Reagent Specifications"), Reagent meeting the Reagent Specifications hereinafter referred to as the "Conforming Reagent."

C. Customer desires Supplier to sell to it Conforming Reagent and Supplier is willing to do so upon the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth below and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged by each of the parties hereto, the parties hereto agree as follows:

1. Reagent to be Purchased. Customer agrees to purchase and pay for whatever amount of Conforming Reagent (and only Conforming Reagent) is delivered by Supplier up to the greater of the amount Customer orders and the "Aggregate Amount" as computed from time-to-time. The Aggregate Amount shall equal the sum of: (i) the amount described on Attachment C for each month (the "Monthly Target Production"); plus (ii) a reserve amount (the "Reserve Amount") which shall (at any time) equal **. Customer may prospectively amend the Monthly Target Production effective as of the first day of the fourth month following the giving of written notice of such change by Customer, which notice is duly executed by an authorized officer of Customer; provided, however, that Customer may not by such amendments increase the Monthly Target Production by more than **. Customer may request to purchase more than the Aggregate Amount as exists from time-to-time, and Supplier will make a reasonable business effort to comply with such request.

2. Price; Payment. The purchase price of Conforming Reagent shall be as determined on Attachment C-2 hereof. The purchase price shall be paid in full within forty-five (45) days after delivery **. Delivery shall be made when Reagent is shipped F.O.B. Supplier's ** Minnesota facility addressed as Customer shall direct from time-to-time and shipped at Customer's expense via whatever common carrier Customer may

direct from time-to-time. Title and risk of loss shall pass to Customer upon delivery to such common carrier.

3. Conforming Reagent. The parties acknowledge that Customer will be utilizing the Reagent in a medical product, and that Customer will be responsible to the purchasers and users of such medical products for the safety and efficacy of the Reagent in such medical products. While it is the intent that Supplier will provide Reagent which meets the Reagent Specifications (and Supplier represents it will exercise reasonable commercial efforts to do so), it is acknowledged that Supplier does not so warrant and that Customer will itself inspect all Reagent delivered to it and make an independent and thorough determination as to whether the Reagent meets the Reagent Specifications. Customer agrees that it will reject any Reagent which does not meet the Reagent Specifications. The parties agree to the following protocol as respects Customer's acceptance of Reagent delivered to it:

a. Customer agrees to exercise ** to determine whether Reagent is Conforming Reagent within thirty 30 days of delivery. If Customer has not given written notice that a particular shipment of Reagent is not Conforming Reagent within 45 days of delivery thereof, such Reagent shall be deemed to be Conforming Reagent for all purposes of this Reagent Supply Agreement.

b. If Customer determines a quantity of Reagent is not Conforming Reagent, it shall immediately notify Supplier in writing of its determination and the particularities of non-conformance with the Reagent Specifications, and promptly, at Supplier's request, return the subject Reagent, which return shall be made F.O.B. the site to which Supplier shipped such Reagent, and which return shall be shipped via the same common carrier by which the subject Reagent was shipped to Customer.

c. Customer and Supplier acknowledge that the production of Conforming Reagent is important to their respective businesses. Therefore, within thirty (30) calendar days after the issuance of a notice that Reagent does not conform to the Reagent Specifications, Customer agrees to have present at Supplier's production site (or at another location mutually agreed upon by the parties) at least two agents of Customer, skilled in the subject matter, to consult with Supplier's personnel with a view to promptly resolving the non-conformance. Given the importance to each party of producing Conforming Reagent, each party agrees to provide at its expense two full-time equivalent personnel at Supplier's site, dedicated solely to the remedy of any alleged non-conformance until both parties agree that such dedicated personnel are no longer required.

d. If Supplier disagrees with Customer's determination of non-conformance with respect to any Reagent, and if the personnel described in the preceding subparagraph cannot resolve the matter within sixty (60) days of the issuance of the notice referenced in the preceding subparagraph (c), the parties agree to immediately submit the matter to mandatory, binding arbitration according to the

rules set forth in the Adjusted License Agreement between the parties, executed concurrently herewith.

e. [intentionally omitted]

4. Customer's Right to Produce Reagent. The parties acknowledge that Customer's obligations in the marketplace require that Customer assure to its own satisfaction a supply of Conforming Reagent (or an acceptable alternative) for the purpose of application thereof to Licensed Products (as defined in the Adjusted License Agreement). The parties acknowledge that production of Reagent by Supplier involves proprietary information of Supplier, which Supplier is not required to provide to Customer hereunder or under the Adjusted License Agreement **.

a. **.

b. **.

c. **.

5. Disclaimer of Warranties; Indemnification. SUPPLIER HEREBY DISCLAIMS ANY AND ALL WARRANTIES, EXPRESS OR IMPLIED, REGARDING THE REAGENT (OR OTHER PRODUCTS OR SERVICES SOLD HEREUNDER), MERCHANTABILITY, NON-INFRINGEMENT, AND FITNESS FOR A PARTICULAR PURPOSE, INCLUDING WITHOUT LIMITATION WARRANTIES ARISING FROM COURSE OF DEALING AND USAGE OF TRADE. SUPPLIER 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, RESULTING FROM ANY CAUSE WHATSOEVER (INCLUDING, WITHOUT LIMITATION, PRODUCT RECALL) WHETHER SUCH ASSERTED DAMAGE PURPORTS TO BE BASED ON WARRANTY OR GUARANTY, INDEMNITY OR OTHER CONTRACT, CONTRIBUTION, NEGLIGENCE, OTHER TORT OR OTHERWISE.

a. Subject to the provisions of Paragraph 3 above, Customer acknowledges that it is purchasing the Reagent from Supplier strictly on an "AS IS" basis without any warranties or representations (expressed or implied) of any sort, type or kind whatsoever.

b. Customer agrees to indemnify, defend and hold harmless Supplier (and its officers, directors, employees and agents) from and against any and all losses, costs, expenses (including all attorneys' fees), damages, liabilities, claims, suits, cause of action and judgments in any manner incurred, sustained or asserted against Supplier arising out of or in any way directly or indirectly related to the Reagent or its use. The indemnity set forth in the preceding sentence shall not apply with respect to any particular Reagent which at the time of shipment

Supplier had current conscious awareness that Reagent was not Conforming Reagent and with respect to which Supplier did not so notify Customer in writing.

5A. Storage of Critical Documentation. Supplier shall arrange for storage at a location at least ten (10) miles distant from its own manufacturing facilities, and approved by Customer, copies of all documentation, design documentation, and manufacturing documentation necessary to permit Supplier to manufacture Reagent at a separate facility in the event that its existing facilities and/or documentation are destroyed or rendered inoperable for any reason and shall update such documentation at least annually. Such documentation shall be generated and maintained in a medium and process acceptable to Customer.

6. Miscellaneous.

a. This Reagent Supply Agreement is made in and shall be interpreted and enforced in accordance with the laws of the State of Illinois.

b. This Reagent Supply Agreement may be executed in several counterparts and shall be effective when there are attached together execution pages containing the signatures of each of the parties hereto, each of which counterparts shall be deemed to be an original, but all of which shall constitute one and the same instrument.

c. This Reagent Supply Agreement and the documents executed contemporaneously herewith contain the full agreement of the parties respecting the subject matter and may not be modified, altered or changed in any way except by written agreement executed by both parties. There shall be no merger relating to this Reagent Supply Agreement, and it shall remain fully enforceable in accordance with its terms, not withstanding the occurrence of any other events.

cc. This Reagent Supply Agreement may not be terminated except by joint written agreement of the parties.

d. This Reagent Supply Agreement shall be binding upon and inure to the benefit of the respective successors, assigns and legal representatives of the parties hereto.

e. If any amount owing Supplier herein is not paid when due, each unpaid amount shall bear interest after its due date (which in the case of Reagent is forty-five (45) days after delivery) at the rate of three percent (3%) above the so-called Reference Rate then applicable as quoted by U.S. Bank, National Association (or if lower, the maximum allowable pursuant to applicable usury laws) and, in any action to collect amounts owing, Supplier shall be entitled to recover all of its costs and expenses incurred, including attorneys' fees. Customer agrees to pay any amounts owing hereunder without asserting any defense, counterclaim, off-set or credit (excepting only the amounts of a claim which has been reduced to final judgment).

f. If any one or more of the provisions or portions of this Reagent Supply Agreement is determined to be illegal or unenforceable, the remainder of this Reagent Supply Agreement shall not be affected thereby and shall remain and continue to be valid and effective.

g. [Intentionally omitted.]

h. Notices or communications by either party to the other shall be deemed given when either personally served or three days after deposited in the United States Mail, first class and certified mail, postage pre-paid, to each party at the following addresses:

If to Supplier:

SurModics, Inc.
9924 West 74th Street
Eden Prairie, MN 55344
Attention: President

If to Customer:

Cordis Corporation
14201 NW 60th Avenue
Miami Lakes, FL 33014
Attention: President

With a Copy to:

Johnson & Johnson
Office of General Counsel
1 Johnson & Johnson Plaza
New Brunswick, NJ 08933

And With a Copy to:

Vice President, Operations
Cordis Corporation
14201 NW 60th Avenue
Miami Lakes, FL 33014

Either party may change the address to which such notices or communications will prospectively be sent, by notice given in the fashion determined above.

i. The relationship between the parties is that of independent contractors, and neither party is authorized to act as an agent for the other party as to any matter.

j. No waiver of either party's obligation to perform its duties under this Reagent Supply Agreement shall be valid unless in writing and signed by the waiving party.

k. This Reagent Supply Agreement shall be interpreted without regard to any presumption or rule requiring construction against the party drafting this Reagent Supply Agreement.

l. The rights and remedies set forth herein are cumulative and shall be in addition to any and all other rights, powers and remedies available under law or in equity. The exercise of any right to remedy hereunder or under applicable law shall not in any way constitute a cure or prejudice either party and the exercise of any other rights available hereunder or under applicable law.

m. Attached hereto as Attachment E are Approved Supplier Requirements which Customer desires Supplier to implement. Supplier acknowledges that if Supplier does not implement the Approved Supplier Requirements to a degree satisfactory to Customer, that Customer may choose to purchase less Reagent from Supplier than Customer might otherwise purchase.

n. Neither Cordis or SurModics will originate any news release, promotional material or press statements concerning the existence of this Agreement or the terms herein without the prior written consent of the other party (excepting as required by law and in that case with adequate prior notice to the other party seeking consent and comments).

IN WITNESS WHEREOF, the parties hereto have caused this Reagent Supply Agreement to be executed as of the date heretofore written.

SURMODICS, INC.	CORDIS CORPORATION
By ----------	By ----------
Its ----------	Its ----------

SCHEDULE OF ATTACHMENTS

A. Description of Reagent
B. Reagent Specifications
C. Monthly Target Production
C-2. Reagent Pricing
D. **
E. Approved Supplier Requirements

ATTACHMENT A

DESCRIPTION OF REAGENT

Reagent shall mean the materials of the same type and nature provided by Supplier to Customer during the months of October and November, 2002, being the compounds referred to as CPO1 and CPO2, and sometimes together known as PEVA/PBMA.

** CONFIDENTIAL TREATMENT REQUESTED

ATTACHMENT B

REAGENT SPECIFICATIONS

Reagent Specifications shall mean the specifications pursuant to which Customer accepted Reagent provided by Supplier during the months of October and November, 2002, except as the parties may otherwise hereinafter agree by written document executed by authorized personnel of each of Supplier and Customer. Such Specifications in effect for the Reagent Supply during October and November, 2002 are described as follows:

1. **.

2. **.

ATTACHMENT C

**

TARGET PRODUCTION
IN KILOGRAMS

** TARGET PRODUCTION (IN KILOGRAMS)

**.

** CONFIDENTIAL TREATMENT REQUESTED

ATTACHMENT C-2
REAGENT PRICING

The purchase price of Conforming Reagent shall be as follows in respect of amounts of Conforming Reagent delivered during each such calendar years **:

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** CONFIDENTIAL TREATMENT REQUESTED

ATTACHMENT D

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** CONFIDENTIAL TREATMENT REQUESTED

ATTACHMENT E

APPROVED SUPPLIER REQUIREMENTS

The following requirements must be achieved and maintained as part of the Supplier Quality approval process for SurModics to become and remain an Approved Supplier for Reagents

QUALITY SYSTEM REQUIREMENTS

Assessment: Cordis will perform a Quality System Audit of SurModics' quality systems to determine that the requirements of this Exhibit have been satisfied. Once the Cordis auditor has performed the audit with satisfactory results, he shall notify SurModics in writing that the supplier approval process is complete. Minor deficiencies or non-conformances identified during these audits that are not indicative of a lack of control will not preclude SurModics from supplier approval. However, such observations will be brought to the attention of SurModics and Cordis and SurModics will identify actions that shall be taken to correct these items and agree upon a time schedule in which these actions shall be implemented.

1. SurModics shall attain a general state of compliance with the FDA and international medical device and if applicable, pharmaceutical requirements.

2. SurModics shall have, or shall develop, quality systems which comply with current GMP QSR (CFR 820), ISO9000 and EN46001, as determined by Cordis and or FDA or EC Notified Body assessment. However, the development of appropriate quality systems shall occur in a timely fashion so as to permit commercialization of Reagents as soon as other factors permit.

3. Written requirements, including but not limited to specifications, drawings, test methods and procedures, shall be utilized by SurModics for all Reagents manufactured for Cordis. All requirements shall be mutually agreed upon by SurModics and Cordis.

4. SurModics shall not make any changes to components, processes, systems (e.g. quality, measurement, testing) or suppliers used to produce, test and or release Reagents manufactured for Cordis without prior written approval from Cordis Quality Assurance management.

5. SurModics shall establish and implement a system that ensures Device History Records (DHR) for each batch, lot, or unit are created to demonstrate that the Reagent is manufactured in accordance with the written processes, methods and procedures of SurModics' quality system, including material/reagent specifications.

   a. DHR's shall contain adequate information to provide traceability of all components and manufacturing aids (if any) used in the manufacture of a finished Reagent.

b. DHR's shall contain adequate information to identify the processing methods and personnel involved in the manufacture of a finished Reagent.

c. DHR's shall contain adequate information to demonstrate that the manufactured Reagent was evaluated (tested and/or inspected) and found to meet the Reagent Specification.

6. SurModics shall establish written specifications for purchased materials and components and shall implement a system to ensure that the materials and components supplied meet these specifications.

7. SurModics shall obtain written agreements with suitable suppliers for all components, materials and services used in the manufacture of Reagents and that no changes in the goods or services supplied shall be made without adequate notification to SurModics.

8. SurModics shall have a system for assisting Cordis with handling customer complaints. In the event SurModics receives a complaint in the form of a written Claim or a corrective action request:

a. All complaints involving Reagents supplied to Cordis will be initially reported to Cordis customer service. SurModics will be promptly informed if the complaint involves a product supplied by SurModics, and within seven (7) calendar days, provide a written preliminary investigation report to Cordis Quality Assurance. This preliminary report will include an initial assessment of device reporting under MDR or Vigilance reporting requirements.

b. SurModics shall cooperate fully and promptly in the investigation of complaints involving supplied Reagents. All complaints should be investigated and a written response provided to Cordis Quality Assurance within thirty (30) days of receipt. All correspondence with the complainant will be handled by Cordis, unless other arrangements are made by SurModics with Cordis on a case-by-case basis.

c. Cordis will be responsible for filing any device report under MDR or Vigilance reporting requirements.

9. If either party reasonably believes a problem exists that affects the safety, efficacy or reliability of the Reagents, the problem and all known facts shall be brought to the attention of both company's Quality Assurance management as soon as possible, but within 48 hours of the identification of the problem. In the event that a field action is contemplated, Cordis and SurModics shall work together to determine whether a field action should take place; however, the final decision to implement a field action shall be made by the Cordis Quality Management. Cordis shall be responsible for implementing

any field action, including informing customers and defining the logistics of the field action. SurModics shall cooperate fully in the implementation of any field action.

10. SurModics shall establish a document retention procedure to ensure that all documents required to meet the quality requirements herein set forth. Such documents shall be retained for a minimum of five (5) years from the date of Reagent Manufacture.

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

GENERAL

SurModics is a leading provider of surface modification solutions to medical device manufacturers. The Company's revenue is derived from four primary sources: (1) fees from licensing its patented coating technology to customers; (2) royalties received from licensees; (3) the sale of reagent chemicals to licensees, stabilization products to the diagnostics industry and coated glass slides to the genomics market; and (4) research and development fees generated on projects for commercial customers and government grants.

Fiscal 2002 was another record year for SurModics. Total revenue increased 30% to $29.5 million from $22.7 million in fiscal 2001. Coatings revenue increased 49% to a record $23.6 million from $15.9 million in 2001. Reagent sales and commercial development revenue were particularly strong with triple-digit growth, overshadowing the growth in royalties.

Commercial development revenue grew to $7.4 million from $3.6 million in 2001, a 104% increase. Reagent sales jumped 131% to $6.1 million and coatings royalties increased 20% to $9.4 million. Operating income rose 42% to $10.7 million from $7.6 million in fiscal 2001. Net income was $7.8 million, or $.44 per diluted share, compared to $5.1 million, or $.29 per diluted share, in fiscal 2001. Fiscal 2001 results included a charge of $1.7 million, or $.09 per diluted share, for the cumulative effect of a change in accounting principle related to the adoption of the SEC's Staff Accounting Bulletin No. 101.

CRITICAL ACCOUNTING POLICIES

SurModics' financial statements are based on the application of significant accounting policies, many of which require management to make estimates and assumptions (see Note 2 to the consolidated financial statements). Management believes the following are the critical areas in the application of our accounting policies that currently affect our financial condition and results of operations.

REVENUE RECOGNITION. Revenue on product sales is recognized as products are shipped. Revenue for research and development is recorded as performance progresses under the applicable contract. Royalties are recognized as third-party licensees report sales of the licensed product to SurModics or as minimum royalties become due. The Company recognizes initial license fees over the term of the related agreement. Effective October 1, 2000, the Company adopted Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements." As a result of adopting SAB 101, the Company recorded a cumulative effect of a change in accounting principle related to license fees recognized in prior years in the amount of $1,705,000, net of tax of $1,000,000, or $.09 per diluted share. The Company now recognizes initial license fees over the term of the related agreement. Finally, revenue related to performance milestones is recognized based on the achievement of the milestones, as defined in the respective agreements.

VALUATION OF LONG-LIVED ASSETS. The Company periodically evaluates whether events and circumstances have occurred which may affect the estimated useful life or the recoverability of the remaining balance of its long-lived assets, such as the Company's investment in Novocell, Inc. If such events or circumstances were to indicate that the carrying amount of these assets would not be recoverable, the Company would estimate the future cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected future cash flows (undiscounted and without interest charges) were less than the carrying amount of the assets, the Company would recognize an impairment loss.

INVESTMENTS. Investments consist principally of U.S. government and government agency obligations and mortgage-backed securities and are classified as available-for-sale. Available-for-sale investments 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.

RESULTS OF OPERATIONS

YEARS ENDED SEPTEMBER 30, 2002 AND 2001

Revenue. The Company's revenue was $29.5 million in fiscal 2002, an increase of 30% over fiscal 2001. The revenue components were as follows:

(Dollars in thousands)	Fiscal 2002	Fiscal 2001	Increase (Decrease)	% Increase (Decrease)
Coatings revenue:				
Royalties	$9,360	$7,781	$1,579	20%
License fees	684	1,794	(1,110)	(62%)
Reagent sales	6,084	2,638	3,446	131%
Commercial development	7,448	3,648	3,800	104%
Total coatings revenue	23,576	15,861	7,715	49%
Diagnostic royalties	2,449	3,253	(804)	(25%)
Stabilization & slide sales	2,920	3,047	(127)	(4%)
Government research	543	532	11	2%
Total revenue	$29,488	$22,693	$6,795	30%

The revenue growth in fiscal 2002 was primarily because of strong increases in reagent sales and commercial development revenue. Sales of reagent chemicals (chemicals that SurModics manufactures and sells to licensees for coating their medical devices) increased 131% over last year due mostly to increased demand by Cordis Corporation, a Johnson & Johnson company. During the past year, Cordis began manufacturing stents utilizing a SurModics coating for sale in Europe and in anticipation of U.S. FDA approval. As a result, Cordis purchased 65% of the reagents sold during fiscal 2002, up from 16% in fiscal 2001. Management expects somewhat flat reagent revenue growth next year. Cordis' demand should continue to grow, but internal manufacturing efficiencies have been passed on to Cordis in the form of lower reagent prices. Cordis also largely influenced the 104% growth in commercial development revenue. Cordis represented 84% of the Company's commercial development revenue, up from 66% in fiscal 2001, as SurModics coated stents in support of Cordis' various clinical trials and performed other development projects. We expect commercial development revenue to decline next year as Cordis transitions from multiple clinical trials, where SurModics provides coating support, to manufacturing their own product for commercial sale. Cordis Corporation represented 38% of the Company's total revenue in fiscal 2002, up from 16% in fiscal 2001. Although outpaced by the exceptional growth described above, royalty revenue from coatings was also strong, ending the year 20% above fiscal 2001. The Company expects this growth trend to continue next year as more licensees enter the marketplace with SurModics-coated products. The top 10 product applications accounted for 83% of the royalties received in fiscal 2002.

Revenue from license fees declined 62% to $684,000 in fiscal 2002 from nearly $1.8 million last year. Included in last year's results was a $1.0 million milestone payment from Motorola Life Sciences. No similar milestone payment was received in 2002. Excluding this payment, license fee revenue would have ended fiscal 2002 down 14%.

In total, non-coatings revenue decreased 13% in fiscal 2002. One component, diagnostic royalties, decreased 25% from fiscal 2001. Revenue in the prior year included proceeds from patent infringement settlements that offset an overall trend of decreasing revenue. The sole licensee of these diagnostic patents has been subject to regulatory issues that have prevented them from manufacturing certain royalty-generating products resulting in decreased revenue. As such, the Company expects sales to remain at current levels until the licensee resumes manufacturing. Sales of stabilization and coated glass slides decreased 4% between years. SurModics licensed its genomics technology on an exclusive basis to Motorola Life Sciences in fiscal 2000. During fiscal 2002, Motorola sold its CodeLink business to Amersham plc. Slide sales decreased 25% in fiscal 2002, but management expects fiscal 2003 slide sales to recover as the transition to Amersham is completed. Finally, revenue from government grants increased 2%. The Company continues to de-emphasize its reliance on the government to fund its research projects.

In fiscal 2003, management expects overall revenue growth to exceed 25%. A significant event impacting this rate of growth will be the timing of Cordis' launch of its drug-eluting stent in the U.S. If U.S. regulatory approval allows stent sales to begin on April 1, 2003, SurModics will receive royalties in only its fourth quarter of fiscal 2003. If approval is received sooner, royalties will also be generated in the third quarter. Royalties will also be positively impacted by the 9 or 10 new coated products that clients are expected to launch in fiscal 2003. Several of these products have the potential to generate significant annual royalties.

Revenue will fluctuate from quarter to quarter depending on, among other factors: success of clients in selling coated medical devices; the timing of introductions of coated products by clients; the number and size of development projects that are entered into; the number of new license agreements that are finalized; and the impact of most medical devices generating lower sales during the summer months, which results in relatively lower royalty revenue to SurModics in the first quarter of each fiscal year.

PRODUCT COSTS. The Company's product costs were $2.7 million for fiscal 2002, an increase of $243,000, or 10%, over fiscal 2001. Overall product margins averaged 70%, a significant increase from the 57% margins in fiscal 2001. The 131% increase in relatively higher margin reagent sales boosted overall product margins despite a slight decrease in margins from stabilization and slide products. In fiscal 2003, management expects overall product margins to be in the mid-60 percent range because of the decrease in reagent pricing discussed above.

RESEARCH AND DEVELOPMENT EXPENSE. Research and development expense was $9.7 million for fiscal 2002, an increase of $1.7 million, or 21%, over fiscal 2001. Most of this increase was because of compensation and benefit expenses associated with the technical personnel hired by the Company during the last two years. In addition, the Company incurred increased depreciation related to new equipment purchased during the same time period. In fiscal 2003, management expects research and development expenses to increase 18% to 20% over fiscal 2002, as the Company continues to invest in expanding its coating technology. Depreciation will be a significant component of the increase as certain research and development activities become operational in its facility in Bloomington, Minnesota.

SALES AND MARKETING EXPENSE. Sales and marketing expense was $1.6 million for fiscal 2002, a decrease of $130,000, or 8%, from fiscal 2001. Increased recruiting costs were partially offset by a decrease in business travel and promotional expense. In fiscal 2003, management expects sales and marketing expenses to increase in the 8% to 10% range as the Company adds marketing staff.

GENERAL AND ADMINISTRATIVE EXPENSE. General and administrative expense was $4.8 million for fiscal 2002, an increase of $1.8 million, or 61%, over fiscal 2001. The increase was primarily because of operating costs associated with the Bloomington property acquired in early 2002. This property is currently undergoing improvements and the holding cost is being allocated to corporate general and administrative expense. The balance of the increase was attributed to higher bonus expenses, benefit costs, employer taxes on stock option exercises and increased professional fees and legal costs. In fiscal 2003, management expects general and administrative expenses to decrease as construction is completed at the new facility and the related costs are allocated to the operating units.

OTHER INCOME, NET. The Company's other income was $1.7 million for fiscal 2002, a decrease of $1.4 million, or 45%, from fiscal 2001. Interest earned on the Company's investments decreased 32% to $1.6 million. Approximately $750,000 of the decrease was due to lower yields and smaller investment balances related to capital expenditures made during the year. The remaining decrease was the result of lower capital gains on investment sales. Last year, the Company sold investments to generate $700,000 of gains to utilize fully a tax capital loss carryforward before it expired. Management expects little change in other income next year.

INCOME TAX EXPENSE. The Company's income tax provision was $4.6 million in fiscal year 2002 compared to $3.8 million in fiscal 2001. The effective tax rate was 37% in fiscal 2002, a slight increase from 36% in fiscal 2001 because the Company entered a higher federal tax bracket and utilization of the capital loss carryforward discussed above.

YEARS ENDED SEPTEMBER 30, 2001 AND 2000

REVENUE. The Company's revenue was $22.7 million in fiscal 2001, an increase of 24% over fiscal 2000. The revenue components were as follows:

(Dollars in thousands)	Fiscal 2001	Fiscal 2000	Increase (Decrease)	% Increase (Decrease)
Coatings revenue:				
Royalties	$7,781	$6,763	$1,018	15%
License fees	1,794	1,470	324	22%
Reagent sales	2,638	2,393	245	10%
Commercial development	3,648	1,445	2,203	152%
Total coatings revenue	15,861	12,071	3,790	31%
Diagnostic royalties	3,253	2,917	336	12%
Stabilization & slide sales	3,047	2,687	360	13%
Government research	532	604	(72)	(12%)
Total revenue	$22,693	$18,279	$4,414	24%

The revenue growth in fiscal 2001 was mostly due to a 31% increase in total coatings revenue, especially commercial development and royalty revenue. An increase in customer-funded development activity resulted in a 152% rise in commercial development revenue. The two largest components of this were collaborative work performed with Cordis on its drug-eluting stent and Motorola Life Sciences on genomics projects. A single customer accounted for approximately 66% of the commercial development revenue in 2001 and 63% in fiscal 2000. Coatings royalties increased 15% due to sales growth of previously introduced coated products by licensees, new coated products introduced in 2001, and increased minimum

royalties. The top 10 product applications accounted for 84% of the coatings royalties received in fiscal 2001.

Reagent sales increased 10% due to additional coated products on the market and increased production of previously introduced devices by licensed clients. A single customer purchased 38% of the reagents sold during fiscal 2001, down from 55% in fiscal 2000. More importantly, reagent sales to all other customers increased 53% between years. During fiscal 2001, SurModics signed 10 new license agreements resulting in a 22% increase in license fee revenue to $1.8 million.

In total, non-coatings revenue sources increased 10% in fiscal 2001. Diagnostic royalties increased 12%, most of which was due to proceeds from patent infringement settlements. Stabilization and slide sales grew 13% between years. A 31% decrease in stabilization chemical sales was more than offset by a 141% increase in sales of 3D-LinkTM Activated Slides. Finally, revenue from government grants decreased 12% as the Company continued to de-emphasize its reliance on the government to fund its research projects.

PRODUCT COSTS. The Company's product costs were $2.4 million for fiscal 2001, an increase of $500,000, or 28%, over fiscal 2000. Overall product margins averaged 57%, a decrease from 63% in fiscal 2000. Reagent margins increased in 2001, while stabilization and slide margins declined. A portion of this decrease was due to a 15% reduction in stabilization product pricing. In addition, the Company completed additional manufacturing capacity in the first quarter, which added to certain overhead cost allocations.

RESEARCH AND DEVELOPMENT EXPENSE. Research and development expense was $8.0 million for fiscal 2001, an increase of $1.2 million, or 18%, over fiscal 2000. Most of this increase was due to compensation and benefit expenses associated with the technical personnel hired by the Company during the year. In addition, the Company incurred increased legal fees associated with patents and increased depreciation from the full-year impact of the build-out of additional lab space in the prior year.

SALES AND MARKETING EXPENSE. Sales and marketing expense was $1.7 million for fiscal 2001, an increase of $125,000, or 8%, over fiscal 2000. Increased compensation and benefit expenses, travel, and consulting fees were partially offset by a decrease in recruiting costs associated with sales and marketing positions filled in the last quarter of fiscal 2000.

GENERAL AND ADMINISTRATIVE EXPENSE. General and administrative expense was $3.0 million for fiscal 2001, an increase of $300,000, or 12%, over fiscal 2000. The increase was primarily due to higher compensation and benefit costs, increased professional fees and higher utility costs. In addition, the Company expanded its operation within the current facility, eliminating tenant rental income that previously offset a portion of operating costs.

OTHER INCOME, NET. The Company's other income was $3.1 million for fiscal 2001, an increase of $1.6 million, or 116%, over fiscal 2000. Interest earned on the Company's investments amounted to $2.3 million, an increase of 66% from fiscal 2000. The increase was due to the additional $7.8 million of cash provided by operating activities during the year, and the full year impact of the $13.0 million in proceeds from the issuance of Common Stock in the fourth quarter of fiscal 2000. The remaining $701,000 of other income represented capital gains on investment sales to take advantage of an expiring tax capital loss carryforward.

INCOME TAX EXPENSE. The Company's income tax provision was $3.8 million in fiscal 2001 compared to $2.5 million in fiscal 2000. The effective tax rate was 36% in fiscal 2001, a slight decrease from 37% in fiscal 2000 due to the utilization of the capital loss carryforward discussed above

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2002, the Company had working capital of $15.8 million and cash, cash equivalents and investments totaling $43.9 million. The Company generated positive cash flows from operating activities of $14.3 million in fiscal 2002, $7.8 million in fiscal 2001, and $7.4 million in fiscal 2000. The increase in cash flows in fiscal 2002 was primarily due to the increased net income generated during the year and tax benefits from the exercise of employee stock options.

On October 1, 2001, the Company purchased a facility in Bloomington, Minnesota, situated on 27 acres of land, for approximately $7.1 million and expended an additional $4.0 million throughout the year on capital improvements. Management estimates it will invest $12.5 million to construct additional manufacturing capacity at this same location during fiscal 2003. With the planned expansion into the Bloomington facility, the Company sold property located in Orono, Minnesota, for $2.4 million. Terms of the sales included a $500,000 cash down payment and a note for $1.9 million.

On December 7, 2001, the Company announced an alliance with Novocell, Inc., a privately held Irvine, California-based biotech firm that is developing a potential cure for diabetes. Included in other assets is the $4.0 million equity investment in Novocell, representing an ownership interest of less than 15%. The investment is accounted for under the cost basis.

The significant decrease in investing activities in fiscal 2002 from last year was primarily because of lower activity in the Company's available-for-sale investment portfolio. In fiscal 2001, investing activities increased as certain investments were sold to generate gains (the proceeds were then reinvested) to fully utilize an expiring tax capital loss carryforward.

SurModics' investment policy requires investments with high credit quality issuers and limits the amount of credit exposure to any one issuer. The Company's investments principally consist of U.S. government and government agency obligations and investment-grade, interest-bearing corporate debt securities with varying maturity dates, the majority of which are five years or less. Because of the credit criteria of the Company's investment policies, the primary market risk associated with these investments is interest rate risk. SurModics does not use derivative financial instruments to manage interest rate risk or to speculate on future changes in interest rates. A one percentage point increase in interest rates would result in an approximate $520,000 decrease in the fair value of the Company's available-for-sale securities as of September 30, 2002, but no material impact on the results of operations or cash flows. Management believes that a reasonable change in raw material prices would not have a material impact on future earnings or cash flows because the Company's inventory exposure is not material. Also, the Company's foreign currency exposure is not significant since all sales contracts are denominated in U.S. dollars.

The most significant financing activity over the last three years was the fiscal 2000 sale of almost 800,000 shares of Common Stock to Motorola, Inc. in a private placement that generated $13.0 million. All other financing activity in the last three years was related to proceeds from stock option exercises.

During the last several years, a significant source of cash provided by operating activities was the result of tax benefits from the exercise of employee stock options. Management expects the impact of tax benefits from option exercise activity to be less significant in fiscal 2003, therefore the cash outlay for income taxes will increase next year. In addition, as discussed above, the Company expects to expend in excess of $12.5 million to construct additional reagent manufacturing capacity at its new location in Bloomington, Minnesota.

As of September 30, 2002, the Company had no debt, nor did it have any credit agreements. The Company believes that its existing capital resources will be adequate to fund SurModics' operations into the foreseeable future.

NEW ACCOUNTING PRONOUNCEMENTS

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS No. 144 primarily addresses significant issues relating to the implementation of SFAS No. 121 and develops a single accounting model for long-lived assets to be disposed of, whether previously held and used, or newly acquired. The Company adopted this statement on October 1, 2002, with no impact on the financial statements.

In July 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 replaces Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by SFAS No. 146 include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after September 30, 2002, with early application encouraged. Management believes there will be no impact to the financial statements from adoption of this statement.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements." SAB 101 requires that license and other up-front fees be recognized over the term of the agreement unless the fee is in exchange for products delivered or services performed that represent the culmination of a separate earnings process. The Company adopted SAB 101 effective October 1, 2000. As a result, the Company reported a charge to fiscal 2001 earnings of $1.7 million, net of taxes, or $.09 per diluted share, for the cumulative effect of a change in accounting principle. Had the accounting change been applied retroactively, net income would have decreased by $600,000 to $3.7 million, or $.22 per diluted share, in the year ended September 30, 2000. As of September 30, 2002, the Company had $2.5 million in additional deferred revenue, net of deferred costs, that will be recognized as revenue in the future.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Report and other written and oral statements made from time to time by the Company do not relate strictly to historical or current facts. As such, they are considered "forward-looking statements" that provide current expectations or forecasts of future events. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Reform Act of 1995. Such statements can be identified by the use of terminology such as "anticipate," "believe," "estimate," "expect," "intend," "may," "could," "possible," "plan," "project," "will," "forecast" and similar words or expressions. The Company's forward-looking statements generally relate to its growth strategy, financial results, product development programs, sales efforts, and the impact of the Cordis agreement. One must carefully consider forward-looking statements and understand that such statements involve a variety of risks and uncertainties, known and unknown, and may be affected by inaccurate assumptions. Consequently, no forward-looking statement can be guaranteed and actual results may vary materially. The Company undertakes no obligation to update any forward-looking statement.

Although it is not possible to create a comprehensive list of all factors that may cause actual results to differ from the Company's forward-looking statements, such factors include, among others: (i) the trend of consolidation in the medical device industry, resulting in more significant, complex and long-term contracts than in the past and potentially greater pricing pressures; (ii) the Company's ability to attract new licensees and to enter into agreements for additional product applications with existing licensees, the willingness of potential customers to sign license agreements under the terms offered by the Company, and the Company's ability to maintain satisfactory relationships with its licensees; (iii) the success of existing licensees in selling products incorporating SurModics' technology and the timing of new product introductions by licensees; (iv) the difficulties and uncertainties associated with the lengthy and costly new product development and foreign and domestic regulatory approval processes, such as delays, difficulties or failures in achieving acceptable clinical results or obtaining foreign or FDA marketing clearances, which may result in lost market opportunities or postpone or preclude product commercialization by licensees; (v) efficacy or safety concerns with respect to products marketed by SurModics and its licensees, whether scientifically justified or not, that may lead to product recalls, withdrawals or declining sales; (vi) the development of new products or technologies by competitors, technological obsolescence and other changes in competitive factors; (vii) economic and other factors over which the Company has no control, including changes in inflation and consumer confidence; and (viii) acts of God or terrorism which impact the Company's personnel or facilities. Investors are advised to consult any further disclosures by the Company on this subject in its filings with the Securities and Exchange Commission.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

SurModics, Inc.
Eden Prairie, Minnesota:

We have audited the accompanying balance sheet of SurModics, Inc. (the Company) as of September 30, 2002, and the related statements of income, stockholders' equity and cash flows for the year ended September 30, 2002. 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 audit. The financial statements of the Company for the years ended September 30, 2001 and 2000 were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements in their report dated October 23, 2001.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 audit provides 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, 2002, and the results of its operations and its cash flows for the year ended September 30, 2002 in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP
Minneapolis, Minnesota
October 22, 2002

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

This is a copy of a report previously issued by Arthur Andersen LLP. This report has not been reissued by Arthur Andersen LLP nor has Arthur Andersen LLP provided a consent to the inclusion of its report in this Annual Report.

To SurModics, Inc.:

We have audited the accompanying balance sheets of SurModics, Inc. (a Minnesota corporation) as of September 30, 2001 and 2000, and the related statements of income, stockholders' equity and cash flows for each of the three years in the period ended September 30, 2001. 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 auditing standards generally accepted in the United States. 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, 2001 and 2000, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2001 in conformity with accounting principles generally accepted in the United States.

As explained in Note 2 to the financial statements, effective October 1, 2000, the Company changed its method of accounting for revenue recognition of license fees.

Arthur Andersen LLP
Minneapolis, Minnesota,
October 23, 2001

SurModics, Inc. Balance Sheets As of September 30 (thousands, except share data) 2002 2001 ------- - -------- ASSETS Current Assets Cash and cash equivalents $ 9,207 $ 9,044 Short-term investments 3,942 5,796 Accounts receivable, net of allowance for doubtful accounts of $40 5,506 3,245 Inventories 746 724 Deferred tax asset 417 297 Prepaids and other 1,058 877 -- ------ ----- --- Total current assets 20,876 19,983 Property and Equipment, net 18,836 7,672 Long-Term Investments 30,726 29,565 Deferred Tax Asset 740 646 Other Assets, net 6,070 2,717 -------- --- ----- $ 77,248 $ 60,583 ======== ======== LIABILITIES AND STOCKHOLDERS' EQUITY Current Liabilities Accounts payable $ 877 $ 553 Accrued liabilities-Compensation 1,332 874 Accrued construction-in-progress 1,922 -- Other 645 798 Deferred revenue 281 303 --------

Total current liabilities	5,057 2,528
Deferred Revenue, less current portion	2,196 2,355
Total liabilities	7,253 4,883
Commitments and Contingencies (Note 6)	
Stockholders' Equity	
Series A preferred stock- $.05 par value, 450,000 shares authorized, no shares issued and outstanding	-- --
Common stock- $.05 par value, 45,000,000 shares authorized 17,271,594 and 16,760,501 shares issued and outstanding	864 838
Additional paid-in capital	53,936 47,777
Unearned compensation	(460) (376)
Accumulated other comprehensive income	673 275
Retained earnings	14,982 7,186
Total stockholders' equity	69,995 55,700
	$ 77,248 $ 60,583

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

SurModics, Inc. Statements of Income For the Years Ended September 30 (thousands, except net income per share) 2002 2001 2000 ------ ------ ------ ------ Revenue Royalties $ 11,809 $ 11,034 $ 9,680 License fees 684 1,794 1,470 Product sales 9,004 5,685 5,080 Research and development 7,991 4,180 2,049 ------ ------ ------ ------ Total revenue 29,488 22,693 18,279 ------ ------ ------ ------ Operating Costs and Expenses Product 2,683 2,440 1,903 Research and development 9,714 7,997 6,797 Sales and marketing 1,568 1,698 1,573 General and administrative 4,814 2,992 2,673 ------ ------ ------ ------ Total operating costs and expenses 18,779 15,127 12,946 ------ ------ ------ ------ Income from Operations 10,709 7,566 5,333 ------ ------ ------ ------ Other Income Investment income 1,609 2,354 1,418 Gain (loss) on sale of investments 79 701 (2) ------ ------ ------ ------ Other income, net 1,688 3,055 1,416 ------ ------ ------

--- --------
Income Before
Income Taxes
12,397 10,621
6,749 Income
Tax Provision
4,601 3,807
2,509 -------
- -------- --
------ Income
before
cumulative
effect of a
change in
Accounting
principle
7,796 6,814
4,240
Cumulative
effect of a
change in
accounting
principle,
net of tax --
(1,705) -- --
------ ------
-- --------
Net income $
7,796 $ 5,109
$ 4,240
========
========
========
Basic net
income per
share before
cumulative
effect of a
change in
accounting
principle $
.46 $ .41 $
.27
Cumulative
effect of a
change in
accounting
principle --
(.10) -- ----
---- --------

Basic net
income per
share $ .46 $
.31 $ .27
========
========
========
Diluted net
income per
share before
cumulative
effect of a
change in
accounting
principle $
.44 $ .38 $
.25
Cumulative
effect of a
change in
accounting
principle --
(.09) -- ----
---- --------

Diluted net
income per
share $ .44 $
.29 $ .25
========
========
========
Weighted
Average

Shares Outstanding		
Basic	17,016	16,692 15,699
Dilutive effect of outstanding stock options	806	1,158 1,119
Diluted	17,822	17,850 16,818

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

SurModics, Inc. Statements of Stockholders' Equity For the Years Ended September 30, 2002, 2001 and 2000 (in thousands)

	Common Stock		Additional Paid-In Capital	Unearned Compensation	Shares	Amount
Balance, September 30, 1999	$ 15,404	$ 770	$ 31,624	$ (267)		
Components of comprehensive income, net of tax: Net income						
Unrealized holding losses on available-for-sale securities arising during the period						
Total comprehensive income						
Issuance of common stock	794	40	12,960			
Common stock options exercised, net	360	18	220			
Tax benefit from exercise of stock options			818			
Restricted stock activity	(2)		118	(118)		
Net loan activity						
Amortization of unearned compensation				96		
Balance, September 30, 2000	16,556	828	45,740	(289)		
Components of comprehensive income, net of tax: Net income						
Unrealized holding gains on available-for-sale securities arising during the period						
Less						

reclassification for gains included in net income -- -- -- -- Total comprehensive income Issuance of common stock 22 1 279 -- Common stock options exercised, net 177 9 168 -- Tax benefit from exercise of stock options -- -- 1,392 -- Restricted stock activity 6 -- 198 (198) Net loan activity -- -- -- -- Amortization of unearned compensation -- -- -- 111 ----- --- -------- -- ------ -------- Balance, September 30, 2001 16,761 838 47,777 (376) Components of comprehensive income, net of tax: Net income -- -- -- -- Unrealized holding gains on available-for-sale securities -- -- -- -- arising during the period Less reclassification for gains included in net income -- -- -- -- Total comprehensive income Issuance of common stock 13 1 335 -- Common stock options exercised, net 492 25 928 -- Tax benefit from exercise of stock options -- -- 4,784 -- Restricted stock activity 6 -- 112 (218) Net loan activity -- -- -- -- Amortization of unearned compensation -- -- -- 134 ----- --- -------- -- ------ -------- Balance, September 30, 2002 17,272 $ 864 $ 53,936 $ (460) ======== ======== ========

SurModics, Inc. Statements of Stockholders' Equity For the Years Ended September 30, 2002, 2001 and 2000 (in thousands)

	Stock	Accumulated	Retained	Purchase	Other	Earnings	Total	Notes	Comprehensive	(Accumulated	Stockholders'	Receivable	Income (Loss)	Deficit)	Equity
Balance, September 30, 1999	$ (58)	$ (187)	$ (2,163)	$ 29,719											
Components of comprehensive income, net of tax: Net income	--	--	4,240	4,240											
Unrealized holding losses on available-for-sale securities arising during the period	--	141	--	141											
Total comprehensive income	4,381	--													
Issuance of common stock	--	--	--	13,000											
Common stock options exercised, net	--	--	--	238											
Tax benefit from exercise of stock options	--	--	--	818											
Restricted stock activity	--	--	--	--	Net loan activity	51	--	--	51						
Amortization of unearned compensation	--	--	--	96											
Balance, September 30, 2000	(7)	(46)	2,077	48,303											
Components of comprehensive income, net of tax: Net income	--	--	5,109	5,109											
Unrealized holding gains on available-for-sale securities arising during															

the period -- 762 -- 762 Less reclassification for gains included in net income -- (441) -- (441) ------ -- Total comprehensive income 5,430 -- ------ Issuance of common stock -- -- -- 280 Common stock options exercised, net -- -- -- 177 Tax benefit from exercise of stock options -- -- -- 1,392 Restricted stock activity -- -- -- -- Net loan activity 7 -- -- 7 Amortization of unearned compensation -- -- -- 111 ----- --- -------- -- ------ -------- Balance, September 30, 2001 -- 275 7,186 55,700 Components of comprehensive income, net of tax: Net income -- -- 7,796 7,796 Unrealized holding gains on available-for-sale securities -- 578 -- 578 arising during the period Less reclassification for gains included in net income -- (180) -- (180) ------ -- Total comprehensive income 8,194 -- ------ Issuance of common stock -- -- -- 336 Common stock options exercised, net -- -- -- 953 Tax benefit from exercise of stock options -- -- -- 4,784 Restricted stock activity -- -- -- (106) Net loan activity -- -- -- -- Amortization of unearned compensation -- -- -- 134 ----- --- -------- -- ------ -------- Balance, September 30,

2002 $ -- $ 673
$ 14,982 $
69,995 ========
========
========
========

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

SurModics, Inc. Statements of Cash Flows For the Years Ended September 30 (in thousands) 2002 2001 2000 -------- ------ -- -------- Operating Activities Net income $ 7,796 $ 5,109 $ 4,240 Adjustments to reconcile net income to net cash provided by operating activities- Depreciation and amortization 1,867 1,547 1,126 Loss (gain) on sale of investments (79) (701) 2 Amortization of unearned compensation, net 134 111 96 Tax benefit from exercise of stock options 4,784 1,392 818 Deferred tax provision (214) (31) 1,553 Cumulative effect of a change in accounting principle, net of tax -- 1,705 -- Change in operating assets and liabilities: Accounts receivable (2,261) (1,839) 27 Inventories (22) (224) (41) Accounts payable and accrued liabilities 2,551 (94) (8) Deferred revenue (181) 470 215 Prepaids and other (62) 366 (651) -------- -------- ------ -- Net cash provided by operating activities 14,313 7,811 7,377 -------- -------- ------ -- Investing Activities Purchases of property and equipment, net (13,004) (2,053) (2,994)

Purchases of available-for-sale investments (39,513) (81,907) (52,862) Sales/maturities of available-for-sale investments 40,683 85,708 34,725 Purchase of equity in Novocell, Inc. (4,000) -- -- Proceeds from sale of real property 500 -- -- Purchase of real property -- (2,489) -- Repayment of notes receivable 1 7 51 -------- ----- -------- Net cash used in investing activities (15,333) (734) (21,080) ---------- -------- ----- -------- Financing Activities Issuance of common stock, net 1,183 457 13,238 -------- -------- -------- ------ -- Net cash provided by financing activities 1,183 457 13,238 -------- -------- -------- ------ -- Net increase (decrease) in cash and cash equivalents 163 7,534 (465) Cash and Cash Equivalents Beginning of year 9,044 1,510 1,975 ---------- ----- -------- -------- End of year $ 9,207 $ 9,044 $ 1,510 ======== ======== ======== Supplemental Information Cash paid for taxes $ 1,075 $ 1,232 $ 67 Noncash transaction- Note receivable from sale of real property $ 1,900 -- --

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

SurModics, Inc.
Notes to Financial Statements
September 30, 2002 and 2001

1. DESCRIPTION

SurModics, Inc. (the Company) develops, manufactures and markets innovative surface modification solutions to the medical device industry. The Company's revenue is derived from the following: fees from licensing its patented technology to customers; royalties received from licensees; the sale of reagent chemicals to licensees, stabilization products to the diagnostic industry and coated glass slides to the genomics market; and research and development fees generated on projects for commercial customers and government grants. The Company markets its products through a direct sales force primarily in the United States and certain international markets.

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

Investments consist principally of U.S. government and government agency obligations and mortgage-backed securities and are classified as available-for-sale as of September 30, 2002 and 2001. Available-for-sale investments 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.

The amortized cost, unrealized holding gains and losses, and fair value of investments as of September 30 were as follows (in thousands):

2002 ---------- ------ Amortized Cost Unrealized Unrealized Fair Value Gains Losses -- ---------- U.S. government obligations $ 11,260 $ 471 $ -- $ 11,731 Mortgage-backed securities 10,913 228 (4) 11,137 Municipal bonds 5,036 254 -- 5,290 Asset-backed securities 3,766 95 (7) 3,854 Corporate bonds 2,645 11 -- 2,656 ---------- ---------- Total $ 33,620 $ 1,059 $ (11) $ 34,668 ==========

2001 ----------
------ Amortized Cost Unrealized Unrealized Fair Value Gains Losses --
----
U.S. government obligations $ 11,210 $ 82 $ (5) $ 11,287 Mortgage-
backed securities 11,204 266 (5) 11,465 Municipal bonds 6,022 254 --
6,276 Corporate bonds 3,268 17 (220) 3,065 Asset-backed securities
3,221 52 (5) 3,268 ----------
---------- Total $ 34,925 $ 671 $ (235) $ 35,361
==========

The amortized cost and fair value of investments by contractual maturity at September 30, 2002, were as follows:

Amortized Cost Fair Value -------
---------- Debt
securities due within: One year $
3,922 $ 3,942 One to five years
18,880 19,531 Five years or more
10,818 11,195 ----------
---------- Total $ 33,620 $
34,668
==========

The following table summarizes sales of available-for-sale securities for the years ended September 31, 2002, 2001, and 2000.

2002
2001
2000 --
----- -

Proceeds
from
sales
$33,227
$77,131
$33,413
Gross
realized
gains $
194 $
705 $
35
Gross
realized
losses
$ (14)
$ (4) $
(37)

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 components as of September 30 (in thousands):

2002
2001 ---
---- ---
---- Raw
materials
$ 408 $
269
Finished
products
338 455

Total $
746 $
724
=======
=======

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost and are depreciated using the straight-line method over 3 to 20 years, the estimated useful lives of the assets. Included in construction-in-progress is the cost to purchase the Bloomington site and the costs-to-date to remodel the facilities. Upon completion, construction-in-progress will be transferred to the specific property and equipment categories and will begin to depreciate over the estimated useful lives of the assets. Property and equipment consisted of the following components as of September 30 (in thousands):

	2002	2001	Useful life (in years)
Laboratory fixtures and equipment	$ 6,986	$ 5,718	3 to 5
Building and improvements	6,360	6,213	5 to 20
Office furniture and equipment	2,823	2,401	3 to 5
Construction-in-progress	11,102	--	
Less-accumulated depreciation and amortization	(8,435)	(6,660)	
Property and equipment, net	$18,836	$ 7,672	

OTHER ASSETS

Other assets consist principally of investments and acquired patents. In December 2001, the Company invested $4.0 million in privately held Novocell, Inc., an Irvine, California-based biotech firm that is developing a potential cure for diabetes. The Company's investment represents less than 15% ownership of Novocell and is accounted for under the cost method of accounting. In June 2002, the Company sold real property for approximately $2.4 million. The terms of the sale agreement included a $500,000 cash down payment and a note receivable for $1.9 million, which is collateralized by the assets. Finally, the cost of patents is amortized over 7 to 12 years. Other assets consisted of the following components as of September 30 (in thousands):

	2002	2001
Investment in Novocell	$ 4,000	$ --
Note receivable	1,869	--
Real property held for resale	--	2,489
Patents and other	339	341
Less-accumulated amortization	(138)	(113)
Other assets, net	$ 6,070	$ 2,717

IMPAIRMENT OF LONG-LIVED ASSETS

The Company periodically evaluates whether events and circumstances have occurred which may affect the estimated useful life or the recoverability of the remaining balance of its long-lived assets. If such events or circumstances were to indicate that the carrying amount of these assets would not be recoverable, the Company would estimate the future cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected future cash flows (undiscounted and without interest charges) were less than the carrying amount of the assets, the Company would recognize an impairment loss. No such impairment losses were required to be recorded in the years ended September 30, 2002, 2001 and 2000.

REVENUE RECOGNITION

Revenue on product sales is recognized as products are shipped. Revenue for research and development is recorded as performance progresses under the applicable contract. Royalties are recognized as third-party licensees report sales of the licensed product or as minimum royalties become due. Cash received prior to performance is recorded as deferred revenue in the accompanying balance sheets.

Prior to October 1, 2000, the Company recognized initial license fees as revenue upon receipt, after a license agreement transferring the technology was executed and all significant obligations had been performed. In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 ("SAB

101"), "Revenue Recognition in Financial Statements." SAB 101 required that license and other up-front fees be recognized over the term of the agreement unless the fee is in exchange for products delivered or services performed that represent the culmination of a separate earnings process.

Effective October 1, 2000, the Company adopted SAB 101. The Company now recognizes initial license fees over the term of the related agreement. As a result of adopting SAB 101, the Company recorded a cumulative effect of a change in accounting principle related to license fees recognized in prior years in the amount of $1,705,000, net of tax of $1,000,000, or $.09 per diluted share. Revenue related to performance milestones is recognized based on the achievement of the milestone, as defined in the respective agreements.

Certain non-refundable license fees and research and development revenue are recoverable by the licensees as offsets against a percentage of future earned royalties.

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, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Estimates are used for such items as depreciable lives and uncollectible accounts. Ultimate results could differ from those estimates.

NEW ACCOUNTING PRONOUNCEMENTS

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS No. 144 primarily addresses significant issues relating to the implementation of SFAS No. 121 and develops a single accounting model for long-lived assets to be disposed of, whether previously held and used or newly acquired. The Company adopted this statement on October 1, 2002, with no impact to the financial statements.

In July 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 replaces Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by SFAS No. 146 include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after September 30, 2002, with early application encouraged. Management believes there will be no impact to the financial statements from adoption of this statement.

3. STOCKHOLDERS' EQUITY

1999 EMPLOYEE STOCK PURCHASE PLAN

Under the 1999 Employee Stock Purchase Plan ("Stock Purchase Plan") the Company is authorized to issue up to 200,000 shares of Common Stock. All full-time and part-time employees can choose to have up to 10% of their annual compensation withheld to purchase the Company's Common Stock at purchase prices defined within the provisions of the Stock Purchase Plan. The Company issued 12,548 and 21,764 shares under

the Stock Purchase Plan during fiscal 2002 and 2001, respectively. As of September 30, 2002 and 2001, there was approximately $248,000 and $209,000, respectively, of employee contributions included in accrued liabilities in the accompanying balance sheets.

RESTRICTED STOCK AWARDS

The Company has entered into restricted stock agreements with certain key employees, covering the issuance of Common Stock ("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 income over the five-year term.

Transactions in restricted stock were as follows:

Outstanding at September 30, 1999	145,000
Granted	11,000
Canceled	(12,500)
Vested	(48,000)
Outstanding at September 30, 2000	95,500
Granted	5,500
Outstanding at September 30, 2001	101,000
Granted	8,000
Canceled	(2,000)
Vested	(52,000)
Outstanding at September 30, 2002	55,000

STOCK PURCHASE NOTES RECEIVABLE

The Company established a loan program during fiscal 1997 to assist employees in purchasing shares of the Company's Common Stock. The loans were collateralized by the employees' purchased shares and required annual interest payments at a rate equal to prime at the date of issuance. All loans have been repaid in full. This program has been discontinued, with no additional loans granted since fiscal 1997.

4. STOCK-BASED COMPENSATION PLAN

Under the Company's 1997 Incentive Stock Option Plan (the "Plan"), 1.2 million shares of Common Stock were reserved for issuance to employees and officers. The Plan requires that the option price per share be at least 100% of the fair market value of the Common Stock on the date of the grant or 110% with respect to optionees who own more than 10% of the total combined voting power of all classes of stock. Options expire in five to seven years or upon termination of employment and are exercisable at a rate of 20% per year from the date of grant or 20% per year commencing one year after the date of grant.

Under the Company's Nonqualified Stock Option Plan, 1,944,480 shares of Common Stock were reserved for issuance to outside directors, employees and officers. The options are granted at fair market value on the date of grant. Options expire in 7 to 10 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.

As of September 30, 2002, there were 500,240 additional shares available for grant under the stock plans. Information regarding stock options under all plans is summarized as follows:

	2002		2001		2000	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
	Shares		Shares		Shares	
Outstanding, beginning of year	1,383,260	$8.41	1,565,560	$7.45	1,748,580	$3.76
Granted	154,350	34.80	16,550	42.29	267,800	23.96
Exercised	(515,655)	3.07	(191,510)	3.26	(417,720)	2.56
Canceled	(57,740)	18.82	(7,340)	15.50	(33,100)	4.83
Outstanding, end of year	964,215	$14.86	1,383,260	$8.41	1,565,560	$7.45

===========
===========
===========
===========
===========
===========
Exercisable,
end of year
493,933
$8.41
851,190
$4.80
727,280
$3.19
===========
===========
===========
===========
===========
===========
Weighted
average
fair value
of options
granted
$24.80
$31.11
$17.34
===========
===========
===========

Weighted
Weighted
average
Shares
Shares
Outstanding
Average
Remaining
Exercisable
at Exercise
Price at
September
30, Exercise
Contractual
September
30, Weighted
Average
Range 2002
Price Life
(in years)
2002
Exercise
Price ------
--------- ---

--- --------

--- --------
------ -----

$2.50-$4.75
290,885 $
3.03 2.98
242,805 $
2.96
$5.78-$14.06
303,970 8.16
4.43 171,110
8.05
$20.31-$27.00
207,610
24.90 5.17
75,788 24.94
$30.13-$53.00
161,750
35.86 6.22
4,230 40.70

------ -----
--- --------
------- ----

---------- -

--- 964,215
$14.86 4.45
493,933 $
8.41

The fair value of each option is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 2002, 2001, and 2000, respectively: risk-free interest rates of 3.69%, 4.51% and 5.95%; expected lives of 7.1, 7.0, and 7.3; and expected volatility of 73%, 77%, and 72%.

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 would have been the following pro forma amounts for the years ended September 30 (in thousands, except per share data):

	2002	2001	2000
Net income:			
As reported	$7,796	$5,109	$4,240
Pro forma	$6,613	$4,096	$3,860
Diluted net income per share:			
As reported	$.44	$.29	$.25
Pro forma	$.37	$.23	$.23

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

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

The deferred income tax provision reflects the net change during the year in deferred tax assets and liabilities. Income taxes in the accompanying statements of income for the years ended September 30 were as follows (in thousands):

	2002	2001	2000
Current provision:			
Federal	$4,611	$2,672	$ 904
State and foreign	423	362	77
Total current provision	5,034	3,034	981
Deferred provision:			
Federal	(578)	832	1,528
State	145	(59)	--
Total deferred			

provision (benefit) (433) 773 1,528 ---- -- ------ ------ Total provision (benefit) $4,601 $3,807 $2,509 ====== ====== ======

The reconciliation of the difference between amounts calculated at the statutory federal tax rate and the Company's effective tax rate was as follows (in thousands):

2002 2001 2000 ----- - ------ - ----- Amount at statutory federal income tax rate $4,339 $3,605 $2,500 Change due to: Reversal of tax valuation allowance -- (161) - - State taxes 360 201 -- Rate difference for deferred tax assets 68 -- -- Other (166) 162 9 ------ - ----- ---- -- Income tax provision (benefit) $4,601 $3,807 $2,509 ====== ====== ======

The components of deferred income taxes consisted of the following as of September 30 and result from differences in the recognition of transactions for income tax and financial reporting purposes (in thousands):

2001	2000
Depreciation	$ 604	$ 455
Deferred revenue	916	996
Accruals and reserves	360	297
Restricted stock amortization	103	--
Net operating loss carryforward	78	--
R&D credit carryforward	118	
Equity items	(388)	(169)
Other	(634)	(636)
Total deferred tax assets	1,157	943
Current deferred tax assets	417	297
Noncurrent deferred tax assets	$ 740	$ 646

6. COMMITMENTS AND CONTINGENCIES

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 401(k) retirement and savings plan for the benefit of qualified employees. Under the plan, qualified employees may elect to defer up to 60% of their compensation, subject to a maximum limit determined by the Internal Revenue Service. The Company matches 50% of each dollar of the first 6% of the tax deferral elected by each employee. Company contributions totaling $193,000, $166,000 and $138,000 have been charged to income for the years ended September 30, 2002, 2001 and 2000, respectively.

8. OPERATING SEGMENTS (DOLLARS IN THOUSANDS)

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

The Company manages its business on the basis of three business segments: licensing, manufacturing, and research and development. The licensing segment includes all license fees and royalty revenue generated from the transfer of the Company's technology. No expenses are allocated to the licensing

segment. The manufacturing segment includes revenue from the sale of chemical reagents, stabilization products and DNA slides. The expenses include all production costs, including analytical costs to verify quality of the finished products and certain technical support. The research and development segment includes the revenue generated from development projects for commercial customers and research revenue received from government grants. The expenses include all costs of the Company's technical personnel. Corporate includes all administrative, sales and marketing costs of the Company. These costs, along with interest income and income taxes, are not allocated to the other business segments. The Company's assets are not reviewed by business segment. The accounting policies for segment reporting are the same as for the Company as a whole (see Note 2).

	Licensing	Manufacturing	Research & development	Corporate	Consolidated
Year Ended September 30, 2002					
Revenues:					
Coating	$ 10,044	$ 6,084	$ 7,448	$ --	$ 23,576
Diagnostic	2,449	--	--	--	2,449
Stabilization & other	--	2,920	--	--	2,920
Government	--	--	543	--	543
Total revenue	12,493	9,004	7,991	--	29,488
Operating expenses	--	2,683	9,714	6,382	18,779
Operating income (loss)	12,493	6,321	(1,723)	(6,382)	10,709
Other income				1,688	1,688
Income tax provision				(4,601)	(4,601)
Net income					7,796
Year Ended September 30, 2001					
Revenues:					
Coating	$ 9,575	$ 2,638	$ 3,648	$ --	$ 15,861
Diagnostic	3,253	--	--	--	3,253
Stabilization & other	--	3,047	--	--	3,047
Government	--	--	532	--	532

-------- ---
----- ------
-- --------
Total
revenue
12,828 5,685
4,180 --
22,693
Operating
expenses --
2,440 7,997
4,690 15,127
-------- ---
----- ------
-- --------

Operating
income
(loss)
12,828 3,245
(3,817)
(4,690)
7,566 Other
income 3,055
3,055 Income
tax
provision
(3,807)
(3,807) ----
---- Income
before
cumulative
effect of a
change in
accounting
principle
6,814
========
Year Ended
September
30, 2000
Revenues:
Coating $
8,233 $
2,393 $
1,445 $ -- $
12,071
Diagnostic
2,917 -- --
-- 2,917
Stabilization
& other --
2,687 -- --
2,687
Government -
- -- 604 --
604 --------
-------- ---
----- ------
-- --------
Total
revenue
11,150 5,080
2,049 --
18,279
Operating
expenses --
1,903 6,797
4,246 12,946
-------- ---
----- ------
-- --------

Operating
income
(loss)
11,150 3,177
(4,748)
(4,246)
5,333 Other
income 1,416
1,416 Income
tax expense
(2,509)
(2,509) ----

---- Net
income $
  4,240
========

MAJOR CUSTOMERS

Revenue from customers that exceed 10% of total revenue was as follows for the years ended September 30:

2002	2001	2000
Cordis Corporation	38%	16%	9%
Medtronic, Inc.	13%	16%	24%
Amersham plc	12%	15%	7%
Abbot Laboratories	11%	19%	20%

The revenues from each of the customers are derived from all three revenue segments. The results for Amersham plc include the business recently acquired from Motorola, Inc.

GEOGRAPHIC REVENUE

Geographic revenues were as follows for the years ended September 30:

2002	2001	2000
Domestic	80%	89%	89%
Foreign	20%	11%	11%

9. QUARTERLY FINANCIAL DATA

The following is a summary of the unaudited quarterly results for the years ended September 30, 2002 and 2001 (in thousands, except per share data). The results for 2001 reflect the Company's adoption of SAB 101 in the fourth quarter of 2001 (see Note 2).

First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal 2002
Revenue	$ 6,059	$ 7,109	$ 7,601	$ 8,720	
Income from operations	1,819	2,385	2,903	3,602	
Net income	1,410	1,758	2,031		

2,597 Net income per share: Basic .08 .10 .12 .16 Diluted .08 .10 .11 .15 Fiscal 2001 Revenue $ 4,757 $ 5,443 $ 5,675 $ 6,818 Income from operations 1,256 1,698 1,884 2,728 Net income (loss) (380) 1,610 1,675 2,204 Net income (loss) per share: Basic (.02) .10 .10 .13 Diluted (.02) .09 .09 .12

STOCK LISTING AND PRICE HISTORY

SurModics' stock is traded on the Nasdaq National Market under the symbol "SRDX." The table below sets forth the range of high and low closing sale prices for the Company's Common Stock, as reported by Nasdaq, for the last two years.

FISCAL QUARTER ENDED:	HIGH	LOW
September 30, 2002	31.77	19.95
June 30, 2002	45.64	22.03
March 31, 2002	46.50	32.40
December 31, 2001	45.20	31.59
September 30, 2001	59.00	35.37
June 30, 2001	59.37	35.37
March 31, 2001	37.06	23.25
December 31, 2000	36.81	20.81

According to the records of the Company's transfer agent, as of November 15, 2002, the Company had 293 holders of record of the Company's Common Stock and approximately 5,100 beneficial owners of shares registered in nominee or street name.

The Company has never paid any cash dividends on its Common Stock and does not anticipate doing so in the foreseeable future.

EXHIBIT 23

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement No. 333-64171, 333-64173, 333-79741, and 333-54266 of SurModics, Inc. (the Company) on Form S-8 of our report dated October 23, 2002, appearing in this Annual Report on Form 10-K of the Company for the year ended September 30, 2002.

Deloitte & Touche LLP

Minneapolis, Minnesota,
December 30, 2002

EXHIBIT 99.1

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

In connection with the Annual Report of SurModics, Inc. (the "Company") on Form 10-K for the year ended September 30, 2002 as filed with the Securities and Exchange Commission (the "Report"), I, Dale R. Olseth, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: December 20, 2002

/s/ Dale R. Olseth

Dale R. Olseth
Chief Executive Officer

EXHIBIT 99.2

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

In connection with the Annual Report of SurModics, Inc. (the "Company") on Form 10-K for the year ended September 30, 2002 as filed with the Securities and Exchange Commission (the "Report"), I, Stephen C. Hathaway, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: December 30, 2002

/s/ Stephen C. Hathaway

Stephen C. Hathaway
Chief Financial Officer