
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K/A

AMENDMENT NO. 1

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

July 31, 2007

Date of report (Date of earliest event reported)

SurModics, Inc.

(Exact Name of Registrant as Specified in its Charter)

Minnesota

(State of Incorporation)

0-23837

(Commission File Number)

41-1356149

(I.R.S. Employer
Identification No.)

9924 West 74th Street
Eden Prairie, Minnesota

(Address of Principal Executive Offices)

55344

(Zip Code)

(952) 829-2700

(Registrant's Telephone Number, Including Area Code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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This Amendment No. 1 to the Current Report on Form 8-K of SurModics, Inc. dated July 31, 2007 is filed for the purpose of providing the financial statements of Brookwood Pharmaceuticals, Inc. required by Item 9.01(a) of this Form and the pro forma financial information required by Item 9.01(b) of this Form.

Item 9.01 Financial Statements and Exhibits

(a) Financial Statements of Business Acquired.

The following financial statements are filed herewith:

- Audited Consolidated Financial Statements of Brookwood Pharmaceuticals, Inc. and Subsidiary as of, and for the year ended, December 31, 2006;
- Unaudited Condensed Consolidated Balance Sheet of Brookwood Pharmaceuticals, Inc. and Subsidiary as of June 30, 2007; and
- Unaudited Condensed Consolidated Income Statement and Statement of Cash Flows of Brookwood Pharmaceuticals, Inc. and Subsidiary for the six months ended June 30, 2006 and June 30, 2007.

(b) Pro Forma Financial Information.

The following pro forma financial information is filed herewith:

- Unaudited Combined Condensed Balance Sheet as of June 30, 2007;
- Unaudited Combined Condensed Income Statement for the year ended September 30, 2006; and
- Unaudited Combined Condensed Income Statement for the nine months ended June 30, 2007.
- Notes to Unaudited Pro Forma Combined Condensed Financial Statements.

(d) Exhibits

2.1 Stock Purchase Agreement, dated July 31, 2007, between SurModics, Inc. and Southern Research Institute (excluding schedules and exhibits, which SurModics, Inc. agrees to furnish to the Securities and Exchange Commission upon request)*

23.1 Consent of Warren, Averett, Kimbrough & Marino, LLC

99.1 Press Release dated August 1, 2007*

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- 99.2 Audited Consolidated Financial Statements of Brookwood Pharmaceuticals, Inc. and Subsidiary as of, and for the year ended, December 31, 2006
- 99.3 Unaudited Condensed Consolidated Balance Sheet of Brookwood Pharmaceuticals, Inc. and Subsidiary as of June 30, 2007 and Unaudited Condensed Consolidated Income Statement and Statement of Cash Flows of Brookwood Pharmaceuticals, Inc. and Subsidiary for the six months ended June 30, 2006 and June 30, 2007
- 99.4 Unaudited Pro Forma Combined Condensed financial information of the Company as of June 30, 2007 and for the nine month period ended June 30, 2007 and the year ended September 30, 2006

* Previously filed

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Amendment No. 1 to be signed on its behalf by the undersigned hereunto duly authorized.

SURMODICS, INC.

Date: October 15, 2007

/s/ Philip D. Ankeny
Philip D. Ankeny
Chief Financial Officer

EXHIBIT INDEX

| <u>No.</u> | <u>Description</u> | <u>Manner of Filing</u> |
|------------|---|-------------------------|
| 2.1 | Stock Purchase Agreement, dated July 31, 2007, between SurModics, Inc. and Southern Research Institute (excluding schedules and exhibits, which SurModics, Inc. agrees to furnish to the Securities and Exchange Commission upon request) | Previously Filed |
| 23.1 | Consent of Warren, Averett, Kimbrough & Marino, LLC | Filed Electronically |
| 99.1 | Press Release dated August 1, 2007 | Previously Filed |
| 99.2 | Audited Consolidated Financial Statements of Brookwood Pharmaceuticals, Inc. and Subsidiary as of, and for the year ended, December 31, 2006 | Filed Electronically |
| 99.3 | Unaudited Condensed Consolidated Balance Sheet of Brookwood Pharmaceuticals, Inc. and Subsidiary as of June 30, 2007 and Unaudited Condensed Consolidated Income Statement and Statement of Cash Flows of Brookwood Pharmaceuticals, Inc. and Subsidiary for the six months ended June 30, 2006 and June 30, 2007 | Filed Electronically |
| 99.4 | Unaudited Pro Forma Combined Condensed financial information of the Company as of June 30, 2007 and for the nine month period ended June 30, 2007 and the year ended September 30, 2006 | Filed Electronically |

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our report dated March 26, 2007, accompanying the consolidated financial statements of Brookwood Pharmaceuticals, Inc. and subsidiary included in Amendment No. 1 to the Current Report on Form 8-K of SurModics, Inc. We hereby consent to the incorporation by reference of said report in Registration Statement No. 333-123524 on Form S-3 and Registration Statement Nos. 333-104258, 333-64171, 333-64173, 333-79741, 333-54266 and 333-123521 on Form S-8.

/s/ Warren, Averett, Kimbrough & Marino, LLC

Birmingham, Alabama

October 15, 2007

**BROOKWOOD PHARMACEUTICALS, INC.
AND SUBSIDIARY
AUDITED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006**

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INDEPENDENT AUDITORS' REPORT

March 26, 2007

The Board of Directors
Brookwood Pharmaceuticals, Inc. and Subsidiary
Birmingham, Alabama

We have audited the accompanying consolidated balance sheets of Brookwood Pharmaceuticals, Inc. and subsidiary as of December 31, 2006 and 2005, and the related consolidated statements of operations, stockholder's equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Brookwood Pharmaceuticals, Inc. and subsidiary as of December 31, 2006 and 2005, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Warren, Averett, Kimbrough & Marino, LLC
Birmingham, Alabama

BROOKWOOD PHARMACEUTICALS, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2006 AND 2005

| | 2006 | 2005 |
|--------------------------------------|----------------------|---------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 2,798,600 | \$ 543,733 |
| Accounts receivable, net | 4,319,202 | 2,269,759 |
| Inventory | 436,252 | 388,673 |
| Prepayments and other current assets | <u>279,780</u> | <u>186,045</u> |
| Total Current Assets | 7,833,834 | 3,388,210 |
| Property and Equipment, net | 5,367,802 | 2,814,977 |
| Other Assets | | |
| Intangible assets, net | 1,446,507 | 1,428,234 |
| Other long-term assets | 2,000 | 2,000 |
| Deferred income taxes | <u>—</u> | <u>90,000</u> |
| | <u>1,448,507</u> | <u>1,520,234</u> |
| | <u>\$ 14,650,143</u> | <u>\$ 7,723,421</u> |

See notes to consolidated financial statements.

| | 2006 | 2005 |
|--|----------------------|---------------------|
| LIABILITIES AND STOCKHOLDER'S EQUITY | | |
| Current Liabilities | | |
| Accounts payable | \$ 653,708 | \$ 1,108,941 |
| Accounts payable — parent company | 155,577 | 107,759 |
| Accrued liabilities | 211,559 | 161,117 |
| Unearned revenue | 3,310,644 | 1,455,044 |
| Current portion of long-term debt | 251,117 | 236,564 |
| Deferred income taxes | <u>45,000</u> | <u>20,000</u> |
| Total Current Liabilities | 4,627,605 | 3,089,425 |
| Long-Term Debt | 256,114 | 507,231 |
| Deferred income taxes | 6,000 | — |
| Stockholder's equity | | |
| 8% cumulative preferred stock, par value \$.01 per share; 1,000,000 shares authorized, issued and outstanding in 2006; aggregate liquidation preference of \$9,168,917 in 2006 | 10,000 | — |
| Common stock, par value \$.01 per share; 1,000,000 shares authorized, 1,000 shares issued and outstanding | 10 | 10 |
| Additional paid-in capital | 8,878,644 | 4,280,705 |
| Retained earnings (deficit) | <u>871,770</u> | <u>(153,950)</u> |
| | <u>9,760,424</u> | <u>4,126,765</u> |
| | <u>\$ 14,650,143</u> | <u>\$ 7,723,421</u> |

BROOKWOOD PHARMACEUTICALS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

| | 2006 | 2005 |
|--|---------------------|---------------------|
| Revenues | | |
| Contract revenues | \$ 10,640,897 | \$ 6,432,622 |
| Intellectual property revenues, net of direct expenses | 48,822 | 168,008 |
| Polymer revenue | <u>2,031,620</u> | <u>1,026,896</u> |
| | 12,721,339 | 7,627,526 |
| Cost of Sales | | |
| Direct expenses | 4,733,458 | 3,351,356 |
| Overhead | <u>2,395,589</u> | <u>1,829,216</u> |
| | <u>7,129,047</u> | <u>5,180,572</u> |
| Gross Margin | 5,592,292 | 2,446,954 |
| Other Operating Expenses | | |
| Research and development | 467,896 | 96,172 |
| General and administrative | 2,945,941 | 2,034,045 |
| Depreciation and amortization | <u>722,956</u> | <u>461,769</u> |
| | <u>4,136,793</u> | <u>2,591,986</u> |
| Income (Loss) from Operations | 1,455,499 | (145,032) |
| Other Income (Expense) | | |
| Interest income | 69,746 | 2,955 |
| Other income | 52,256 | — |
| Interest expense | <u>(40,403)</u> | <u>(54,323)</u> |
| | <u>81,599</u> | <u>(51,368)</u> |
| Net Income (Loss) before Income Taxes | 1,537,098 | (196,400) |
| Net Income Tax Expense (Benefit) | <u>511,378</u> | <u>(42,450)</u> |
| Net Income (Loss) | <u>\$ 1,025,720</u> | <u>\$ (153,950)</u> |

See notes to consolidated financial statements.

BROOKWOOD PHARMACEUTICALS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY
DECEMBER 31, 2006 AND 2005

| | Preferred Stock | Common Stock | Additional Paid-in Capital | Retained Earnings (Deficit) | Total |
|--|--------------------|-----------------|----------------------------------|-----------------------------------|---------------------|
| Balance at December 31, 2004 | \$ — | \$ — | \$ — | \$ — | \$ — |
| Issuance of common stock and initial contribution of net assets | — | 10 | 2,293,942 | — | 2,293,952 |
| Additional cash contributions | — | — | 1,500,000 | — | 1,500,000 |
| Additional contributions of assets, at cost | — | — | 423,546 | — | 423,546 |
| Contribution of professional services, at cost | — | — | 63,217 | — | 63,217 |
| Net loss | — | — | — | (153,950) | (153,950) |
| Balance at December 31, 2005 | — | 10 | 4,280,705 | (153,950) | 4,126,765 |
| Issuance of preferred stock | 10,000 | — | 4,438,922 | — | 4,448,922 |
| Stock-based compensation | — | — | 159,017 | — | 159,017 |
| Net income | — | — | — | 1,025,720 | 1,025,720 |
| Balance at December 31, 2006 | <u>\$ 10,000</u> | <u>\$ 10</u> | <u>\$ 8,878,644</u> | <u>\$ 871,770</u> | <u>\$ 9,760,424</u> |

See notes to consolidated financial statements.

BROOKWOOD PHARMACEUTICALS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

| | 2006 | 2005 |
|--|------------------|------------------|
| Cash Flows from Operating Activities | | |
| Net income (loss) | \$ 1,025,720 | \$ (153,950) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 722,956 | 461,769 |
| Stock-based compensation | 159,017 | — |
| Deferred income taxes | 121,000 | (70,000) |
| Provision for uncollectible accounts | — | 12,000 |
| Contribution of professional services for additional paid-in capital | — | 63,217 |
| Change in operating assets and liabilities: | | |
| Accounts receivable, net | (2,049,443) | (2,268,889) |
| Inventory | (47,579) | (366,917) |
| Prepayments and other current assets | (93,735) | (138,218) |
| Accounts payable | (455,233) | 1,108,941 |
| Accrued liabilities | 50,442 | 75,859 |
| Unearned revenue | <u>1,855,600</u> | <u>1,412,883</u> |
| Net Cash Provided by Operating Activities | 1,288,745 | 136,695 |
| Cash Flows from Investing Activities | | |
| Purchase of long-term investment | — | (2,000) |
| Payment for intangible assets | (215,567) | (202,651) |
| Capital expenditures | <u>(629,565)</u> | <u>(789,325)</u> |
| Net Cash Used by Investing Activities | (845,132) | (993,976) |

BROOKWOOD PHARMACEUTICALS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(Continued)

| | 2006 | 2005 |
|---|---------------------|---------------------|
| Cash Flows from Financing Activities | | |
| Principal payments on long-term debt | (236,564) | (206,755) |
| Advances from parent company | 47,818 | 107,759 |
| Contributions for additional paid-in capital | — | 1,500,000 |
| Proceeds from issuance of preferred stock | 2,000,000 | — |
| Proceeds from issuance of common stock | <u>—</u> | <u>10</u> |
| Net Cash Provided by Financing Activities | <u>1,811,254</u> | <u>1,401,014</u> |
| Increase in Cash and Cash Equivalents | 2,254,867 | 543,733 |
| Cash and Cash Equivalents at Beginning of Year | <u>543,733</u> | <u>—</u> |
| Cash and Cash Equivalents at End of Year | <u>\$ 2,798,600</u> | <u>\$ 543,733</u> |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| Cash paid during the year for interest | <u>\$ 93,405</u> | <u>\$ 54,323</u> |
| Cash paid during the year for income taxes | <u>\$ 524,132</u> | <u>\$ 27,550</u> |
| SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES | | |
| Purchase of equipment through capital lease | <u>\$ —</u> | <u>\$ 83,281</u> |
| Net assets transferred and assigned by the Institute at inception as additional paid-in capital | <u>\$ —</u> | <u>\$ 2,293,942</u> |
| Net assets contributed as additional paid-in capital: | | |
| Inventory | \$ — | \$ 21,756 |
| Property and equipment | 2,448,922 | 7,363 |
| Property and equipment-construction in progress | <u>—</u> | <u>394,427</u> |
| | <u>\$ 2,448,922</u> | <u>\$ 423,546</u> |
| Contribution of professional services as additional paid-in capital | <u>\$ —</u> | <u>\$ 63,217</u> |

See notes to consolidated financial statements.

BROOKWOOD PHARMACEUTICALS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE A — INCEPTION OF BUSINESS

Brookwood Pharmaceuticals, Inc. (Brookwood) was incorporated in November 2004 and began operations on January 1, 2005. Brookwood is a wholly-owned subsidiary of Southern Research Institute (the Institute), a not-for-profit entity.

The accompanying consolidated financial statements are comprised of the accounts of Brookwood Pharmaceuticals, Inc. and its wholly-owned subsidiary, Lakeshore Biomaterials, Inc. (Lakeshore). Upon consolidation, all material intercompany accounts and transactions between Brookwood and Lakeshore (collectively, the Company) have been eliminated.

The Company was formed to maximize the value of certain business activities at the Institute. Brookwood's programs include feasibility studies, product development, process scale up, clinical trial manufacturing, and contract manufacturing performed for pharmaceutical, medical device, and drug delivery companies. Lakeshore designs, develops, and manufactures biodegradable polymers for pharmaceutical, medical device, and drug delivery companies and universities. The international customer base comprises approximately 59 percent of consolidated revenues and represents customers in Australia, France, Germany, Japan, and Switzerland. All international transactions use the United States Dollar as the functional currency.

Effective January 1, 2005, the Institute and Brookwood entered into an Asset Transfer Agreement and Intellectual Property Agreement pursuant to which the Institute transferred and assigned to Brookwood certain assets used or held for use in the drug delivery business. The following assets were transferred and assigned, and the following liabilities were assumed as of January 1, 2005:

| | |
|-------------------------------------|---------------------|
| Accounts receivable | \$ 12,869 |
| Prepayments | 47,827 |
| Property and equipment | 1,788,512 |
| Patents | 572,152 |
| Unearned revenue | (42,161) |
| Accrued liabilities | <u>(85,257)</u> |
| Net assets transferred and assigned | <u>\$ 2,293,942</u> |

BROOKWOOD PHARMACEUTICALS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE A — INCEPTION OF BUSINESS — Continued

Additionally, in 2005 the Institute contributed and assigned assets to Lakeshore, and liabilities were assumed as follows:

| | |
|---|------------------|
| Intangible assets | \$ 840,669 |
| Equipment | 26,600 |
| Long-term debt to Alkermes, net of imputed interest | <u>(867,269)</u> |
| Net assets transferred and assigned | <u>\$ —</u> |

All assets and liabilities transferred and assigned in 2005 were at the Institute's historical cost as the transfers were between entities under common control. Total net assets transferred and assigned in 2005 represent the Institute's initial capital contribution to the Company.

NOTE B — SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company classifies all highly liquid investments with maturities of three months or less when purchased as cash equivalents. The Company maintains bank deposit accounts which, at times, may exceed federally insured limits.

Accounts Receivable

Accounts receivable are shown at the net amounts management estimates to be collectible. The Company uses the allowance method of accounting for returned goods and doubtful accounts based on management's review of accounts and evaluation of historical bad debts and current accounts receivable.

Inventory

Inventory is valued at the lower of cost or market, with cost determined by the first-in, first-out (FIFO) method.

BROOKWOOD PHARMACEUTICALS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE B — SIGNIFICANT ACCOUNTING POLICIES — Continued

Intangible Assets

Intangible assets include the costs of acquiring and defending patents and licenses on technology developed by the Company. The costs of patents and licenses are being amortized using the straight-line method over their estimated useful lives, approximately 15 years. Other intangibles subject to amortization are being amortized over 3-5 years. Impairment of intangible assets is reviewed annually and the carrying value adjusted based on the probability of future benefit. Goodwill and other intangible assets that have indefinite useful lives are not amortized; however, these assets are evaluated at least annually for impairment.

Independent Research and Development Costs

Independent research and development (IR&D) is conducted by the Company under internal projects and under contracts for customers. IR&D costs incurred were \$467,896 in 2006 (\$96,172 in 2005) and are included in other operating expenses in the accompanying consolidated statements of operations.

Property and Equipment

Property and equipment, including assets under capital leases, are recorded at cost and are depreciated or amortized using the straight-line method over the following estimated useful lives of the assets or the period of the lease, whichever is shorter. Amortization of assets under capital leases is included in depreciation expense.

| | |
|-----------------------------------|------------|
| Building | 18.5 years |
| Laboratory equipment and fixtures | 5-20 years |
| Office furniture and equipment | 5-10 years |
| Computer equipment and software | 3-5 years |

Income Taxes

The Company uses the asset and liability method to establish deferred tax assets and liabilities for the temporary differences between the financial reporting bases and the tax bases of the Company's assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled. Valuation allowances are established when necessary to reduce net deferred tax assets to the amount expected to be realized.

BROOKWOOD PHARMACEUTICALS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE B — SIGNIFICANT ACCOUNTING POLICIES — Continued

Revenue Recognition

Revenue is recognized at shipment for products sold and when fees for contract manufacturing and product development are earned.

The Company receives revenue from the licensing of intellectual property. Revenue is received in the form of license and option fees and royalties on drug sales. License and option fees are recognized as revenue when the earnings process is complete and the Company has no further continuing performance obligations and has completed its performance under the terms of the agreement. Royalties received on the sale of drugs licensed to third-parties are recognized as revenue based on receipt of the quarterly royalty payment and estimated for periods for which the royalty payment has not been received.

Stock-Based Compensation

The Company accounts for stock options under the provisions of Statement of Financial Accounting Standards (SFAS) No. 123(R), *Share-Based Payment (as amended)*, effective January 1, 2006.

Management has determined that a similar publicly-held company is representative of the Company's size and industry and has used the historical closing return values of that company to estimate volatility. Using the Black-Scholes-Merton option pricing model, management has determined that the options issued in 2006 have a fair value of \$6.67 per share. Total compensation cost associated with these options is \$426,016 and will be recognized over the service period that began on the grant date. Compensation cost recognized on options granted in 2006 was \$159,017 (\$99,017 after tax).

The assumptions used and the weighted average calculated value of options are as follows for the year ended December 31, 2006:

| | |
|--|---------|
| Risk-free interest rate | 4.82% |
| Expected dividend yield | — |
| Expected volatility | 47.41% |
| Expected life in years | 5 |
| Service period in years | 5 |
| Weighted average calculated value of options granted | \$ 6.67 |

BROOKWOOD PHARMACEUTICALS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE C — ACCOUNTS RECEIVABLE

The components of accounts receivable at December 31 are as follows:

| | 2006 | 2005 |
|-----------------|---------------------|---------------------|
| Billed | \$ 3,708,308 | \$ 1,723,173 |
| Unbilled | 622,894 | 558,586 |
| | <u>4,331,202</u> | <u>2,281,759</u> |
| Less allowances | 12,000 | 12,000 |
| | <u>\$ 4,319,202</u> | <u>\$ 2,269,759</u> |

Accrued costs and profits on customer-sponsored development and manufacturing contracts included in unbilled receivables are billed as work is performed and accepted by the customer, generally during the Company's calendar year. The Company estimates that unbilled receivables will be collectible within one year.

NOTE D — PROPERTY AND EQUIPMENT

The Company's property and equipment consists of the following at December 31:

| | 2006 | 2005 |
|-------------------------------|---------------------|---------------------|
| Buildings and improvements | \$ 3,770,277 | \$ — |
| Laboratory equipment | 1,864,859 | 1,411,506 |
| Furniture and fixtures | 225,895 | 142,250 |
| Computer equipment | 223,683 | 131,116 |
| Leasehold improvements | — | 1,321,355 |
| Equipment under lease | <u>83,281</u> | <u>83,281</u> |
| | 6,167,995 | 3,089,508 |
| Less accumulated depreciation | <u>800,193</u> | <u>274,531</u> |
| | <u>\$ 5,367,802</u> | <u>\$ 2,814,977</u> |

BROOKWOOD PHARMACEUTICALS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE D — PROPERTY AND EQUIPMENT — Continued

Depreciation expense for the year ended December 31, 2006, was \$525,662 (\$274,531 in 2005).

NOTE E — INTANGIBLE ASSETS

Intangible assets consist of the following at December 31:

| | 2006 | 2005 |
|---|---------------------|---------------------|
| Intangibles subject to amortization: | | |
| Alkermes supply agreement — Lakeshore | \$ 140,544 | \$ 140,544 |
| Customer list — Lakeshore | 304,150 | 304,150 |
| Drug master file — Lakeshore | 32,000 | 32,000 |
| Patents — Brookwood | 990,370 | 774,803 |
| | 1,467,064 | 1,251,497 |
| Less accumulated amortization | 384,532 | 187,238 |
| | 1,082,532 | 1,064,259 |
| Intangibles not subject to amortization: | | |
| Technology transfer — Lakeshore | 299,520 | 299,520 |
| Goodwill — Lakeshore | 64,455 | 64,455 |
| | 363,975 | 363,975 |
| | \$ 1,446,507 | \$ 1,428,234 |

Amortization expense for the year ended December 31, 2006, was \$197,294 (\$187,238 in 2005.)

BROOKWOOD PHARMACEUTICALS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE E — INTANGIBLE ASSETS — Continued

The estimated aggregate amortization expense for each of the five succeeding fiscal years, thereafter and in the aggregate for intangible assets subject to amortization is as follows:

| | |
|------------|---------------------|
| 2007 | \$ 206,436 |
| 2008 | 157,472 |
| 2009 | 155,797 |
| 2010 | 84,269 |
| 2011 | 76,973 |
| Thereafter | <u>401,585</u> |
| | <u>\$ 1,082,532</u> |

NOTE F — INCOME TAXES

Income tax expense (benefit) at December 31 is comprised as follows:

| | 2006 | 2005 |
|--------------------------------|-------------------|--------------------|
| Current tax expense | \$ 390,378 | \$ 27,550 |
| Deferred tax expense (benefit) | <u>121,000</u> | <u>(70,000)</u> |
| | <u>\$ 511,378</u> | <u>\$ (42,450)</u> |

As of December 31, 2005, the Company had an estimated \$245,500 of federal and \$695,000 of state net operating loss carryforwards that were used during 2006.

The difference between the Company's effective tax rate and the statutory rate is due to nondeductible expenses.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company's deferred tax assets result primarily from the future benefit from deductions of accrued expenses and net operating loss carryforwards. The Company's deferred tax liabilities result primarily from temporary differences in generally accepted accounting principles and tax basis for depreciation and prepaid expenses.

BROOKWOOD PHARMACEUTICALS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE F — INCOME TAXES — Continued

Deferred taxes at December 31 are as follows:

| | 2006 | 2005 |
|------------------------------------|--------------------|------------------|
| Deferred tax assets | \$ — | \$ 90,000 |
| Deferred tax liabilities | <u>(51,000)</u> | <u>(20,000)</u> |
| Net deferred tax asset (liability) | <u>\$ (51,000)</u> | <u>\$ 70,000</u> |

NOTE G — LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

As discussed in Note A, in 2005 the Institute transferred assets and liabilities from an acquisition transaction with Alkermes, Inc. (Alkermes). The debt agreement assumed calls for four annual payments of \$250,000 beginning November 5, 2005 through 2008. The note is noninterest bearing, and a discount for interest has been imputed at 5.95 percent.

Interest expense in the amount of \$35,678 has been recognized in 2006 for this debt (\$52,319 in 2005).

The Company's long-term debt is comprised of the following at December 31:

| | 2006 | 2005 |
|---|-------------------|-------------------|
| Note payable to Alkermes, net of discount for imputed interest of \$41,331 and \$81,128 at December 31, 2006 and 2005, respectively | \$ 458,669 | \$ 668,872 |
| Capital lease obligations, interest at 7.5% | <u>48,562</u> | <u>74,923</u> |
| | 507,231 | 743,795 |
| Less current portion | <u>251,117</u> | <u>236,564</u> |
| | <u>\$ 256,114</u> | <u>\$ 507,231</u> |

BROOKWOOD PHARMACEUTICALS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE G — LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS — Continued

Long-term debt matures as follows:

| | |
|------|-------------------|
| 2007 | \$ 251,117 |
| 2008 | <u>256,114</u> |
| | <u>\$ 507,231</u> |

NOTE H — STOCK OPTIONS

In 2005, the Board of Directors approved the Equity Incentive Plan (the Plan) which was established as a compensatory plan to enable the Company to attract and retain key employees, consultants, and directors of the Company and to provide an incentive for them to achieve long-range performance goals, to enable such individuals to participate in the long-term growth of the Company, and to enable the Company to continue to enlist and retain in its employ the best available talent for the successful conduct of its business. The Plan reserved 200,000 shares of the Company's common stock to be available for grants of awards under the Plan. Types of awards under the Plan are: (1) stock options; (2) stock appreciation rights; (3) restricted stock; and (4) restricted stock units. During 2006, the Company granted 64,900 options at a price of \$14.00 per share. The maximum term is 10 years from the date of the grant, and the options vest 25 percent per year from the date of the grant.

BROOKWOOD PHARMACEUTICALS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE H — STOCK OPTIONS — Continued

The following is an analysis of options to purchase shares of the Company's stock issued and outstanding as of December 31, 2006:

| | Shares | Weighted Average Exercise Price |
|---------------------------------|----------------|------------------------------------|
| Outstanding, beginning of year: | — | \$ — |
| Granted | 64,900 | 14.00 |
| Exercised | — | — |
| Cancelled | — | — |
| Forfeited | <u>(1,000)</u> | <u>14.00</u> |
| Outstanding, end of year | <u>63,900</u> | <u>\$ 14.00</u> |

As of December 31, 2006, no options were vested and exercisable. These options have a weighted average remaining contractual term of 9.28 years. Compensation cost of approximately \$267,000 has not yet been recognized on nonvested awards. The weighted average period over which it is expected to be recognized is 2.06 years.

NOTE I — PREFERRED STOCK

During 2006, the Company issued 1,000,000 shares of \$.01 par value, eight percent cumulative preferred stock to the Institute. The preferred stock was issued in recognition of capital contributions made by the Institute in 2005, amounting to \$4,280,705, as well as additional consideration received in 2006. The consideration received in 2006 consisted of \$2,000,000 cash and a building transferred from the Institute at its book value of \$2,448,922. The preferred stock is redeemable at the option of the Company at \$8.70 per share. The preferred stock generally votes together as a single class with the common stock and has one vote per share. Dividends in arrears at December 31, 2006, are \$468,917.

BROOKWOOD PHARMACEUTICALS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE J — EMPLOYEE BENEFIT PLAN

The Company participates in the Southern Research Institute contributory retirement plan available to all employees after they have attained certain age and service requirements. Employees may contribute a percentage of their pretax salary, not to exceed the maximum allowed under the Internal Revenue Code. Contributions by employees are matched in accordance with the plan agreements. The total expense for the year ended December 31, 2006, amounted to \$245,812 for this plan (\$167,438 in 2005).

NOTE K — RELATED PARTY TRANSACTIONS

As discussed in Note A, the Company is a wholly-owned subsidiary of Southern Research Institute. The Company pays for administrative and maintenance support provided by the Institute. Such expenses charged by the Institute totaled \$563,167 in 2006 (\$358,710 during 2005). Amounts due to the Institute at December 31, 2006, totaled \$155,577 (\$107,759 in 2005). See also Note M.

NOTE L — OPERATING LEASES

The Company leases office warehouse space and equipment under various operating leases that expire during the next one to five years. Rental expense under all operating leases for the year ended December 31, 2006, amounted to \$136,590 (\$245,772 in 2005). Future lease payments required under noncancelable operating leases having initial or remaining terms in excess of one year consisted of the following as of December 31:

| | |
|------|-------------------|
| 2007 | \$ 143,553 |
| 2008 | 142,660 |
| 2009 | 143,455 |
| 2010 | 140,806 |
| 2011 | <u>21,330</u> |
| | <u>\$ 591,804</u> |

BROOKWOOD PHARMACEUTICALS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE M — COMMITMENTS AND CONTINGENCIES

In conjunction with Brookwood's licensing agreement with the Institute, Brookwood is obligated to pay to the Institute royalties in the amount of 25 percent of Intellectual Property License Revenue as defined in the agreement. In 2006, Brookwood has accrued \$24,074 for these royalties. The Institute waived such obligation as applicable to 2005 revenues.

The Company may potentially be involved in litigation arising from the normal course of business. Management believes that any liability that may ultimately result from the resolution of these matters will not have a material adverse effect on the financial condition or results of operations of the Company.

NOTE N — NEW ACCOUNTING PRONOUNCEMENTS

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 requires the use of a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in a tax return and disclosures regarding uncertainties in income tax positions. Only tax positions that meet the "more likely than not" recognition threshold at the effective date may be recognized upon adoption of FIN 48. The Company is required to adopt FIN 48 effective for the year ending December 31, 2007. The cumulative effect of initially adopting FIN 48, if any, will be recorded as an adjustment to opening retained earnings in the year of adoption and will be presented separately. Management is currently evaluating the impact this new standard will have on its future results of operations and financial position.

BROOKWOOD PHARMACEUTICALS, INC. AND SUBSIDIARY
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET
AS OF JUNE 30, 2007

June 30
2007

| | |
|---|----------------------------|
| ASSETS | |
| Current Assets: | |
| Cash and cash equivalents | \$ 4,420,943 |
| Accounts receivable, net | 3,458,438 |
| Inventory | 446,273 |
| Prepayments and other current assets | 213,804 |
| Total Current Assets | 8,539,458 |
| Property and Equipment, net | 5,426,541 |
| Other Assets | |
| Intangible assets, net | 1,270,794 |
| Other long-term assets | 2,000 |
| Total Other Assets | 1,272,794 |
| TOTAL ASSETS | <u>\$15,238,793</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | |
| Current Liabilities | |
| Accounts payable | \$ 692,063 |
| Accounts payable — parent company | 30,277 |
| Accrued liabilities | 279,760 |
| Unearned revenue | 2,770,064 |
| Current portion of long-term debt | 252,199 |
| Deferred income taxes | 45,000 |
| Total Current Liabilities | 4,069,363 |
| Long-Term Debt | 241,093 |
| Deferred income taxes | 6,000 |
| Stockholder equity | |
| Preferred Stock | 10,000 |
| Common Stock | 10 |
| Additional paid-in capital | 8,989,879 |
| Retained earnings | 1,922,448 |
| Total Stockholders' equity | 10,922,337 |
| TOTAL LIABILITIES AND STOCKHOLDER EQUITY | <u>\$15,238,793</u> |

BROOKWOOD PHARMACEUTICALS, INC. AND SUBSIDIARY
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006

| | 2007 | 2006 |
|--|--------------|--------------|
| Revenues | | |
| Contract revenues | \$ 6,857,749 | \$ 4,855,599 |
| Intellectual property revenues, net of direct expenses | 35,730 | 57,222 |
| Polymer revenue | 1,594,798 | 1,045,013 |
| | 8,488,277 | 5,957,834 |
| Cost of Sales | | |
| Direct expenses | 2,924,395 | 2,311,565 |
| Overhead | 1,814,672 | 1,202,760 |
| | 4,739,067 | 3,514,325 |
| Gross Margin | 3,749,210 | 2,443,509 |
| Other Operating Expenses | | |
| Research and development | 330,348 | 173,867 |
| Selling, general and administrative | 1,846,601 | 1,438,946 |
| | 2,176,949 | 1,612,813 |
| Income from Operations | 1,572,261 | 830,696 |
| Other Income (Expense) | 50,938 | (9,664) |
| Net Income before Income Taxes | 1,623,199 | 821,032 |
| Net Income Tax Expense | 572,525 | 188,932 |
| Net Income | \$ 1,050,674 | \$ 632,100 |

BROOKWOOD PHARMACEUTICALS, INC. AND SUBSIDIARY
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006

| | <u>2007</u> | <u>2006</u> |
|---|---------------------|---------------------|
| Cash Flows from Operating Activities | | |
| Net Income | \$ 1,050,674 | \$ 632,100 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 397,173 | 346,722 |
| Stock-based compensation | 111,235 | 31,110 |
| Change in operating assets and liabilities: | | |
| Accounts receivable, net | 859,795 | (872,643) |
| Inventory | (10,019) | 99,117 |
| Prepayments and other current assets | (23,054) | (59,273) |
| Accounts payable | (88,192) | (525,997) |
| Accrued liabilities | 145,506 | 41,809 |
| Unearned revenue | (540,577) | 283,741 |
| Net Cash Provided by (used in) Operating Activities | <u>1,902,541</u> | <u>(23,314)</u> |
| Cash Flows from Investing Activities | | |
| Payment for intangible assets, net of reimbursement | 74,620 | (72,618) |
| Capital expenditures | (354,818) | (178,587) |
| Net Cash Used by Investing Activities | <u>(280,198)</u> | <u>(251,205)</u> |
| Cash Flows from Financing Activities | | |
| Proceeds from issuance of preferred stock | — | 2,000,000 |
| Net Cash Provided by Financing Activities | <u>—</u> | <u>2,000,000</u> |
| Increase in Cash and Cash equivalents | 1,622,343 | 1,725,481 |
| Cash and Cash Equivalents at Beginning of Period | 2,798,600 | 543,733 |
| Cash and Cash Equivalents at End of Period | <u>\$ 4,420,943</u> | <u>\$ 2,269,214</u> |

SURMODICS, INC.
UNAUDITED PRO FORMA COMBINED CONDENSED FINANCIAL STATEMENTS

The following unaudited pro forma combined condensed financial statements relate to the acquisition (the "Acquisition") by SurModics, Inc. ("SurModics") of all of the issued and outstanding shares of capital stock of Brookwood Pharmaceuticals, Inc. ("Brookwood") for approximately \$40 million in cash at closing (subject to adjustment based on Brookwood's working capital as of closing), with the potential for up to an additional \$22 million in future cash payments subject to the achievement by Brookwood of certain revenue and project milestones.

The following unaudited pro forma combined condensed balance sheet gives effect to the Acquisition as if it was completed on June 30, 2007 and combines the SurModics June 30, 2007 unaudited consolidated balance sheet with the Brookwood June 30, 2007 unaudited consolidated balance sheet. The following unaudited pro forma combined condensed income statement for the year ended September 30, 2006 gives effect to the Acquisition as if it was completed on October 1, 2005. The following unaudited pro forma combined condensed income statement for the nine months ended June 30, 2007 gives effect to the Acquisition as if it was completed on October 1, 2006.

SurModics and Brookwood have different fiscal year ends. The unaudited pro forma combined condensed income statement for the year ended September 30, 2006 combines SurModics' historical consolidated income statement for the year ended September 30, 2006 with Brookwood's historical consolidated income statement for the year ended December 31, 2006. The unaudited pro forma combined condensed income statement for the nine months ended June 30, 2007 combines SurModics' historical consolidated income statement for the nine months ended June 30, 2007 with Brookwood's historical consolidated income statement for the six months ended June 30, 2007 and with Brookwood's historical consolidated income statement for the three months ended December 31, 2006.

As a result, Brookwood's historical results of operations for the three months ended December 31, 2006 are included in the unaudited pro forma combined condensed income statements for both the year ended September 30, 2006 and the nine months ended June 30, 2007. Brookwood's historical financial results for the three months ended December 31, 2006, which are included in both of these periods, are as follows (in thousands):

| | |
|----------|----------|
| Revenues | \$ 3,182 |
| Net loss | \$ (8) |

The unaudited pro forma combined condensed financial statements are presented for informational purposes only and do not purport to represent what SurModics' financial position or results of operations would have been had the Acquisition occurred as of the dates indicated, nor is it indicative of SurModics' future financial position or results of operations for any period.

For periods subsequent to the closing of the Acquisition, SurModics will account for the Acquisition under the purchase method of accounting. A final determination of the allocation of purchase price to the assets acquired and liabilities assumed based on their respective fair values has not yet been completed. Accordingly, the purchase accounting adjustments made in connection with the development of the pro forma combined condensed financial information are preliminary and have been made solely for purposes of developing such pro forma combined condensed financial statements. The actual financial position and results of operations will differ, perhaps significantly, from the pro forma amounts reflected herein.

The unaudited pro forma combined condensed financial statements should be read in conjunction with the accompanying notes and assumptions and the audited consolidated financial statements and related notes thereto included in SurModics' Annual Report on Form 10-K for the year ended September 30, 2006 and the unaudited consolidated financial statements in SurModics' Quarterly Report on Form 10-Q for the nine months ended June 30, 2007.

UNAUDITED PRO FORMA COMBINED CONDENSED BALANCE SHEET
AS OF JUNE 30, 2007
(IN THOUSANDS, EXCEPT SHARE DATA)

| | <u>SurModics Historical</u> | <u>Brookwood Historical</u> | <u>Pro Forma Adjustments</u> | <u>Notes</u> | <u>Combined Pro Forma</u> |
|---|---------------------------------|---------------------------------|----------------------------------|--------------|-------------------------------|
| ASSETS | | | | | |
| Current Assets | | | | | |
| Cash and cash equivalents | \$ 3,960 | \$ 4,421 | | | \$ 8,381 |
| Short-term investments | 42,343 | | (42,266) | (a) | 77 |
| Accounts receivable, net | 30,460 | 3,458 | | | 33,918 |
| Inventories | 1,259 | 446 | | | 1,705 |
| Deferred tax asset | 496 | | | | 496 |
| Income tax receivable | 483 | | | | 483 |
| Prepays and other | 1,754 | 214 | | | 1,968 |
| Total current assets | <u>80,755</u> | <u>8,539</u> | <u>(42,266)</u> | | <u>47,028</u> |
| Property and equipment, net | 11,447 | 5,427 | 1,969 | (c) | 18,843 |
| Long-term investments | 47,785 | | | | 47,785 |
| Deferred tax asset | 3,268 | | (3,268) | (a) | — |
| Goodwill | — | — | 10,381 | (a) | 10,381 |
| Other assets, net | 21,603 | 1,273 | 8,029 | (a) | 30,905 |
| Total Assets | <u>\$ 164,858</u> | <u>\$ 15,239</u> | <u>\$ (25,155)</u> | | <u>\$ 154,942</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | |
| Current Liabilities | | | | | |
| Accounts payable | \$ 1,013 | \$ 722 | | | \$ 1,735 |
| Accrued liabilities | 1,470 | 280 | | | 1,750 |
| Deferred revenue | 3,654 | 2,770 | | | 6,424 |
| Other current liabilities | 1,000 | 297 | | | 1,297 |
| Total current liabilities | <u>7,137</u> | <u>4,069</u> | <u>—</u> | | <u>11,206</u> |
| Deferred revenue, less current portion | 20,175 | | | | 20,175 |
| Other long-term liabilities | — | 247 | 968 | (a)(c) | 1,215 |
| Total Liabilities | <u>27,312</u> | <u>4,316</u> | <u>968</u> | | <u>32,596</u> |
| Stockholders' Equity | | | | | |
| Preferred stock- \$.01 par value | — | 10 | (10) | (b) | — |
| Common stock- \$.05 par value | 899 | | | | 899 |
| Additional paid-in capital | 68,728 | 8,990 | (8,990) | (b) | 68,728 |
| Accumulated other comprehensive income | 2,393 | | | | 2,393 |
| Retained earnings | 65,526 | 1,923 | (17,123) | (a) (b) | 50,326 |
| Total Stockholders' Equity | <u>137,546</u> | <u>10,923</u> | <u>(26,123)</u> | | <u>122,346</u> |
| Total Liabilities and Stockholders' Equity | <u>\$ 164,858</u> | <u>\$ 15,239</u> | <u>\$ (25,155)</u> | | <u>\$ 154,942</u> |

UNAUDITED PRO FORMA COMBINED CONDENSED INCOME STATEMENT
YEAR ENDED SEPTEMBER 30, 2006
(IN THOUSANDS, EXCEPT PER SHARE DATA)

| | <u>SurModics Historical</u> | <u>Brookwood Historical</u> | <u>Pro Forma Adjustments</u> | <u>Notes</u> | <u>Combined Pro Forma</u> |
|--|---------------------------------|---------------------------------|----------------------------------|--------------|-------------------------------|
| Revenue | | | | | |
| Royalties and license fees | \$ 53,008 | \$ 49 | \$ | | \$ 53,057 |
| Product sales | 11,172 | 2,031 | | | 13,203 |
| Research and development | 5,704 | 10,641 | | | 16,345 |
| Total revenue | <u>69,884</u> | <u>12,721</u> | <u>—</u> | | <u>82,605</u> |
| Operating costs and expenses | | | | | |
| Product | 3,399 | 711 | | | 4,110 |
| Research and development | 20,391 | 7,608 | (1,258) | (d) (e) (g) | 26,741 |
| Sales and marketing | 1,424 | 524 | | | 1,948 |
| General and administrative | 8,507 | 2,422 | (293) | (e) (g) | 10,636 |
| Total operating costs and expenses | <u>33,721</u> | <u>11,265</u> | <u>(1,551)</u> | | <u>43,435</u> |
| Income from operations | <u>36,163</u> | <u>1,456</u> | <u>1,551</u> | | <u>39,170</u> |
| Other income | | | | | |
| Investment income | 4,210 | 81 | (1,881) | (f) | 2,410 |
| Impairment loss | (4,651) | | | | (4,651) |
| Other loss | (157) | | | | (157) |
| Other income (loss) | <u>(598)</u> | <u>81</u> | <u>(1,881)</u> | | <u>(2,398)</u> |
| Income before income taxes | 35,565 | 1,537 | (330) | | 36,772 |
| Income tax (provision) benefit | <u>(15,231)</u> | <u>(511)</u> | <u>1,677</u> | (h) | <u>(14,065)</u> |
| Net income | <u>\$ 20,334</u> | <u>\$ 1,026</u> | <u>\$ 1,347</u> | | <u>\$ 22,707</u> |
| Basic net income per share | <u>\$ 1.10</u> | | | | <u>\$ 1.23</u> |
| Diluted net income per share | <u>\$ 1.09</u> | | | | <u>\$ 1.21</u> |
| Weighted average shares outstanding | | | | | |
| Basic | 18,527 | | | | 18,527 |
| Dilutive effect of outstanding stock options | 192 | | 58 | (g) | 250 |
| Diluted | <u>18,719</u> | | | | <u>18,777</u> |

UNAUDITED PRO FORMA COMBINED CONDENSED INCOME STATEMENT
NINE MONTHS ENDED JUNE 30, 2007
(IN THOUSANDS, EXCEPT PER SHARE DATA)

| | <u>SurModics Historical</u> | <u>Brookwood Historical</u> | <u>Pro Forma Adjustments</u> | <u>Notes</u> | <u>Combined Pro Forma</u> |
|--|---------------------------------|---------------------------------|----------------------------------|--------------|-------------------------------|
| Revenue | | | | | |
| Royalties and license fees | \$ 39,664 | \$ 26 | \$ | | \$ 39,690 |
| Product sales | 9,054 | 2,060 | | | 11,114 |
| Research and development | 3,147 | 9,585 | | | 12,732 |
| Total revenue | <u>51,865</u> | <u>11,671</u> | <u>—</u> | | <u>63,536</u> |
| Operating costs and expenses | | | | | |
| Product | 3,396 | 485 | | | 3,881 |
| Research and development | 17,124 | 6,760 | (943) | (d) (e) (g) | 22,941 |
| Sales and marketing | 989 | 399 | | | 1,388 |
| General and administrative | 6,644 | 2,356 | (220) | (e) (g) | 8,780 |
| Total operating costs and expenses | <u>28,153</u> | <u>10,000</u> | <u>(1,163)</u> | | <u>36,990</u> |
| Income from operations | <u>23,712</u> | <u>1,671</u> | <u>1,163</u> | | <u>26,546</u> |
| Other income | | | | | |
| Investment income | 3,731 | 122 | (1,411) | (f) | 2,442 |
| Impairment loss | — | | | | — |
| Other loss | (29) | | | | (29) |
| Other income (loss) | <u>3,702</u> | <u>122</u> | <u>(1,411)</u> | | <u>2,413</u> |
| Income before income taxes | 27,414 | 1,793 | (248) | | 28,959 |
| Income tax (provision) benefit | (10,161) | (750) | 179 | (h) | (10,732) |
| Net income | <u>\$ 17,253</u> | <u>\$ 1,043</u> | <u>\$ (69)</u> | | <u>\$ 18,227</u> |
| Basic net income per share | | | | | |
| | <u>\$ 0.95</u> | | | | <u>\$ 1.01</u> |
| Diluted net income per share | | | | | |
| | <u>\$ 0.95</u> | | | | <u>\$ 1.00</u> |
| Weighted average shares outstanding | | | | | |
| Basic | 18,116 | | | | 18,116 |
| Dilutive effect of outstanding stock options | 133 | | 58 | (g) | 191 |
| Diluted | <u>18,249</u> | | | | <u>18,307</u> |

**NOTES TO UNAUDITED PRO FORMA
COMBINED CONDENSED FINANCIAL INFORMATION**

- (a) The total cost of \$42.3 million is expected to consist of \$40.0 million in consideration and \$2.3 million in transaction costs.

SurModics performed a preliminary appraisal of the tangible and intangible assets acquired in the acquisition of Brookwood Pharmaceuticals, Inc. The following values have been allocated to the intangible assets based upon their preliminary fair values as determined by the appraisal: \$6.4 million to technology and \$2.9 to customer relationships. These are expected to be amortized on a straight-line basis over periods ranging from 11 to 18 years. In addition, \$15.2 million was identified as in-process research and development costs which are expensed on the acquisition date. This has been reflected within the pro forma adjustment as a reduction in retained earnings. The fair value of property plant and equipment exceeded the historical book value by \$2.0 million. Deferred tax liabilities of \$4.3 million have been recorded to reflect the basis differences between book and tax in connection with the purchase price allocation.

Pre-existing deferred tax assets of \$3.3 million have been reclassified to now be included as a component of the net deferred tax liability. The excess of the total purchase price over the preliminary fair values of all identifiable assets acquired, net of liabilities, amounted to approximately \$10.4 million.

- (b) To eliminate the historical equity of Brookwood Pharmaceuticals, Inc.
- (c) Adjustments represent the elimination of pre-existing intangible assets of \$1.3 million and related deferred tax assets thereon of \$74,000 for which no value was assigned in the purchase price allocation.
- (d) To record amortization of acquired intangibles associated with the acquisition. The definite lived intangible assets of approximately \$9.3 million are expected to be amortized on a straight-line basis over periods ranging from 11 to 18 years.
- (e) To record incremental depreciation resulting from the increase in fair value of the property acquired.
- (f) Adjustment represents interest income assumed to be foregone at a weighted-average of 4.45% due to the cash being paid from short term investments.
- (g) As part of consideration for the acquisition of Brookwood Pharmaceuticals, Inc., SurModics awarded employees of Brookwood 58,027 shares of restricted stock. Compensation expense related to the issuance of these restricted shares is reflected as a pro forma adjustment for year ended September 30, 2006 and nine months ended June 30, 2007. Total compensation expense was calculated utilizing an assumed forfeiture rate and the July 31, 2007 closing stock price.
- (h) Adjustments to income tax provision relating to adjustments (d), (e), (f) and (g) assuming a blended U.S. Federal and state income tax rate of 38% for the year ended September 30, 2006 and 37% for nine months ended June 30, 2007