

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2010

or

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

For the transition period from _____ to _____

Commission File Number: 0-23837

SurModics, Inc.

(Exact name of registrant as specified in its charter)

MINNESOTA
(State of incorporation)

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

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

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

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

Yes No

The number of shares of the registrant's Common Stock, \$.05 par value per share, outstanding as of May 3, 2010 was 17,409,835.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SurModics, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

	<u>March 31,</u> <u>2010</u>	<u>September 30,</u> <u>2009</u>
<i>(In thousands, except share data)</i>		
ASSETS		
Current assets		
Cash and cash equivalents	\$ 11,174	\$ 11,636
Short-term investments	8,170	8,932
Accounts receivable, net of allowance for doubtful accounts of \$195 and \$82 as of March 31, 2010 and September 30, 2009, respectively	12,805	11,320
Inventories	3,312	3,330
Deferred tax asset	721	353
Prepays and other	2,514	1,443
Total current assets	<u>38,696</u>	<u>37,014</u>
Property and equipment, net	64,249	66,915
Long-term investments	32,467	27,300
Deferred tax asset	1,752	2,548
Intangible assets, net	16,644	17,458
Goodwill	21,820	21,070
Other assets, net	14,886	13,257
Total assets	<u>\$ 190,514</u>	<u>\$ 185,562</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 2,004	\$ 3,468
Accrued liabilities	2,219	2,563
Accrued income taxes payable	—	186
Deferred revenue	1,054	905
Other current liabilities	1,797	862
Total current liabilities	7,074	7,984
Deferred revenue, less current portion	4,047	623
Other long-term liabilities	4,811	4,583
Total liabilities	<u>15,932</u>	<u>13,190</u>
Commitments and contingencies		
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; 17,416,335 and 17,471,472 shares issued and outstanding	871	874
Additional paid-in capital	67,341	66,005
Accumulated other comprehensive income	890	1,504
Retained earnings	105,480	103,989
Total stockholders' equity	<u>174,582</u>	<u>172,372</u>
Total liabilities and stockholders' equity	<u>\$ 190,514</u>	<u>\$ 185,562</u>

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

SurModics, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations

	Three Months Ended March 31,		Six Months Ended March 31,	
	2010	2009	2010	2009
	<i>(unaudited)</i>		<i>(unaudited)</i>	
<i>(In thousands, except per share data)</i>				
Revenue				
Royalties and license fees	\$ 7,779	\$ 10,052	\$ 16,977	\$ 57,799
Product sales	5,269	4,776	9,817	8,632
Research and development	5,312	6,097	8,947	17,710
Total revenue	18,360	20,925	35,741	84,141
Operating costs and expenses				
Product costs	2,475	1,838	4,432	3,353
Customer research and development	4,783	3,368	8,106	7,073
Other research and development	4,565	5,116	9,284	10,764
Selling, general and administrative	4,109	4,403	8,723	9,086
Purchased in-process research and development	—	—	—	3,200
Restructuring charges	1,306	—	1,306	1,798
Asset impairment charge	2,074	—	2,074	—
Total operating costs and expenses	19,312	14,725	33,925	35,274
(Loss) income from operations	(952)	6,200	1,816	48,867
Other income				
Investment income	281	397	578	1,131
Other income (loss), net	3	20	3	(129)
Other income	284	417	581	1,002
(Loss) income before income taxes	(668)	6,617	2,397	49,869
Income tax benefit (provision)	241	(2,401)	(907)	(18,568)
Net (loss) income	\$ (427)	\$ 4,216	\$ 1,490	\$ 31,301
Basic net (loss) income per share	\$ (0.02)	\$ 0.24	\$ 0.09	\$ 1.79
Diluted net (loss) income per share	\$ (0.02)	\$ 0.24	\$ 0.09	\$ 1.78
Weighted average shares outstanding				
Basic	17,369	17,320	17,378	17,509
Dilutive effect of outstanding stock options and nonvested stock	—	29	23	45
Diluted	17,369	17,349	17,401	17,554

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

SurModics, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows

	Six Months Ended March 31,	
	2010	2009
	(unaudited)	
<i>(In thousands)</i>		
Operating Activities:		
Net income	\$ 1,490	\$ 31,301
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,852	2,999
Loss (gain) on equity method investment and sales of investments	(3)	221
Amortization of premium on investments	68	69
Stock-based compensation	2,760	3,632
Purchased in-process research and development	—	3,200
Restructuring charges	1,306	1,798
Asset impairment charge	2,074	—
Deferred taxes	856	9,203
Tax benefits from exercise of stock options	(90)	273
Change in operating assets and liabilities:		
Accounts receivable	(1,485)	1,721
Inventories	18	(454)
Accounts payable and accrued liabilities	(956)	(2,529)
Income taxes	(1,129)	1,427
Deferred revenue	3,573	(36,118)
Prepays and other	19	119
Net cash provided by operating activities	12,353	16,862
Investing Activities:		
Purchases of property and equipment	(5,614)	(11,269)
Purchases of available-for-sale investments	(10,696)	(12,280)
Sales/maturities of investments	6,172	16,373
Business acquisition	(750)	(4,040)
Other investing activities	(501)	(202)
Net cash used in investing activities	(11,389)	(11,418)
Financing Activities:		
Tax benefit from exercise of stock options	90	(273)
Issuance of common stock	892	655
Repurchase of common stock	(2,032)	(14,998)
Purchase of common stock to pay employee taxes	(376)	(436)
Repayment of notes payable	—	(236)
Net cash used in financing activities	(1,426)	(15,288)
Net change in cash and cash equivalents	(462)	(9,844)
Cash and Cash equivalents		
Beginning of period	11,636	15,376
End of period	\$ 11,174	\$ 5,532
Supplemental Information		
Cash paid for income taxes	\$ 1,180	\$ 7,869
Noncash transaction — accrued contingent consideration or accrued earnout payments in connection with business acquisitions	\$ —	\$ 4,530
Noncash transaction — acquisition of property, plant, and equipment on account	\$ 195	\$ 3,977
Noncash transaction — acquisition of intangible assets on account	\$ 210	\$ 631

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

SurModics, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
Period Ended March 31, 2010
(Unaudited)

(1) Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and reflect all adjustments, consisting solely of normal recurring adjustments, needed to fairly present the financial results for the periods presented. These financial statements include some amounts that are based on management’s best estimates and judgments. These estimates may be adjusted as more information becomes available, and any adjustment could be significant. The impact of any change in estimates is included in the determination of earnings in the period in which the change is identified. The results of operations for the three-month and six-month periods ended March 31, 2010 are not necessarily indicative of the results that may be expected for the entire 2010 fiscal year.

In accordance with the rules and regulations of the United States Securities and Exchange Commission, the Company has omitted footnote disclosures that would substantially duplicate the disclosures contained in the audited financial statements of the Company. These unaudited condensed consolidated financial statements should be read together with the audited consolidated financial statements for the year ended September 30, 2009, and footnotes thereto included in the Company’s Form 10-K/A as filed with the United States Securities and Exchange Commission on December 14, 2009.

In September 2008, following a strategic review of Merck & Co., Inc.’s (“Merck”) business and product development portfolio, Merck gave notice to SurModics of Merck’s intent to terminate a collaborative research and license agreement (“Merck Agreement”) and separate supply agreement entered into in June 2007. The termination was effective December 16, 2008. The Company recognized revenue of approximately \$45 million in the first six months of fiscal 2009 principally from amounts that previously had been deferred and amortized under the then existing accounting treatment required for revenue arrangements with multiple deliverables and a \$9 million milestone payment associated with the termination of the triamcinolone acetonide development program under the Merck Agreement. The fiscal 2009 six month revenue associated with the Merck Agreement is reflected in royalties and license fees (\$37.6 million) and in research and development fees (\$7.5 million).

Subsequent events have been evaluated through the date the financial statements were issued.

(2) Key Accounting Policies and Recent Accounting Pronouncements

Revenue recognition

This revenue recognition section includes the Company’s historical policies as well as adoption of any applicable accounting guidance that has been issued during fiscal 2010.

The Company recognizes revenue when all of the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) shipment has occurred or delivery has occurred if the terms specify destination; (3) the sales price is fixed or determinable; and (4) collectability is reasonably assured. When there are additional performance requirements, revenue is recognized when all such requirements have been satisfied.

The Company’s revenue is derived from three primary sources: (1) royalties and license fees from licensing its proprietary drug delivery and surface modification technologies to customers; (2) the sale of polymers and reagent chemicals, stabilization products, antigens, substrates and microarray slides to the diagnostics and biomedical research industries; and (3) research and development fees generated on customer projects.

Royalties and licenses fees. The Company licenses technology to third parties and collects royalties. Royalty revenue is generated when a customer sells products incorporating the Company’s licensed technologies. Royalty revenue is recognized as licensees report it to the Company, and payment is typically submitted concurrently with the report. This revenue recognition model is similar to usage fee accounting. Minimum royalty fees are recognized in the period earned, provided that collectability is reasonably assured. For stand-alone license agreements, up-front license fees are recognized over the term of the related licensing agreement.

Milestone payments. Revenue related to a performance milestone is recognized based upon the achievement of the milestone, as defined in the respective agreements and provided the following conditions have been met:

- The milestone payment is non-refundable;

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- The milestone involved a significant degree of risk, and was not reasonably assured at the inception of the arrangement;
- Accomplishment of the milestone involved substantial past effort/performance;
- The amount of the milestone payment is commensurate with the related effort and risk;
- The milestone payment is reasonable in comparison to all of the deliverables and payment terms in the arrangement; and
- A reasonable amount of time passed between the initial license payment and the first and subsequent milestone payments.

If these conditions have not been met, the milestone payment is deferred and recognized over the term of the agreement.

Product sales. Product sales to third parties are recognized at the time of shipment, provided that an order has been received, the price is fixed or determinable, collectability of the resulting receivable is reasonably assured and returns can be reasonably estimated. The Company's sales terms provide no right of return outside of the standard warranty policy. Payment terms are generally set at 30-45 days.

Research and development. The Company performs third party research and development activities, which are typically provided on a time and materials basis. Generally, revenue for research and development is recorded as performance progresses under the applicable contract.

Arrangements with multiple deliverables. Prior to October 1, 2009, arrangements such as license and development agreements were analyzed to determine whether the deliverables, which often include a license and performance obligations such as research and development, could be separated, or whether they must be accounted for as a single unit of accounting in accordance with accounting guidance. If the fair value of the undelivered performance obligations could be determined, such obligations would then be accounted for separately. If the license was considered to either (i) not have stand-alone value or (ii) have stand-alone value but the fair value of any of the undelivered performance obligations could not be determined, the arrangement would then be accounted for as a single unit of accounting, and the license payments and payments for performance obligations would be recognized as revenue over the estimated period of when the performance obligations are performed, or the economic life of the technology licensed to the customer. When the Company determined that an arrangement should be accounted for as a single unit of accounting, it recognized the related revenue on a time-based accounting model.

The Company had one significant multiple element arrangement prior to October 1, 2009 that was accounted for as a single unit of accounting resulting in deferral and recognition of all related payments received for license and research and development activities using a time-based model. This arrangement was terminated during the first quarter of fiscal 2009 as described in Note 1 above.

In October 2009, the Financial Accounting Standards Board (FASB) amended the accounting standards for multiple deliverable revenue arrangements to:

- provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and how the consideration should be allocated;
- require an entity to allocate revenue in an arrangement using estimated selling prices (ESP) of deliverables if a vendor does not have vendor-specific objective evidence of selling price (VSOE) or third-party evidence of selling price (TPE); and
- eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method.

The Company elected to early adopt this accounting guidance at the beginning of its first quarter of fiscal 2010, on a prospective basis, for applicable transactions originating or materially modified after October 1, 2009. In connection with the adoption of the amended accounting standard the Company also changed its policy prospectively for multiple element arrangements, whereby the Company accounts for revenue using a multiple attribution model in which consideration allocated to research and development activities is recognized as performed, and milestone payments are recognized when the milestone events are achieved, when such activities and milestones are deemed substantive. Accordingly, in situations where a unit of accounting includes both a license and research and development activities, and when a license does not have stand alone value, the Company applies a multiple attribution model in which consideration allocated to the license is recognized ratably, consideration allocated to research and development activities is recognized as performed and milestone payments are recognized when the milestone events are achieved, when such activities and milestones are deemed substantive.

The Company enters into license and development arrangements that may consist of multiple deliverables which could include a license(s) to SurModics technology, research and development activities, manufacturing services, and product sales based on the needs of its customers. For example, a customer may enter into an arrangement to obtain a license to SurModics intellectual property which may also include research and development activities, and supply of products manufactured by SurModics. For these services

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provided, SurModics could receive upfront license fees upon signing of an agreement and granting the license, fees for research and development activities as such activities are performed, milestone payments contingent upon advancement of the product through development and clinical stages to successful commercialization, fees for manufacturing services and supply of product, and royalty payments based on customer sales of product incorporating SurModics' technology. The Company's license and development arrangements generally do not have refund provisions if the customer cancels or terminates the agreement. Typically all payments made are non-refundable.

The Company evaluates each deliverable in a multiple element arrangement for separability. The Company is then required to allocate revenue to each separate deliverable using a hierarchy of VSOE, TPE, or ESP. In certain instances, the Company is not able to establish VSOE for all deliverables in an arrangement with multiple elements which may be a result of the Company infrequently selling each element separately. When VSOE cannot be established, the Company establishes a selling price of each element based on TPE. TPE is determined based on competitor prices for similar deliverables when sold separately.

When the Company is unable to establish a selling price using VSOE or TPE, the Company uses ESP in its allocation of arrangement consideration. The objective of ESP is to determine the price at which the Company would transact a sale if the product or service were sold on a stand-alone basis. ESP is generally used for highly customized offerings.

The Company determines ESP for undelivered elements by considering multiple factors including, but not limited to, market conditions, competitive landscape and past pricing arrangements with similar characteristics.

Net sales as reported and pro forma net sales that would have been reported for the three-month and six-month periods ended March 31, 2010, if the transactions entered into or materially modified after September 30, 2009 were subject to the Company's accounting policies under the previous accounting guidance, are shown in the following table (*in thousands*):

	<u>Three months ended March 31, 2010</u>		<u>Six months ended March 31, 2010</u>	
	<u>As Reported</u>	<u>Pro Forma Basis as if the Previous Accounting Guidance Were in Effect</u>	<u>As Reported</u>	<u>Pro Forma Basis as if the Previous Accounting Guidance Were in Effect</u>
Total multiple element arrangement revenue	<u>\$ 2,355</u>	<u>\$ 114</u>	<u>\$ 3,377</u>	<u>\$ 170</u>

The impact to revenue for the three-month and six-month periods ended March 31, 2010 associated with adoption of the new accounting guidance was primarily related to research and development activities. The Company's accounting policies under the previous accounting guidance would have resulted in partial recognition of the research and development revenue in the current periods with the remainder deferred and recognized over the economic life of the technology. Under the new accounting guidance, the Company is recognizing research and development revenue as the activities are performed. The Company notes that this new accounting guidance will result in current revenue recognition of research and development activities in the period the activities are performed with the revenue generated changing from period to period based on the stage of project development. The amount of revenue that is recognized could be material in any reporting period.

In April 2010, the FASB issued updated authoritative accounting guidance which provides a consistent framework for applying the milestone method of revenue recognition in arrangements that include research or development deliverables. The amendments are effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010 with early adoption permitted. The Company is evaluating the guidance and does not expect the adoption to have a material impact on the Company's consolidated financial statements.

Other accounting areas

In April 2008, the FASB issued authoritative accounting guidance which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of intangible assets under goodwill and other intangible asset accounting. The authoritative guidance is intended to improve the consistency between the useful life of a recognized intangible asset under goodwill and intangible asset accounting and the period of the expected cash flows used to measure the fair value of the asset under business combination accounting and other GAAP. The adoption of the authoritative guidance did not have a material impact on the Company's consolidated financial statements.

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In September 2006, the FASB issued authoritative accounting guidance associated with fair value measurements. This guidance defines fair value, establishes a consistent framework for measuring fair value, gives guidance regarding methods used for measuring fair value and expands disclosures about fair value measurements. These provisions were implemented in fiscal 2009. See Note 3 for additional information regarding fair value measurements. However, in February 2008, the FASB issued guidance that delayed the effective date from fiscal 2009 to fiscal 2010 for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The adoption of the authoritative guidance did not have a material impact on the Company's consolidated financial statements.

No other new accounting pronouncement issued or effective has had, or is expected to have, a material impact on the Company's consolidated financial statements.

(3) Fair Value Measurements

Effective October 1, 2008, the Company adopted the new accounting guidance on fair value measurements. The new guidance defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. The guidance is applicable for all financial assets and financial liabilities and for all nonfinancial assets and nonfinancial liabilities recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Fair value is defined as the exchange price that would be received from selling an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and also considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions and risk of nonperformance.

Fair Value Hierarchy

Accounting guidance on fair value measurements requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1 — Quoted (unadjusted) prices in active markets for identical assets or liabilities.

The Company's Level 1 asset consists of its investment in OctoPlus, N.V. (see Note 7 for further information). The fair market value of this investment is based on the quoted price of OctoPlus shares traded on the Amsterdam Stock Exchange.

Level 2 — Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

The Company's Level 2 assets consist of money market funds, U.S. Treasury securities, corporate bonds, municipal bonds, U.S. agency securities, agency and municipal securities, certain asset-backed securities and mortgage-backed securities. Fair market values for these assets are based on quoted vendor prices and broker pricing where all significant inputs are observable.

Level 3 — Unobservable inputs to the valuation methodology that are supported by little or no market activity and that are significant to the measurement of the fair value of the assets or liabilities. Level 3 assets and liabilities include those whose fair value measurements are determined using pricing models, discounted cash flow methodologies or similar valuation techniques, as well as significant management judgment or estimation.

The Company's Level 3 assets include other U.S. government agency securities and mortgage-backed securities. The fair market values of these investments were determined by broker pricing where not all significant inputs were observable.

In valuing assets and liabilities, the Company is required to maximize the use of quoted market prices and minimize the use of unobservable inputs. The Company did not significantly change its valuation techniques from prior periods.

Transfers of assets from Level 2 to Level 3 classifications are made when there is a lack of observable market data resulting from a decrease in market activity for the affected securities.

The Company's policy is to recognize transfers in and out of Level 3 using the value at the beginning of the reporting period.

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Assets and Liabilities Measured at Fair Value on a Recurring Basis

In instances where the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability. The following table presents information about the Company's financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2010 (*in thousands*):

	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value as of March 31, 2010
Assets:				
Cash equivalents	\$ —	\$ 8,092	\$ —	\$ 8,092
Available for sale debt securities				
US government obligations	—	19,233	924	20,157
Mortgage backed securities	—	6,356	145	6,501
Municipal bonds	—	5,153	—	5,153
Asset back securities	—	1,862	—	1,862
Corporate bonds	—	1,780	—	1,780
Other assets	2,714	—	—	2,714
Total assets measured at fair value	<u>\$ 2,714</u>	<u>\$ 42,476</u>	<u>\$ 1,069</u>	<u>\$ 46,259</u>

Short-term and long-term investments disclosed in the condensed consolidated balance sheets include held-to-maturity investments totaling \$5.2 million as of March 31, 2010. Held-to-maturity investments are carried at an amortized cost.

Changes in Level 3 Instruments Measured at Fair Value on a Recurring Basis

The following tables provide a reconciliation of fiscal 2010 financial assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) based on accounting guidance that is applicable for periods ended March 31, 2010 (*in thousands*):

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) For the three months ended March 31, 2010		
	Available -for-Sale Debt Securities		
	U.S. government obligations	Mortgage Backed	Total
Balance, December 31, 2009	\$ 1,002	\$ 75	\$ 1,077
Transfers into Level 3	—	70	70
Total realized and unrealized gains (losses):			
Included in other comprehensive (loss) income	(6)	3	(3)
Purchases, issuances, sales and settlements, net	(72)	(3)	(75)
Balance, March 31, 2010	<u>\$ 924</u>	<u>\$ 145</u>	<u>\$ 1,069</u>

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) For the six months ended March 31, 2010		
	Available -for-Sale Debt Securities		
	U.S. government obligations	Mortgage Backed	Total
Balance, September 30, 2009	\$ 1,130	\$ 73	\$ 1,203
Transfers into Level 3	—	148	148
Transfers out of Level 3	(36)	(73)	(109)
Total realized and unrealized gains (losses):			
Included in other comprehensive (loss) income	(6)	3	(3)
Purchases, issuances, sales and settlements, net:	(164)	(6)	(170)
Balance, March 31, 2010	<u>\$ 924</u>	<u>\$ 145</u>	<u>\$ 1,069</u>

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As of March 31, 2010, marketable securities measured at fair value using Level 3 inputs were comprised of \$0.9 million of U.S. government agency securities and \$0.1 million of mortgage-backed securities within the Company's available-for-sale investment portfolio. These securities were measured using observable market data and Level 3 inputs as a result of the lack of market activity and liquidity. The fair value of these securities was based on the Company's assessment of the underlying collateral and the creditworthiness of the particular issuer of the securities.

The following tables provide a reconciliation of fiscal 2009 financial assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) (*in thousands*):

	Three Months Ended March 31, 2009	Six Months Ended March 31, 2009
Balance, beginning of period	\$ 838	\$ 264
Total realized and unrealized gains:		
Included in other comprehensive (loss) income	—	25
Purchases, issuances and settlements, net	(13)	536
Transfer in (out) of Level 3	(778)	(778)
Balance, end of period	<u>\$ 47</u>	<u>\$ 47</u>

Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis

The Company's investments in non-marketable securities of private companies are accounted for using the cost or equity method. These investments as well as held-to-maturity securities are measured at fair value on a non-recurring basis when they are deemed to be other-than-temporarily impaired. In determining whether a decline in value of non-marketable equity investments in private companies has occurred and is other-than-temporary, an assessment is made by considering available evidence, including the general market conditions in the investee's industry, the investee's product development status and subsequent rounds of financing and the related valuation and/or the Company's participation in such financings. The Company also assesses the investee's ability to meet business milestones and the financial condition and near-term prospects of the individual investee, including the rate at which the investee is using its cash and the investee's need for possible additional funding at a lower valuation. The valuation methodology for determining the decline in value of non-marketable equity securities is based on inputs that require management judgment and are Level 3 inputs.

(4) Investments

Investments consist principally of U.S. government and government agency obligations and mortgage-backed securities and are classified as available-for-sale or held-to-maturity at March 31, 2010 and September 30, 2009. Available-for-sale investments are reported at fair value with unrealized gains and losses net of tax 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. A loss would be recognized when there is an other-than-temporary impairment in the fair value of any individual security classified as available-for-sale with the associated net unrealized loss reclassified out of accumulated other comprehensive income with a corresponding adjustment to other income (loss). This adjustment results in a new cost basis for the investment. Investments which management has the intent and ability to hold to maturity are classified as held-to-maturity and reported at amortized cost. If there is an other-than-temporary impairment in the fair value of any individual security classified as held-to-maturity, the Company will write down the security to fair value, with a corresponding adjustment to other income (loss). Interest on debt securities, including amortization of premiums and accretion of discounts, is included in other income (loss). Realized gains and losses from the sales of debt securities, which are included in other income (loss), are determined using the specific identification method.

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The original cost, unrealized holding gains and losses, and fair value of available-for-sale investments as of March 31, 2010 and September 30, 2009 were as follows (*in thousands*):

	March 31, 2010			
	Original Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government obligations	\$ 19,921	\$ 249	\$ (13)	\$ 20,157
Mortgage-backed securities	6,421	155	(74)	6,502
Municipal bonds	4,983	171	(2)	5,152
Asset-backed securities	1,925	38	(101)	1,862
Corporate bonds	1,778	3	(1)	1,780
Total	<u>\$ 35,028</u>	<u>\$ 616</u>	<u>\$ (191)</u>	<u>\$ 35,453</u>

	September 30, 2009			
	Original Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government obligations	\$ 10,837	\$ 253	\$ —	\$ 11,090
Mortgage-backed securities	7,938	177	(106)	8,009
Municipal bonds	7,210	232	—	7,442
Asset-backed securities	2,334	65	(143)	2,256
Corporate bonds	1,181	3	—	1,184
Total	<u>\$ 29,500</u>	<u>\$ 730</u>	<u>\$ (249)</u>	<u>\$ 29,981</u>

The original cost and fair value of investments by contractual maturity at March 31, 2010 were as follows (*in thousands*):

	Amortized Cost	Fair Value
Debt securities due within:		
One year	\$ 5,984	\$ 6,022
One to five years	21,991	22,411
Five years or more	7,053	7,020
Total	<u>\$ 35,028</u>	<u>\$ 35,453</u>

The following table summarizes sales of available-for-sale securities for the three-month and six-month periods ended March 31, 2010 (*in thousands*):

	Three Months Ended March 31, 2010	Six Months Ended March 31, 2010
Proceeds from sales	\$2,202	\$5,172
Gross realized gains	\$ 3	\$ 3
Gross realized losses	\$ —	\$ —

At March 31, 2010, the amortized cost and fair market value of held-to-maturity debt securities was \$5.2 million and \$5.3 million, respectively. Investments in securities designated as held-to-maturity consist of tax-exempt municipal bonds and have maturity dates ranging between one and two years from March 31, 2010. At September 30, 2009, the amortized cost and fair market value of held-to-maturity debt securities were \$6.3 million and \$6.4 million, respectively. A held-to-maturity security with an amortized cost of \$1.0 million matured in the six-month period ended March 31, 2010.

(5) Acquisitions

PR Pharmaceuticals, Inc. On November 4, 2008, the Company's SurModics Pharmaceuticals, Inc. subsidiary entered into an asset purchase agreement with PR Pharmaceuticals, Inc. ("PR Pharma") whereby it acquired certain contracts and assets of PR Pharma for \$5.6 million consisting of \$2.9 million in cash on the closing date, additional consideration of \$2.4 million upon successful achievement of specified milestones, and \$0.3 million in transaction costs. \$3.7 million of the total consideration was paid in the six-month period ended March 31, 2009. PR Pharma is eligible to receive up to an additional \$3.6 million in cash upon the successful achievement of milestones for contract signing and invoicing, successful patent issuances and product development. Management believes this acquisition strengthens the Company's portfolio of drug delivery technologies for the pharmaceutical and biotechnology industries. As part of the acquisition, the Company recognized fair value associated with in-process research and development

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(IPR&D) of \$3.2 million. The IPR&D was expensed on the date of acquisition and relates to polymer-based drug delivery systems. The value assigned to IPR&D is related to projects for which the related products have not achieved commercial feasibility and have no future alternative use. The amount of purchase price allocated to IPR&D was based on estimating the future cash flows of each project and discounting the net cash flows back to their present values. The discount rate used was determined at the time of acquisition in accordance with accepted valuation methods. These methodologies include consideration of the risk of the project not achieving commercial feasibility. The research efforts ranged from 5% to 50% complete at the date of acquisition. The Company used the Relief from Royalty valuation method to assess the fair value of the projects with a risk-adjusted discount rate of 25%. The Company determined the method was appropriate based on the nature of the projects and future cash flow streams. The research and development work performed is billed to customers, in most cases, using standard commercial billing rates, which include a reasonable markup. Accordingly, the Company has no fixed cost obligations to carry projects forward. There have been no significant changes to the development plans for the acquired incomplete projects. Significant net cash inflows would commence with the commercial launch of customer products that are covered by the intellectual property rights and related agreements acquired from PR Pharma.

(6) Inventories

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

	March 31, 2010	September 30, 2009
Raw materials	\$ 1,386	\$ 1,287
Finished products	1,926	2,043
Total	<u>\$ 3,312</u>	<u>\$ 3,330</u>

(7) Other Assets

Other assets consist principally of strategic investments. The Company accounts for its strategic investments under the cost method. The Company accounts for its investment in OctoPlus N.V. common stock as an available-for-sale investment rather than a cost method investment following an initial public offering of OctoPlus N.V. common stock in October 2006. Available-for-sale investments are reported at fair value with unrealized gains and losses reported as a separate component of stockholders' equity, except for other-than-temporary impairments, which are reported as a charge to current operations, recorded in the other income (loss) section of the condensed consolidated statements of operations. The cost basis in the Company's investment in OctoPlus N.V. was adjusted to \$1.7 million in fiscal 2008 based on a significant decline in the stock price of OctoPlus N.V. that was determined to be an other-than-temporary impairment.

The Company has made equity investments in Paragon Intellectual Properties, LLC ("Paragon") and a Paragon subsidiary, Apollo Therapeutics, LLC ("Apollo"). In October 2008, Paragon announced that it had restructured, along with its subsidiaries, including Apollo, moving from a limited liability company with seven subsidiaries to a single C-corporation named Nexeon MedSystems, Inc. ("Nexeon"). The Company accounted for the investments in Paragon and Apollo under the equity method in the first quarter of fiscal 2009, as both entities reported results to us on a one-quarter lag. Commencing in the second quarter of fiscal 2009, the Company accounted for the investment in Nexeon under the cost method as the Company's ownership level is less than 20%. The Company made an additional investment of \$0.5 million in Nexeon in fiscal 2009.

In August 2009, the Company invested \$2.0 million in a medical technology company and made a follow-on investment of \$0.5 million in March 2010. The Company's investment is accounted for under the cost method, as the Company's ownership interest is less than 20%. This investment is included in the category titled "Other" in the table below.

In March 2010, the Company recorded a \$2.1 million asset impairment charge associated with its facilities in Alabama as the Company works to consolidate its multiple facilities in Birmingham, Alabama into its newly opened cGMP manufacturing and development facility. The Company intends to sell a facility within the next twelve months. The remaining asset value, totaling \$2.1 million, has been reclassified from property, plant and equipment to assets held for sale and is included in the category titled "Other" in the table below.

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Other assets consisted of the following components (*in thousands*):

	March 31, 2010	September 30, 2009
Investment in OctoPlus N.V.	\$ 2,713	\$ 3,700
Investment in Nexeon MedSystems	5,651	5,651
Investment in ThermopectiX	1,185	1,185
Investment in Novocell	559	559
Other	4,778	2,162
Other assets	<u>\$ 14,886</u>	<u>\$ 13,257</u>

The Company recognized revenue of \$0.1 million and \$0.2 million for the three-month period ended March 31, 2010 and 2009, respectively, and recognized revenue of \$0.2 million and \$0.5 million for the six-month period ended March 31, 2010 and 2009, respectively, from activity with companies in which it had a strategic investment.

(8) Intangible Assets

Intangible assets consist principally of acquired patents and technology, customer relationships, licenses, and trademarks. The Company recorded amortization expense of \$0.4 million for the three-month periods ended March 31, 2010 and 2009, respectively. The Company recorded amortization expense of \$0.8 million and \$1.2 million for the six-month periods ended March 31, 2010 and 2009, respectively.

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

	Useful life (in years)	March 31, 2010	September 30, 2009
Customer list	9 — 11	\$ 8,657	\$ 8,657
Core technology	8 — 18	8,330	8,330
Patents and other	2 — 20	3,076	3,076
Trademarks		600	600
Less accumulated amortization of intangible assets		(4,019)	(3,205)
Intangible assets, net		<u>\$ 16,644</u>	<u>\$ 17,458</u>

Based on the intangible assets in service as of March 31, 2010, estimated amortization expense for each of the next five fiscal years is as follows (*in thousands*):

Remainder of 2010	\$ 814
2011	1,604
2012	1,602
2013	1,602
2014	1,602
2015	1,591

Future amortization amounts presented above are estimates. Actual future amortization expense may be different, as a result of future acquisitions, impairments, changes in amortization periods, or other factors.

(9) Goodwill

Goodwill represents the excess of the cost of the acquired entities over the fair value assigned to the assets purchased and liabilities assumed in connection with the Company's acquisitions. The carrying amount of goodwill is evaluated annually, and between annual evaluations if events occur or circumstances change indicating that the carrying amount of goodwill may be impaired.

In the six months of fiscal 2010 a milestone was achieved associated with the July 2007 acquisition of SurModics Pharmaceuticals, Inc. and \$0.8 million of additional purchase price was recorded as an increase to goodwill.

(10) Revolving Credit Facility

In February 2009, the Company entered into a two-year \$25.0 million unsecured revolving credit facility. Borrowings under the credit facility, if any, will bear interest at a benchmark rate plus an applicable margin based upon the Company's funded debt to EBITDA ratio. In connection with the credit facility, the Company is required to maintain certain financial and nonfinancial covenants. As of March 31, 2010, the Company had no debt outstanding under this credit facility and was in compliance with all covenants.

(11) Stock-based Compensation

The Company has stock-based compensation plans under which it grants stock options and restricted stock awards. Accounting guidance requires all share-based payments to be recognized as an operating expense, based on their fair values, over the requisite service period. The Company's stock-based compensation expenses were allocated as follows (*in thousands*):

	Three months ended March 31,		Six months ended March 31, 2010	
	2010	2009	2010	2009
Product costs	\$ 31	\$ 22	66	\$ 46
Customer research and development	150	200	303	366
Other research and development	444	710	1,059	1,453
Selling, general and administrative	600	789	1,332	1,767
Total	<u>\$ 1,225</u>	<u>\$ 1,721</u>	<u>\$ 2,760</u>	<u>\$ 3,632</u>

As of March 31, 2010, approximately \$10.6 million of total unrecognized compensation costs related to non-vested awards could be recognized over the remaining weighted average period of approximately 2.2 years. The \$10.6 million of total unrecognized compensation costs include \$3.5 million associated with performance share awards that are currently not anticipated to be fully expensed because the performance conditions are not expected to be met.

Stock Option Plans

The Company uses the Black-Scholes option pricing model to determine the weighted average grant date fair value of stock options granted. The weighted average per share fair value of stock options granted during the three-month periods ended March 31, 2010 and 2009 was \$6.44 and \$7.12, respectively. The weighted average per share fair value of stock options granted during the six-month periods ended March 31, 2010 and 2009 was \$6.91 and \$8.41, respectively. The assumptions used as inputs in the model were as follows:

	Three months ended March 31,		Six months ended March 31, 2010	
	2010	2009	2010	2009
Risk-free interest rates	2.1%	1.7%	2.0%	2.2%
Expected life (years)	4.8	4.9	4.8	4.8
Expected volatility	41.4%	39.8%	41.4%	38.1%
Dividend yield	0%	0%	0%	0%

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

The Company's Incentive Stock Options ("ISO") are granted at a price of at least 100% of the fair market value of the common stock of the Company 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. ISOs generally expire in seven years or upon termination of employment and generally are exercisable at a rate of 20% per year commencing one year after the date of grant. Nonqualified stock options are granted at fair market value on the date of grant. Nonqualified stock options generally expire in 7 to 10 years or upon termination of employment or service as a Board member. Nonqualified stock options granted prior to May 2008 generally become exercisable with respect to 20% of the shares on each of the first five anniversaries following the grant date such that the entire option is fully vested five years after date of grant, and nonqualified stock options granted subsequent to May 2008 generally become exercisable with respect to 25% on each of the first four anniversaries following the grant date such that the entire option is fully vested four years after the grant date.

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The total pre-tax intrinsic value of options exercised during the three-month periods ended March 31, 2010 and 2009 was \$69,000 and \$70,000, respectively. During the six-month periods ended March 31, 2010 and 2009, the total pre-tax intrinsic value of options exercised was \$4,000 and \$65,000, respectively. The intrinsic value represents the difference between the exercise price and the fair market value of the Company's common stock on the last day of the respective fiscal period end.

Restricted Stock Awards

The Company has entered into restricted stock agreements with certain key employees, covering the issuance of common stock ("Restricted Stock"). Under accounting guidance these shares are considered to be non-vested shares. The Restricted Stock will be released to the key employees if they are employed by the Company at the end of the vesting period. The stock-based compensation table above includes Restricted Stock expenses of \$0.2 million, and \$0.5 million during three-month and six-month periods ended March 31, 2010, respectively, and \$0.5 million and \$1.1 million for the three-month and six-month periods ended March 31, 2009, respectively.

Performance Share Awards

The Company has entered into performance share agreements with certain key employees, covering the issuance of common stock ("Performance Shares"). The Performance Shares vest upon the achievement of all or a portion of certain performance objectives, which must be achieved during the performance period. Compensation is recognized in each period based on management's best estimate of the achievement level of the grants' specified performance objectives and the resulting vesting amounts. The Company did not recognize an expense in the three-month period ended March 31, 2010 and recognized expense of \$32,000 for the six-month period ended March 31, 2010 related to the Performance Shares granted. For the three-month and six-month periods ended March 31, 2009, the Company recognized expenses of \$10,000 and reduced expenses by \$29,000, respectively, associated with the Performance Shares granted. The stock-based compensation table above includes the Performance Shares expenses and expense reversal.

1999 Employee Stock Purchase Plan

Under the 1999 Employee Stock Purchase Plan ("Stock Purchase Plan"), the Company is authorized to issue up to 400,000 shares of common stock. The number of authorized shares was increased by 200,000 effective with shareholder approval at the February 8, 2010 Annual Meeting. All full-time and part-time employees can choose to have up to 10% of their annual compensation withheld, with a limit of \$25,000, to purchase the Company's common stock at purchase prices defined within the provisions of the Stock Purchase Plan. As of March 31, 2010 and 2009, there were \$0.1 million of employee contributions, respectively, included in accrued liabilities in the accompanying condensed consolidated balance sheets. Stock compensation expense recognized related to the Stock Purchase Plan for the three-month periods ended March 31, 2010 and 2009 totaled \$0.1 million in each period. Stock compensation expense for the six-month periods ended March 31, 2010 and 2009 totaled \$0.1 million in each period. The stock-based compensation table above includes the Stock Purchase Plan expenses.

(12) Restructuring Charges

In March 2010, the Company announced an organizational change designed to support future growth by better meeting customer needs, leveraging its multiple competencies across the organization, and building on its pharmaceutical industry experience. As a result of the reorganization, the Company eliminated 11 positions, or approximately 4% of the Company's workforce. These employee terminations occurred across various functions and the reorganization plan was completed by the end of the second quarter of fiscal 2010. The Company also announced that it was vacating its leased sales office in Irvine, California and a leased warehouse in Birmingham, Alabama, as part of the reorganization plan. The leased space was vacated by March 31, 2010.

The Company recorded total restructuring charges of approximately \$1.3 million in connection with the fiscal 2010 reorganization. These pre-tax charges consisted of \$0.8 million of severance pay and benefits expenses and \$0.5 million of facility-related costs. The restructuring is expected to result in approximately \$0.5 million to \$1.0 million in annualized cost savings. Cash payments totaled \$0.1 million as of March 31, 2010, resulting in a balance of \$1.2 million.

In November 2008, the Company announced a functional reorganization to better serve its customers and improve its operating performance. As a result of the reorganization, the Company eliminated 15 positions, or approximately 5% of the Company's workforce. These employee terminations occurred across various functions and the reorganization plan was completed by the end of the first quarter of fiscal 2009. The Company also vacated a leased facility in Eden Prairie, Minnesota, consolidating into its owned office and research facility also in Eden Prairie, as part of the reorganization plan.

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The Company recorded total restructuring charges of approximately \$1.8 million in connection with the fiscal 2009 reorganization. These pre-tax charges consisted of \$0.5 million of severance pay and benefits expenses and \$1.3 million of facility-related costs. The restructuring was expected to result in approximately \$2.2 million in annualized cost savings. Cash payments totaled \$0.9 million as of March 31, 2010 resulting in a balance of \$0.9 million.

The charges above for fiscal 2010 have been presented separately as restructuring charges in the condensed consolidated statements of operations. The remaining balance is expected to be paid within the next 45 months. As such, the current portion totaling \$1.8 million is recorded as a current liability within other accrued liabilities and the long-term portion totaling \$0.3 million is recorded as a long-term liability within other long-term liabilities on the condensed consolidated balance sheets.

The following table summarizes the restructuring accrual activity for the first six months of fiscal 2010 (*in thousands*):

	Employee severance and Benefits	Facility- related costs	Total
Balance at September 30, 2009	\$ —	\$ 955	\$ 955
Accruals during the period	818	488	1,306
Cash payments	(89)	(74)	(163)
Balance at March 31, 2010	<u>\$ 729</u>	<u>\$ 1,369</u>	<u>\$ 2,098</u>

(13) Asset impairment charge

In the second quarter ended March 31, 2010, the Company recorded a \$2.1 million asset impairment charge associated with its facilities in Alabama as the Company works to consolidate its multiple facilities in Birmingham, Alabama into its newly opened cGMP manufacturing and development facility. The Company intends to sell a facility within the next twelve months. Long-lived assets are measured at fair value on a non-recurring basis. Long-lived assets are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances. These circumstances include assets that are written down to fair value when they are held for sale or are determined to be impaired. The assets that are held for sale were written down to their fair value of \$2.3 million, less selling costs of \$0.2 million, and the net amount has been reclassified from property, plant and equipment and included within other assets on the condensed consolidated balance sheets.

(14) Comprehensive Income

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

	Three months ended March 31,		Six months ended March 31,	
	2010	2009	2010	2009
Net (loss) income	\$ (427)	\$ 4,216	\$ 1,490	\$ 31,301
Other comprehensive (loss) income:				
Unrealized holding gains (losses) on available-for-sale securities arising during the period, net of tax	(100)	79	(612)	613
Less reclassification adjustment for realized gains included in net income, net of tax	(2)	—	(2)	(201)
Other comprehensive (loss) income	<u>(102)</u>	<u>79</u>	<u>(614)</u>	<u>412</u>
Comprehensive (loss) income	<u>\$ (529)</u>	<u>\$ 4,295</u>	<u>\$ 876</u>	<u>\$ 31,713</u>

(15) Income Taxes

The Company recorded an income tax benefit of \$0.2 million and an income tax provision of \$2.4 million for the three-month periods ended March 31, 2010 and 2009, respectively, representing effective tax rates of 36.1% and 36.3%, respectively. The Company recorded income tax provisions of \$0.9 million and \$18.6 million for the six-month periods ended March 31, 2010 and 2009, respectively, representing effective tax rates of 37.8% and 37.2%, respectively. The difference between the U.S. federal statutory tax rate of 35% and the Company's effective tax rate reflects state taxes and other permanent items.

The October 2008 adoption of the Emergency Economic Stabilization Act of 2008 retroactively extended the term of the federal tax credit for research activities through calendar 2009. The tax credit for research activities for the six-month period ended

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March 31, 2010 was \$39,000, unchanged from the amount recognized in the three-month period ended December 31, 2009. During the six-month period ended March 31, 2009, the Company recognized a discrete benefit of approximately \$120,000 related to the nine-month period ended September 30, 2008.

The total amount of unrecognized tax benefits including interest and penalties that, if recognized, would affect the effective tax rate as of March 31, 2010 and September 30, 2009, respectively, are \$2.1 million and \$2.0 million. Currently, the Company does not expect the liability for unrecognized tax benefits to change significantly in the next twelve months. Interest and penalties related to the unrecognized tax benefits are recorded in income tax expense.

The Company files income tax returns, including returns for its subsidiaries, in the United States (U.S.) federal jurisdiction and in various state jurisdictions. Uncertain tax positions are related to tax years that remain subject to examination. U.S. tax returns for fiscal years ended September 30, 2006, 2007, 2008 and 2009 remain subject to examination by federal tax authorities. Tax returns for state and local jurisdictions for fiscal years ended September 30, 2003 through 2009 remain subject to examination by state and local tax authorities.

(16) Operating Segments

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

In March 2010, the Company announced it changed its operational structure to better align functional expertise, which also resulted in the elimination of the Company's business units. The Company evaluates revenue results and opportunities on the basis of the clinical market areas in which the Company's customers participate as noted in the table below. The "Therapeutic" market includes revenue from: (1) Cardiovascular, which provides drug delivery and surface modification technologies to customers in the cardiovascular market; (2) Ophthalmology, which is focused on the advancement of treatments for eye diseases, such as age-related macular degeneration (AMD) and diabetic macular edema (DME), two of the leading causes of blindness; and (3) Other Markets, which is focused on a variety of clinical markets principally in the pharmaceutical and biotechnology industries. The "Diagnostic" market includes revenue from the Company's microarray slide technologies, stabilization products, antigens and substrates for immunoassay diagnostics tests, and its *in vitro* diagnostic format technology.

The Company has one reportable segment as its sales and marketing efforts and its expenses are managed on a company-wide basis. The table below presents revenue from the markets, with Therapeutic broken out further by focus area, for the three-month and six-month periods in fiscal 2010 and 2009, (*in thousands*):

	Three months ended March 31,		Six months ended March 31, 2010	
	2010	2009	2010	2009
Therapeutic				
Cardiovascular	\$ 9,244	\$ 9,570	\$ 19,958	\$ 19,973
Ophthalmology	3,405	3,710	5,902	48,842
Other Markets	2,889	2,925	4,772	6,697
Total Therapeutic	15,538	16,205	30,632	75,152
Diagnostic	2,822	4,720	5,109	8,989
Total revenue	\$ 18,360	\$ 20,925	\$ 35,741	\$ 84,141

(17) Commitments and Contingencies

Litigation. From time to time, the Company has been, and may become, involved in various legal actions involving its operations, products and technologies, including intellectual property and employment disputes. The outcomes of these legal actions are not within the Company's complete control and may not be known for prolonged periods of time. In some actions, the claimants seek damages, as well as other relief, including injunctions barring the sale of products that are the subject of the lawsuit, which, if granted, could require significant expenditures or result in lost revenues. The Company records a liability in the consolidated financial statements for these actions when a loss is known or considered probable and the amount can be reasonably estimated. If the reasonable estimate of a known or probable loss is a range, and no amount within the range is a better estimate, the minimum amount of the range is accrued. If a loss is possible but not known or probable, and can be reasonably estimated, the estimated loss or range of loss is disclosed. In most cases, significant judgment is required to estimate the amount and timing of a loss to be recorded.

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InnoRx, Inc. In January 2005, the Company entered into a merger agreement whereby SurModics acquired all of the assets of InnoRx, Inc. (“InnoRx”), an early stage company developing drug delivery devices and therapies for the ophthalmology market. SurModics will be required to issue up to approximately 480,059 additional shares of its common stock to the stockholders of InnoRx upon the successful completion of the remaining development and commercial milestones involving InnoRx technology acquired in the transaction.

BioFX Laboratories, Inc. In August 2007, the Company acquired 100% of the capital stock of BioFX Laboratories, Inc. (“BioFX”), a provider of substrates to the *in vitro* diagnostics industry. The sellers of BioFX are still eligible to receive up to \$3.5 million in additional consideration based on specific revenue targets through calendar 2011.

SurModics Pharmaceuticals, Inc. In July 2007, the Company acquired 100% of the capital stock of Brookwood Pharmaceuticals Inc. (now known as SurModics Pharmaceuticals, Inc.) (“SurModics Pharmaceuticals”), a drug delivery company that provides proprietary polymer-based technologies to companies developing pharmaceutical products. The sellers of SurModics Pharmaceuticals are still eligible to receive up to \$15.5 million in additional consideration based on successful achievement of specific milestones through calendar 2011.

Alabama Jobs Commitment. In April 2008, the Company purchased a 286,000 square foot office and warehouse facility to support Current Good Manufacturing Practices manufacturing needs of customers and the anticipated growth of the SurModics Pharmaceuticals business. At the same time, SurModics Pharmaceuticals entered into an agreement with various governmental authorities to obtain financial incentives associated with creation of jobs in Alabama. Some of the governmental agencies have recapture rights in connection with the financial incentives if a specific number of full-time employees are not hired by June 2012, with an extension to June 2013 if circumstances or events occur that are beyond the control of SurModics Pharmaceuticals or could not have been reasonably anticipated by SurModics Pharmaceuticals. As of March 31, 2010, SurModics Pharmaceuticals has received \$1.7 million in connection with the agreement, and the Company has recorded the payment in other long-term liabilities. If the additional jobs are created, the Company will recognize the \$1.7 million as an offset to operating expenses in the period the contingency is resolved.

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

The following discussion and analysis of our financial condition, results of operations and trends for the future should be read together with our unaudited condensed consolidated financial statements and related notes appearing elsewhere in this report. Any discussion and analysis regarding trends in our future financial condition and results of operations are forward-looking statements that involve risks, uncertainties and assumptions, as more fully identified in “Forward-Looking Statements.” Our actual future financial condition and results of operations may differ materially from those anticipated in the forward-looking statements.

Overview

SurModics is a leading provider of drug delivery and surface modification technologies to the healthcare industry. In March 2010 we announced a change in our operational structure to better align functional expertise, which resulted in the elimination of the Company’s business units. This new structure is designed to support future growth by better meeting customer needs, leveraging our multiple competencies across our organization, and building on our pharmaceutical industry experience.

The organization change did not impact the Company’s continued market focus. The “Therapeutic” market includes revenue from: (1) Cardiovascular, which provides drug delivery and surface modification technologies to customers in the cardiovascular market; (2) Ophthalmology, which is focused on the advancement of treatments for eye diseases, such as age-related macular degeneration (AMD) and diabetic macular edema (DME), two of the leading causes of blindness; and (3) Other Markets, which is focused on a variety of clinical markets principally in the pharmaceutical and biotechnology industries. The “Diagnostic” market includes revenue from the Company’s microarray slide technologies, our stabilization products, antigens and substrates for immunoassay diagnostic tests, and our *in vitro* diagnostic format technology.

The Company’s revenue is derived from three primary sources: (1) royalties and license fees from licensing our proprietary drug delivery and surface modification technologies to customers; the vast majority (typically in excess of 90%) of revenue in the “royalties and license fees” category is in the form of royalties; (2) the sale of polymers and reagent chemicals, stabilization products, antigens, substrates and microarray slides to the diagnostics and biomedical research industry; and (3) research and development fees generated on customer projects. Revenue fluctuates from quarter to quarter depending on, among other factors: our customers’ success in selling products incorporating our technologies; the timing of introductions of licensed products by customers; the timing of introductions of products that compete with our customers’ products; the number and activity level associated with customer development projects; the number and terms of new license agreements that are finalized; the value of reagent chemicals and other products sold to customers; and the timing of future acquisitions we complete, if any.

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For financial accounting and reporting purposes, we report our results in one reportable segment. We made this determination because we manage our sales and marketing efforts and our expenses on a company-wide basis. In addition, a significant percentage of our employees provide support services (including research and development) to a variety of customers; and technology and products are marketed to the same or similar customers.

In June 2007, we signed a collaborative research and license agreement with Merck & Co., Inc. (“Merck”) to pursue the joint development and commercialization of the I-vation™ sustained drug delivery system with triamcinolone acetonide and other products that combine Merck proprietary drug compounds with the I-vation system for the treatment of serious retinal diseases. Under the terms of our agreement with Merck, we received an up-front license fee of \$20 million and had the potential to receive up to an additional \$288 million in fees and development milestones associated with the successful product development and attainment of appropriate U.S. and EU regulatory approvals for these new combination products.

In September 2008, Merck gave notice that it was terminating the collaborative research and license agreement, as well as the supply agreement entered into in June 2007, following a strategic review of Merck’s business and product development portfolio. The termination was effective December 16, 2008. SurModics recognized revenue previously deferred, totaling \$34.8 million, under the accounting treatment required for revenue arrangements with multiple deliverables. In addition, we received and recognized a \$9 million milestone payment from Merck associated with the termination of the triamcinolone acetonide development program in the first quarter of fiscal 2009.

On October 5, 2009, we entered into a License and Development Agreement with F. Hoffmann-La Roche, Ltd. (“Roche”) and Genentech, Inc., a wholly owned member of the Roche Group (“Genentech”). Under the terms of the agreement, Roche and Genentech will have an exclusive license to develop and commercialize a sustained drug delivery formulation of Lucentis® (ranibizumab injection) utilizing SurModics’ proprietary biodegradable microparticles drug delivery system. We received an up-front licensing fee of \$3.5 million and are eligible to receive potential payments of up to approximately \$200 million in fees and milestone payments in the event of the successful development and commercialization of multiple products, as well as payment for development work done on these products. In addition, Roche and Genentech could request that SurModics provide manufacturing services. In the event a commercial product is developed, we will also receive royalties on sales of such product.

Critical Accounting Policies

Critical accounting policies are those policies that require the application of management’s most challenging subjective or complex judgment, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Critical accounting policies involve judgments and uncertainties that are sufficiently sensitive to result in materially different results under different assumptions and conditions. See Note 2 to the condensed consolidated financial statements for disclosures related to key accounting policies and recently adopted accounting pronouncements.

Our revenue recognition accounting policy regarding arrangements with multiple deliverables was changed effective October 1, 2009, as a direct effect of the early adoption of the new accounting guidance regarding multiple element arrangements. We have applied the new accounting guidance on a prospective basis for applicable transactions that originated or were materially modified after October 1, 2009.

For a detailed description of our other critical accounting policies, see the notes to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended September 30, 2009.

Results of Operations — Three Months Ended March 31

<i>(Dollars in thousands)</i>	Three Months Ended March 31,		Increase	Change %
	2010	2009	(Decrease)	
Revenue:				
Therapeutic				
Cardiovascular	\$ 9,244	\$ 9,570	\$ (326)	(3)%
Ophthalmology	3,405	3,710	(305)	(8)%
Other Markets	2,889	2,925	(36)	(1)%
Total Therapeutic	15,538	16,205	(667)	(4)%
Diagnostic	2,822	4,720	(1,898)	(40)%
Total revenue	<u>\$ 18,360</u>	<u>\$ 20,925</u>	<u>\$ (2,565)</u>	(12)%

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Revenue. Revenue during the second quarter of fiscal 2010 was \$18.4 million, a decrease of \$2.6 million or 12%, compared with the second quarter of fiscal 2009. The decreases in Therapeutic and Diagnostic revenue, as detailed in the table above, are further explained in the narrative below.

Therapeutic. Revenue in Therapeutic was \$15.5 million in the second quarter of fiscal 2010, a decrease of 4% compared with \$16.2 million in the second quarter of fiscal 2009. The decrease in total revenue was driven by lower research and development (R&D) revenue as well as lower royalties and license fees. Therapeutic revenue is further characterized by the market-focused areas detailed above.

Cardiovascular derives a substantial amount of revenue from royalties and license fees and product sales attributable to Cordis Corporation, a Johnson & Johnson company, on its CYPHER® Sirolimus-eluting Coronary Stent. The CYPHER® stent incorporates a proprietary SurModics polymer coating that delivers a therapeutic drug designed to reduce the occurrence of restenosis in coronary artery lesions. The CYPHER® stent faces continuing competition from Boston Scientific, Medtronic and Abbott Laboratories. Stents from these companies compete directly with the CYPHER® stent both domestically and internationally. Future royalty and reagent sales revenue could decrease as a result of lower CYPHER® stent sales from ongoing and expected future competition. We anticipate that royalty revenue from the CYPHER® stent may be volatile throughout fiscal 2010 and beyond as the various marketers of drug-eluting stents compete in the marketplace and as other companies enter the marketplace. We also receive a royalty on the Medtronic Endeavor® drug-eluting stent delivery system incorporating our hydrophilic technology, which is sold in the United States and internationally and commenced sales in Japan in May 2009.

Cardiovascular revenue decreased \$0.3 million, or 3%, in the second quarter of fiscal 2010, compared with the second quarter of fiscal 2009 with the decrease principally from R&D revenue. Our royalty and license fee revenue declined slightly as our broad portfolio of royalty paying customers offset the decrease in royalty revenue from Cordis as a result of 24% lower Cordis CYPHER® stent sales.

Ophthalmology revenue decreased \$0.3 million, or 8%, in the second quarter of fiscal 2010, compared with the second quarter of fiscal 2009. The decrease principally reflects a milestone event that occurred in the second quarter of fiscal 2009. There were no such events in the second quarter of fiscal 2010.

Other Markets revenue decreased 1% in the second quarter of fiscal 2010, compared with the second quarter of fiscal 2009. Lower R&D revenue and royalties and license fees were offset by higher product sales. Other Markets revenue is derived from more than 50 customers.

Diagnostic. Revenue in Diagnostic was \$2.8 million in the second quarter of fiscal 2010, a decrease of 40% compared with \$4.7 million in the prior-year period. This decrease was attributable to lower royalties and license fees. In past quarters, Diagnostic derived a significant percentage of revenue from Abbott Laboratories. Our diagnostic format patent license agreement with Abbott Laboratories ceased following the expiration of licensed patents, which occurred in December 2008. Royalty payments are typically recognized on a quarter lag, thus there was royalty revenue in the second quarter of fiscal 2009. Product sales decreased 5% compared with fiscal 2009, principally reflecting lower microarray slide sales in the second quarter of fiscal 2010.

Product costs. Product costs were \$2.5 million in the second quarter of fiscal 2010, compared with \$1.8 million in the prior-year period. The \$0.7 million increase principally reflects higher product costs associated with reagent and antigen products, as well as the impact of overall product sales increases. Overall product margins averaged 53%, compared with 62% reported last year.

Customer research and development expenses. Customer research and development (“Customer R&D”) expenses were \$4.8 million, an increase of 42% compared with the first quarter of fiscal 2009. The increase principally reflects the impact of higher fixed overhead costs attributable to our Alabama research and development operations. The margins on R&D revenue were 10% in the second quarter of fiscal 2010 compared with 31% for the second quarter of fiscal 2009, after adjusting for final Merck payments. Expenses associated with our cGMP manufacturing facility were previously recorded in selling, general and administrative expenses prior to the facility being placed in service in December 2009.

Other research and development expenses. Other research and development (“Other R&D”) expenses were \$4.6 million for the second quarter of fiscal 2010, a decrease of 11% compared with the second quarter of fiscal 2009. The decrease principally reflects lower labor costs as a result of more employees dedicated to customer related activities, as well as a decrease in our overall R&D headcount.

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Selling, general and administrative expenses. Selling, general and administrative expenses were \$4.1 million for the three months ended March 31, 2010, which were \$0.3 million, or 7% lower, compared with expenses of \$4.4 million in the prior-year period. Lower incentive and stock-based compensation costs were the principal contributors to the decrease.

Restructuring charges. In March 2010, we announced an organizational change designed to support future growth by better meeting customer needs, leveraging our multiple competencies across the organization, and building on our pharmaceutical industry experience. As a result of the reorganization, we eliminated 11 positions, or approximately 4% of our workforce. These employee terminations occurred across various functions, and the reorganization plan was completed by the end of the second quarter of fiscal 2010. The Company also announced that it was vacating its leased sales office in Irvine, California and a leased warehouse in Birmingham, Alabama, as part of the reorganization plan. The leased space was vacated by March 31, 2010.

The Company recorded total restructuring charges of \$1.3 million in connection with the fiscal 2010 reorganization. These pre-tax charges consisted of \$0.8 million of severance pay and benefits expenses and \$0.5 million of facility-related costs. The restructuring is expected to result in approximately \$0.5 million to \$1.0 million in annualized cost savings.

Asset impairment charge. In the second quarter ended March 31, 2010, we recorded a \$2.1 million asset impairment charge associated with our facilities in Alabama as we work to consolidate our multiple facilities in Birmingham, Alabama into our newly opened cGMP manufacturing and development facility.

Other income, net. Other income was \$0.3 million in the second quarter of fiscal 2010, compared with \$0.4 million in the second quarter of fiscal 2010. The decrease primarily reflects lower investment balances.

Income tax expense. The Company recorded an income tax benefit of \$0.2 million in the second quarter of fiscal 2010, compared with an income tax provision of \$2.4 million in the prior-year period. The effective tax rate was 36.1%, compared with 36.3% in the prior-year period.

Results of Operations — Six Months Ended March 31

<i>(Dollars in thousands)</i>	Six Months Ended March 31,		Increase (Decrease)	Change %
	2010	2009		
Revenue:				
Therapeutic				
Cardiovascular	\$ 19,958	\$ 19,973	\$ (15)	—%
Ophthalmology	5,902	48,482	(42,580)	(88)%
Other Markets	4,772	6,697	(1,925)	(29)%
Total Therapeutic	30,632	75,152	(44,520)	(59)%
Diagnostic	5,109	8,989	(3,880)	(43)%
Total revenue	<u>\$ 35,741</u>	<u>\$ 84,141</u>	<u>\$ (48,400)</u>	(58)%

Revenue. Revenue for the first six months of fiscal 2010 was \$35.7 million, a decrease of \$48.4 million or 58% compared with the first six months of fiscal 2009. The decreases in Therapeutic and Diagnostic revenue, as detailed in the table above, are further explained in the narrative below.

Therapeutic. Revenue in Therapeutic was \$30.6 million in the first six months of fiscal 2010, a decrease of 59% compared with \$75.1 million in the first six months of fiscal 2009. The decrease in total revenue reflects the recognition of revenue of approximately \$45 million associated with the terminated Merck collaborative research and license agreement, which was terminated effective in the first quarter of fiscal 2009. Excluding this significant event-specific item in fiscal 2009, revenue increased \$0.5 million in the first six months of fiscal 2010 compared with the comparable prior period. Therapeutic revenue is further characterized by the market-focused areas detailed above.

Cardiovascular revenue was comparable in the first six months of fiscal 2010 with the first six months of fiscal 2009. Increased royalties and license fees and product sales were offset by a decrease in R&D revenue. Our royalty revenue from Cordis decreased as a result of 21% lower Cordis CYPHER® stent sales.

Ophthalmology revenue decreased \$42.6 million, or 88%, in the first six months of fiscal 2010, compared with the first six months of fiscal 2009. The significant decrease relates to the recognition of previously deferred revenue associated with the terminated collaborative research and license agreement with Merck. In September 2008, following a strategic review of Merck's business and product development portfolio, Merck gave notice that it was terminating the collaborative research and license

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agreement as well as the supply agreement entered into in June 2007. The termination became effective in December 2008. In the first six months of fiscal 2009, we recognized the revenue previously deferred totaling \$34.8 million, and we received and recognized a \$9 million milestone payment from Merck associated with the termination of the triamcinolone acetonide development program.

Ophthalmology revenue, when excluding the Merck event-specific items in the first six months of fiscal 2009, increased by approximately \$2.4 million, or 69%, principally as a result of higher R&D revenue.

Other Markets revenue decreased \$1.9 million, or 29%, in the first six months of fiscal 2010, compared with the first six months of fiscal 2009. Lower R&D revenue was the main contributor to the decrease. Select customers have delayed, slowed or canceled development projects as a result of various factors, including current economic conditions.

Diagnostic. Revenue in Diagnostic was \$5.1 million in the first six months of fiscal 2010, a decrease of 43% compared with \$9.0 million in the prior-year period. This decrease was attributable to lower royalties and license fees. In past periods, Diagnostic derived a significant percentage of revenue from royalties generated under our diagnostic format patent license agreement with Abbott Laboratories. Our agreement with Abbott Laboratories ceased following the expiration of licensed patents, which occurred in December 2008. Product sales were at similar levels for both periods.

Product costs. Product costs were \$4.4 million in the first six months of fiscal 2010, compared with \$3.4 million in the prior-year period. The \$1.0 million increase in product costs principally reflects higher product sales. Overall product margins averaged 55%, compared with 61% reported in the first six months of fiscal 2009. The decrease in product margins reflects a shift in the mix of products sold and some modest cost increases related to our reagents and antigen products.

Customer research and development expenses. Customer R&D expenses were \$8.1 million, an increase of 15% compared with the first six months of fiscal 2009. The increase principally reflects the impact of higher R&D revenue, adjusted for Merck event-specific items. Customer R&D margins were 9%, compared with 60% in the first six months of fiscal 2009. The margin was 31% for the first six months of fiscal 2009, after adjusting for Merck event-specific items. The margin decrease in the first six months of fiscal 2010 reflects increased fixed overhead costs attributable to our Alabama research and development operations.

Other research and development expenses. Other R&D expenses were \$9.3 million for the first six months of fiscal 2010, a decrease of 14% compared with the first six months of fiscal 2009. The decrease principally reflects lower labor costs as a result of more employees dedicated to customer related activities, a decrease in our overall R&D headcount and lower overhead costs being allocated to Other R&D.

Selling, general and administrative expenses. Selling, general and administrative expenses were \$8.7 million for the six months ended March 31, 2010, which was a 4% decrease compared to expenses of \$9.1 million in the prior-year period. Lower incentive and stock-based compensation costs were offset by higher facility expenses.

Purchased in-process research and development. In November 2008, we acquired certain assets comprised of intellectual property and collaborative programs from PR Pharmaceuticals, Inc. The fair value of \$3.2 million associated with the in-process research and development intangible asset was determined by management and recognized as an expense in the six months ended March 31, 2009.

Restructuring charges. In March 2010, we announced an organizational change designed to support future growth by better meeting customer needs, leveraging our multiple competencies across the organization, and building on our pharmaceutical industry experience.

SurModics recorded total restructuring charges of approximately \$1.3 million in connection with the fiscal 2010 reorganization. These pre-tax charges consisted of \$0.8 million of severance pay and benefits expenses and \$0.5 million of facility-related costs.

In November 2008, we announced a functional reorganization to better serve our customers and improve our operating performance and recorded total restructuring charges of approximately \$1.8 million in connection with the 2009 reorganization. These pre-tax charges consisted of \$0.5 million of severance pay and benefits expenses and \$1.3 million of facility-related costs.

Asset impairment charge. In the six months ended March 31, 2010, we recorded a \$2.1 million asset impairment charge associated with our facilities in Alabama as we work to consolidate our multiple facilities.

Other income, net. Other income was \$0.6 million in the first six months of fiscal 2010, compared with \$1.0 million in the first six months of fiscal 2009. Income from investments was \$0.6 million, compared with \$1.1 million in the prior-year period. The

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decrease primarily reflects lower investment balances. In the six months of fiscal 2009, our *pro rata* net loss on our equity method investments was partially offset by \$0.3 million of gains from our investment portfolio.

Income tax expense. The income tax provision was \$0.9 million in the first six months of fiscal 2010, compared with \$18.6 million in the prior-year period. The effective tax rate was 37.8%, compared with 37.2% in the prior-year period. The increase over the federal statutory rate of 35% is primarily related to incentive stock options and state taxes.

Liquidity and Capital Resources

As of March 31, 2010, the Company had working capital of \$33.7 million, of which \$19.3 million consisted of cash, cash equivalents and short-term investments. Working capital increased \$4.7 million from September 30, 2009, driven principally by higher accounts receivable and prepaid balances and lower accounts payable balances. Our cash, cash equivalents and short-term and long-term investments totaled \$51.8 million at March 31, 2010, an increase of \$3.9 million from \$47.9 million at September 30, 2009. The Company's investments principally consist of U.S. government and government agency obligations and investment grade, interest-bearing corporate debt securities with varying maturity dates, the majority of which are five years or less. The Company's policy requires that no more than 5% of investments be held in any one credit issue, excluding U.S. government and government agency obligations. The primary investment objective of the portfolio is to provide for the safety of principal and appropriate liquidity, while meeting or exceeding a benchmark (Merrill Lynch 1-3 Year Government-Corporate Index) total rate of return. Management plans to continue to direct its investment advisors to manage the Company's investments primarily for the safety of principal for the foreseeable future, as it assesses other investment opportunities and uses of its investments.

We had cash flows from operating activities of approximately \$12.4 million in the first six months of fiscal 2010, compared with \$16.9 million in the first six months of fiscal 2009. The decrease compared with prior-year results primarily reflects receipt of a \$9 million contract termination payment from Merck in fiscal 2009, while in fiscal 2010 we received a \$3.5 million upfront license fee from Genentech.

In November 2007, our Board of Directors authorized the repurchase of \$35.0 million of the Company's common stock in open-market transactions, private transactions, tender offers, or other transactions. The repurchase authorization does not have a fixed expiration date. During the six months ended March 31, 2010, the Company repurchased 102,533 shares for \$2.0 million at an average price of \$19.81 per share, leaving \$5.3 million remaining available for future share repurchases under the repurchase program.

As of March 31, 2010, we had no debt under our \$25 million unsecured revolving credit facility. As of March 31, 2010, the Company was in compliance with all covenants.

We do not have any other credit agreements and believe that our existing cash, cash equivalents and investments, together with cash flow from operations, will provide liquidity sufficient to meet the below stated needs and fund our operations for the next twelve months. There can be no assurance, however, that SurModics' business will continue to generate cash flows at current levels, and disruptions in financial markets may negatively impact the Company's ability to access capital in a timely manner and on attractive terms, if at all. Our anticipated liquidity needs for the remainder of fiscal 2010 include, but are not limited to, the following: capital expenditures related to the Alabama cGMP facility in the range of \$4.5 million to \$5.5 million; general capital expenditures in the range of \$3 million to \$4 million; contingent consideration payments, if any, related to our acquisitions of SurModics Pharmaceuticals, BioFX Laboratories, Inc., as well as the purchase of certain assets from PR Pharmaceuticals, Inc.; and any amounts associated with the repurchase of common stock under the authorization discussed above.

Off-Balance Sheet Arrangements

As of March 31, 2010, the Company did not have any off-balance sheet arrangements with any unconsolidated entities.

Forward-Looking Statements

Certain statements contained in this report, or in other reports of the Company and other written and oral statements made from time to time by the Company, do not relate strictly to historical or current facts. As such, they are considered "forward-looking statements" that provide current expectations or forecasts of future events. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements can be identified by the use of terminology such as "anticipate," "believe," "could," "estimate," "expect," "forecast," "intend," "may," "plan," "possible," "project," "will" and similar words or expressions. Any statement that is not a historical fact, including estimates, projections, future trends and the outcome of events that have not yet occurred, are forward-looking statements. The Company's forward-looking statements generally relate to its growth strategy, financial prospects, product development programs, sales efforts, revenue expectations and the impact of the Cordis and Genentech agreements, as well as other significant customer agreements, and capital and liquidity expectations and needs. You should carefully consider forward-looking statements and understand that such statements involve a

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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:

- the Company's reliance on a small number of significant customers, which causes our financial results and stock price to be subject to factors affecting those significant customers and their products, the timing of market introduction of their or competing products, product safety or efficacy concerns and intellectual property litigation, the outcome of which could adversely affect the royalty revenue we derive based on the sales of licensed products;
- general economic conditions which are beyond our control, including the impact of recession, business investment and changes in consumer confidence;
- frequent intellectual property litigation in the medical device and pharmaceutical industries that may directly or indirectly adversely affect our customers' ability to market their products incorporating our technologies;
- our ability to protect our own intellectual property;
- healthcare reform efforts, including reduced reimbursement rates and new taxes on medical devices and pharmaceutical products that may adversely affect our customers' ability to cost-effectively market and sell devices incorporating our technologies or affect the prices they receive for such products thereby affecting the Company's revenue;
- the Company's ability to attract new licensees and to enter into agreements for additional product applications with existing licensees, the willingness of potential licensees to sign license agreements under the terms offered by the Company, changes in the development and marketing priorities of our licensees and development partners and the Company's ability to maintain satisfactory relationships with its licensees;
- the Company's ability to increase the number of market segments and applications that use its technologies through its sales and marketing and research and development efforts;
- the decrease in available financing for the Company's customers and for new ventures which could potentially become customers can reduce the Company's potential opportunities;
- market acceptance of products sold by customers incorporating our technologies and the timing of new product introductions by licensees;
- market acceptance of products sold by customers' competitors and the timing and pricing of new product introductions by customers' competitors;
- 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 or approvals, which may result in lost market opportunities or postpone or preclude product commercialization by licensees;
- efficacy or safety concerns with respect to products marketed by us and our licensees, whether scientifically justified or not, that may lead to product recalls, withdrawals or declining sales;
- the ability to secure raw materials for reagents the Company sells;
- the Company's ability to successfully manage clinical trials and related foreign and domestic regulatory processes for the I-vation™ intravitreal implant or other products under development by the Company, whether delays, difficulties or failures in achieving acceptable clinical results or obtaining foreign or FDA marketing clearances or approvals postpone or preclude product commercialization of the intravitreal implant or other products, and whether the intravitreal implant and any other products remain viable commercial prospects;
- product liability claims against which we are not indemnified or that are not covered by insurance;
- the development of new products or technologies by competitors, technological obsolescence and other changes in competitive factors;
- the trend of consolidation in the medical device and pharmaceutical industries, resulting in more significant, complex and long term contracts than in the past and potentially greater pricing pressures;
- the Company's ability to identify suitable businesses to acquire or with whom to form strategic relationships to expand its technology development and commercialization, its ability to successfully integrate the operations of companies it may acquire from time to time and its ability to create synergies from acquisitions and other strategic relationships;

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- the Company's ability to successfully internally perform certain product development activities and governmental and regulatory compliance activities which the Company has not previously undertaken in any significant manner;
- acts of God or terrorism which impact the Company's personnel or facilities; and
- other factors described below in "Risk Factors" and other sections of SurModics' Annual Report on Form 10-K, which you are encouraged to read carefully.

Many of these factors are outside the control and knowledge of the Company, and could result in increased volatility in period-to-period results. Investors are advised not to place undue reliance upon the Company's forward-looking statements and to consult any further disclosures by the Company on this subject in its filings with the Securities and Exchange Commission.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company's investment policy requires the Company to invest in 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. The Company does not use derivative financial instruments to manage interest rate risk or to speculate on future changes in interest rates. A one percentage point increase in interest rates would result in an approximate \$0.7 million decrease in the fair value of the Company's available-for-sale and held-to-maturity securities as of March 31, 2010, but no material impact on the results of operations or cash flows. Management believes that a reasonable change in raw material prices would not have a material impact on future earnings or cash flows because the Company's inventory exposure is not material.

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, the Company conducted an evaluation under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer regarding the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15(b) of the Securities Exchange Act of 1934 (the "Exchange Act"). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files under the Exchange Act is recorded, processed, summarized and reported within the time period specified in the Securities Exchange Commission rules and forms, and to ensure that information required to be disclosed by the Company in the reports the Company files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosures.

Changes in Internal Controls

There was no change in the Company's internal control over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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

There have been no material developments in the legal proceedings previously disclosed in the Company's Form 10-K for the fiscal year ended September 30, 2009.

Item 1A. Risk Factors.

There have been no material changes from risk factors as previously disclosed in the Company's Form 10-K for the fiscal year ended September 30, 2009 in response to Item 1A to Part I of Form 10-K.

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

The following table presents information with respect to purchases of common stock of the Company made during the three months ended March 31, 2010, by the Company or on behalf of the Company or any "affiliated purchaser" of the Company, as defined in Rule 10b-18(a)(3) under the Exchange Act.

Period	(a) Total Number of Shares Purchased(1)	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs(2)
1/01/10 — 1/31/10	32,141	\$19.88	31,558	\$6,706,269
2/01/10 — 2/28/10	70,975	\$19.78	70,975	\$5,302,113
3/01/10 — 3/31/10	6,773	\$20.76	0	\$5,302,113
Total	109,889	\$19.87	102,533	\$5,302,113

- The purchases in this column included shares repurchased as part of our publicly announced program and in addition include 7,356 shares repurchased by the Company to satisfy tax withholding obligations in connection with so-called "stock swap exercises" related to the vesting of restricted stock awards or to satisfy payment associated with exercise of non-qualified stock options.
- On November 15, 2007, our Board of Directors announced the authorization of the repurchase of \$35 million of outstanding common stock. As of March 31, 2010, we have repurchased a cumulative 1,024,181 shares at an average price of \$29.00 per share. Under the current authorization the Company has \$5.3 million available for authorized share repurchases as of March 31, 2010. The repurchase authorization does not have an expiration date.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Removed and Reserved.**Item 5. Other Information.****Submission of matters to a vote of security holders**

Set forth below is information concerning matters submitted to a vote of the Company's security holders at the recent annual meeting of shareholders during the period covered by this Report on Form 10-Q:

- The Company held its Annual Meeting of Shareholders on February 8, 2010.

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- (b) Proxies were solicited pursuant to Regulation 14A under the Securities Act of 1934. The shareholders voted on five matters: (i) to elect Class II directors; (ii) to set the number of directors at nine (9); (iii) to ratify the appointment of Deloitte & Touche LLP as SurModics' independent registered public accounting firm for fiscal year 2010; (iv) to approve the SurModics, Inc. 2009 Equity Incentive Plan; and (v) to approve certain amendments to the SurModics, Inc. 1999 Employee Stock Purchase Plan. The shareholders approved all matters by the following votes:

	<u>Votes For</u>		<u>Votes Withheld</u>
(i) Elect Class II directors (elected by plurality voting)			
John W. Benson	8,370,695		3,216,518
Mary K. Brainerd	5,608,782		5,978,431
Gerald B. Fischer	8,402,661		3,184,552
	<u>Votes For</u>	<u>Votes Against</u>	<u>Votes Abstained</u>
(ii) Set the number of directors at nine (9)	14,645,656	62,727	21,162
(iii) Ratify the appointment of Deloitte & Touche LLP as SurModics' independent registered public accounting firm for fiscal year 2010			
	<u>Votes For</u>	<u>Votes Against</u>	<u>Votes Abstained</u>
	14,537,500	182,256	9,790
(iv) Approve the SurModics, Inc. 2009 Equity Incentive Plan			
	<u>Votes For</u>	<u>Votes Against</u>	<u>Votes Abstained</u>
	10,798,074	761,081	28,058
(v) Approve certain amendments to the SurModics, Inc. 1999 Employee Stock Purchase Plan			
	<u>Votes For</u>	<u>Votes Against</u>	<u>Votes Abstained</u>
	11,376,233	159,838	51,142
			<u>Broker Non-Votes</u>
			3,142,333

Asset impairment charge

In second quarter ended March 31, 2010, the Company recorded a \$2.1 million asset impairment charge associated with its facilities in Alabama as the Company works to consolidate its multiple facilities in Birmingham, Alabama into the Company's newly opened cGMP manufacturing and development facility.

Item 6. Exhibits.

<u>Exhibit</u>	<u>Description</u>
3.1	Restated Articles of Incorporation, as amended — incorporated by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-QSB for the quarter ended December 31, 1999, SEC File No. 0-23837.
3.2	Restated Bylaws of SurModics, Inc., as amended November 30, 2009 – incorporated by reference to Exhibit 3.2 of the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2009, SEC File No. 0-23837.
10.1*	SurModics, Inc. 2009 Equity Incentive Plan.
10.2*	SurModics, Inc. 1999 Employee Stock Purchase Plan (as amended and restated November 30, 2009).
10.3	SurModics, Inc. 2009 Equity Incentive Plan — incorporated by reference from Appendix A to SurModics' Definitive Proxy Statement filed with the SEC on December 18, 2009.
10.4	Form of Incentive Stock Option Agreement for the SurModics, Inc. 2009 Equity Incentive Plan — incorporated by reference to Exhibit 10.2 to the Company's 8-K filed February 12, 2010, SEC File No. 0-23837.
10.5	Form of Non-Statutory Stock Option Agreement for the SurModics, Inc. 2009 Equity Incentive Plan — incorporated by reference to Exhibit 10.3 to the Company's 8-K filed February 12, 2010, SEC File No. 0-23837.
10.6	Form of Performance Share Agreement for the SurModics, Inc. 2009 Equity Incentive Plan — incorporated by reference to Exhibit 10.4 to the Company's 8-K filed February 12, 2010, SEC File No. 0-23837.
10.7	Form of Restricted Stock Agreement for the SurModics, Inc. 2009 Equity Incentive Plan — incorporated by reference to Exhibit 10.5 to the Company's 8-K filed February 12, 2010, SEC File No. 0-23837.
31.1*	Certification of Chief Executive Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer Pursuant to Section 906 of Sarbanes-Oxley Act of 2002.
32.2*	Certification of Chief Financial Officer Pursuant to Section 906 of Sarbanes-Oxley Act of 2002.

* Filed herewith.

SIGNATURES

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

May 7, 2010

SurModics, Inc.

By: /s/ Philip D. Ankeny
Philip D. Ankeny
Senior Vice President and
Chief Financial Officer

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
EXHIBIT INDEX TO FORM 10-Q
For the Quarter Ended March 31, 2010
SURMODICS, INC.

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SURMODICS, INC.
2009 EQUITY INCENTIVE PLAN

1. Purpose. The purpose of the SurModics, Inc. 2009 Equity Incentive Plan (the “Plan”) is to promote the interests of the Company and its shareholders by providing key personnel of, and advisors to, the Company and its Affiliates with an opportunity to acquire a proprietary interest in the Company. The opportunity to acquire a proprietary interest in the Company will aid in attracting, motivating and retaining key personnel and advisors, including Non-Employee Directors, and will align their interests with those of the Company’s shareholders.

2. Definitions. The capitalized terms used in the Plan have the meanings set forth below.

(a) “Affiliate” means a corporation or other entity controlled by, controlling or under common control with the Company.

(b) “Agreement” means any written or electronic agreement, instrument or document evidencing the grant of an Award in a form approved by the Committee, including all amendments thereto.

(c) “Award” means a grant made under the Plan in the form of Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Shares or Other Stock-Based Award.

(d) “Board” means the Board of Directors of the Company.

(e) “Cause” means the Participant’s (i) incompetence or failure or refusal to perform satisfactorily any duties reasonably required of the Participant by the Company; (ii) violation of any law, rule or regulation (other than traffic violations, misdemeanors or similar offenses) or cease-and-desist order, court order, judgment, regulatory directive or agreement; (iii) commission or omission of, or engaging in, any act or practice that constitutes a material breach of the Participant’s fiduciary duty to the Company, involves personal dishonesty on the part of the Participant or demonstrates a willful or continuing disregard for the best interests of the Company; (iv) engaging in dishonorable or disruptive behavior, practices or acts which would be reasonably expected to harm or bring disrepute to the Company, its business or any of its customers, employees or vendors; (v) any failure of the Participant to materially conform to the Company’s Code of Ethics and Business Conduct; or (vi) the Participant’s material breach of any confidentiality, non-disclosure, non-solicitation, non-competition, invention assignment or similar agreement with the Company or any Affiliate.

(f) “Change in Control” means one of the following:

(1) Any “person” (as defined in Sections 13(d) and 14(d) of the Exchange Act) acquires or becomes a “beneficial owner” (as defined in Rule 13d-3 or any successor rule under the Exchange Act), directly or indirectly, of securities of the Company representing 35% or more of the combined voting power of the then outstanding securities entitled to vote generally in the election of directors (“Voting Securities”), provided, however, that the following shall not constitute a Change in Control:

(A) any acquisition of beneficial ownership by the Company or a subsidiary of the Company;

(B) any acquisition or beneficial ownership by any employee benefit plan (or related trust) sponsored or maintained by the Company or one or more of its subsidiaries;

(C) any acquisition or beneficial ownership by any corporation (including without limitation an acquisition in a transaction of the nature described in part (3) of this definition) with respect to which, immediately following such acquisition, more than 65%, respectively, of (x) the combined voting power of the Company's then outstanding Voting Securities and (y) the Company's then outstanding Common Stock is then beneficially owned, directly or indirectly, by all or substantially all of the persons who beneficially owned Voting Securities and Common Stock, respectively, of the Company immediately prior to such acquisition in substantially the same proportions as their ownership of such Voting Securities and Common Stock, as the case may be, immediately prior to such acquisition;

(D) any acquisition of Voting Securities or Common Stock directly from the Company; or

(E) any acquisition of beneficial ownership by the Participant or a group, acting in concert, that includes the Participant;

(2) Continuing Directors shall not constitute a majority of the members of the Board. For purposes of this Plan, "Continuing Directors" means:

(A) individuals who, on the effective date of this Plan, are directors of the Company, (B) individuals elected as directors of the Company subsequent to the effective date of this Plan for whose election proxies shall have been solicited by the Board or (C) any individual elected or appointed by the Board to fill vacancies on the Board caused by death or resignation (but not by removal) or to fill newly-created directorships, provided that a "Continuing Director" shall not include an individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the threatened election or removal of directors (or other actual or threatened solicitation of proxies or consents) by or on behalf of any person other than the Board; or

(3) Consummation of a reorganization, merger or consolidation of the Company or a statutory exchange of outstanding Voting Securities of the Company, unless immediately following such reorganization, merger, consolidation or exchange, all or substantially all of the persons who were the beneficial owners, respectively, of Voting Securities and Common Stock immediately prior to such reorganization, merger, consolidation or exchange beneficially own, directly or indirectly, more than 65% of, respectively, (x) the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors and (y) the then outstanding shares of common stock of the corporation resulting from such reorganization, merger, consolidation or exchange in substantially the same proportions as their ownership, immediately prior to such reorganization, merger, consolidation or exchange, of the Voting Securities and Common Stock, as the case may be; provided, however, that such a transaction shall not be deemed to be a Change in Control with respect to a Participant if a majority of the then combined voting power of the then outstanding voting securities (or voting equity interests) of the surviving corporation or of any corporation (or other entity) acquiring all or substantially all of the assets of the Company shall be beneficially owned, directly or indirectly, immediately after a reorganization, merger, consolidation, exchange or disposition of assets referred to above, by the Participant or by a group, acting in concert, that includes the Participant.

Notwithstanding the foregoing, for purposes of Awards hereunder that are subject to the provisions of Code Section 409A, no Change in Control shall be deemed to have occurred upon an event described in clauses (1) through (3) above that would have the effect of changing the

time or form of payment of such Award unless such event would also constitute a change in the ownership or effective control of, or a change in the ownership of a substantial portion of the assets of, the Company for purposes of Code Section 409A.

(g) “Code” means the Internal Revenue Code of 1986, as amended and in effect from time to time, and the regulations promulgated thereunder.

(h) “Committee” means two or more Non-Employee Directors designated by the Board to administer the Plan under Section 3 hereof, each member of which shall be (i) an independent director within the meaning of the rules and regulations of The NASDAQ Stock Market, (ii) a non-employee director within the meaning of Exchange Act Rule 16b-3, and (iii) an “outside director” for purposes of Code Section 162(m).

(i) “Common Stock” means the common stock, par value \$.05, of the Company.

(j) “Company” means SurModics, Inc., a Minnesota corporation, or any successor thereto.

(k) “Continuing Directors” has the meaning set forth in Section 2(f)(2).

(l) “Corporate Transaction” means (i) dissolution or liquidation of the Company, (ii) a sale of substantially all of the assets of the Company, or (iii) a merger or consolidation of the Company with or into any other corporation, regardless of whether the Company is the surviving corporation.

(m) “Disability” means, unless otherwise defined in an Agreement, any medically determinable physical or mental impairment that causes the Participant to be unable to carry out his job responsibilities for a continuous period of more than six months, in the sole determination of the Committee.

(n) “Employee” means an employee (including an officer or director who is also an employee) of the Company or an Affiliate.

(o) “Exchange Act” means the Securities Exchange Act of 1934, as amended and in effect from time to time.

(p) “Fair Market Value” of a Share means the closing sale price of a Share on the NASDAQ Global Select Market (or such other national securities exchange as may at the time be the principal market for the Shares) on the date of determination (or if no sale occurred on that day, on the next preceding day on which a sale of Shares occurred). If the Shares are not then listed and traded upon a national securities exchange but are regularly quoted on an automated quotation system or by a recognized securities dealer, Fair Market Value of a Share shall be the closing sale price (or the average of the high bid and low asked prices if selling prices are not reported) on such system or by such dealer on the date of determination (or if no such prices were reported on that day, on the last day such prices were reported). In the absence of an established market for the Shares as described above, Fair Market Value of a Share will be what the Committee determines in good faith and in a manner consistent with Code Section 409A to be 100% of the fair market value of a Share on that date.

(q) “FAS 123R” has the meaning set forth in Section 17.

(r) “Grant Date” means the date on which the Committee approves the grant of an Award under the Plan, or such later date as may be specified by the Committee on the date the Committee approves the Award.

- (s) "Incentive Stock Option" or "ISO" means any Option designated as such and granted in accordance with the requirements of Code Section 422.
- (t) "Non-Employee Director" means a member of the Board who is not an Employee.
- (u) "Non-Statutory Stock Option" means an Option other than an Incentive Stock Option.
- (v) "Option" means a right granted under the Plan to purchase a specified number of Shares at a specified price.
- (w) "Other Stock-Based Award" means an Award described in Section 12 of this Plan.
- (x) "Parent" means a "parent corporation," as defined in Code Section 424(e), of the Company.
- (y) "Participant" means a person to whom an Award is or has been made in accordance with the Plan.
- (z) "Performance-Based Compensation" means an Award to a person who is, or is determined by the Committee to likely become, a "covered employee" (as defined in Code Section 162(m)(3)) and that is intended to constitute "performance-based compensation" within the meaning of Code Section 162(m)(4)(C).
- (aa) "Performance Measures" means any measures of performance established by the Committee that must be satisfied as a condition precedent to the vesting of an Award of Performance-Based Compensation. Performance Measures shall consist of any one, or a combination of, the following attributes of the Company: (i) revenue; (ii) net income; (iii) shareholders equity; (iv) earnings per share; (v) return on equity; (vi) return on assets; (vii) total shareholder return; (viii) net operating income; (ix) cost controls; (x) cash flow; (xi) operating cash flow; (xii) increase in revenue; (xiii) economic value added; (xiv) increase in share price or earnings; (xv) return on investment; (xvi) return on invested capital; (xvii) department or business unit performance goals; (xviii) client contracting goals; (xix) technological and business development milestones and contracting goals; (xx) increase in market share; (xxi) regulatory, clinical or commercial milestones; and (xxii) quality control, in all cases including, if selected by the Committee, threshold, target and maximum levels. Any Performance Measure utilized may be expressed in absolute amounts, on a per share basis, as a growth rate or change from preceding periods, or as a comparison to the performance of specified companies or other external measures, and may relate to one or any combination of corporate, group, unit, division, Affiliate or individual performance.
- (bb) "Performance Period" means the period of time, as specified in an Agreement, during which Performance Measures must be achieved.
- (cc) "Performance Shares" means the right to receive a designated number of Shares upon the achievement of specified levels of one or more Performance Measures as provided in this Plan and the applicable Agreement.
- (dd) "Prior Plan" means the SurModics, Inc. 2003 Equity Incentive Plan, as amended and restated.
- (ee) "Plan" has the meaning set forth in Section 1.

(ff) “Restricted Stock” means Shares issued to a Participant that are subject to such restrictions on transfer, forfeiture conditions and other restrictions or limitations as may be set forth in this Plan and the applicable Agreement.

(gg) “Restricted Stock Unit” means a right to receive, in cash and/or Shares as determined by the Committee, the Fair Market Value of a Share, subject to such restrictions on transfer, forfeiture conditions and other restrictions or limitations as may be set forth in this Plan and the applicable Agreement.

(hh) “Securities Act” means the Securities Act of 1933, as amended and in effect from time to time.

(ii) “Service” means the provision of services by a Participant to the Company or any Affiliate in any Service Provider capacity. A Service Provider’s Service shall be deemed to have terminated either upon an actual cessation of providing services, or upon the entity for which the Service Provider provides services ceasing to be an Affiliate. Except as otherwise provided in any Agreement, Service shall not be deemed terminated in the case of (i) any approved leave of absence; (ii) transfers among the Company and any Affiliates in any Service Provider capacity; or (iii) any change in status so long as the individual remains in the service of the Company or any Affiliate in any Service Provider capacity.

(jj) “Service Provider” means an Employee, a Non-Employee Director, or any consultant or advisor who is a natural person and who provides services to the Company or any Affiliate.

(kk) “Share” means a share of Common Stock.

(ll) “Stock Appreciation Right” or “SAR” means the right to receive, in cash and/or Shares as determined by the Committee, an amount equal to the appreciation in value of a specified number of Shares between the Grant Date of the SAR and its exercise date.

(mm) “Subsidiary” means a “subsidiary corporation,” as defined in Code Section 424(f), of the Company.

(nn) “Substitute Award” means an Award granted upon the assumption of, or in substitution or exchange for, outstanding awards granted by a company or other entity acquired by the Company or any Affiliate or with which the company or any Affiliate combines.

(oo) “Successor” means the guardian or legal representative of an incompetent Participant, or if the Participant is deceased, means the estate of the Participant or the person or persons who may, by bequest or inheritance, or pursuant to the terms of an Award, acquire the right to exercise an Option or Stock Appreciate Right or to receive cash and/or Shares issuable in satisfaction of an Award in the event of a Participant’s death.

(pp) “Termination Date” has the meaning set forth in Section 16(b).

(qq) “Transferee” means any “family member” (as defined by Rule 701(c)(3) under the Securities Act) of the Participant.

(rr) “Voting Securities” has the meaning set forth in Section 2(f)(1).

3. Administration of the Plan.

(a) Administration. The authority to control and manage the operations and administration of the Plan shall be vested in the Committee in accordance with this Section 3.

(b) Scope of Authority. Subject to the terms of the Plan, the Committee shall have the exclusive authority, in its discretion, to take such actions as it deems necessary or advisable to administer the Plan, including:

(1) determining the Service Providers to whom Awards will be granted, the timing of each such Award, the types of Awards and the number of Shares covered by each Award, the terms, conditions, performance criteria, restrictions and other provisions of Awards, and the manner in which Awards are paid or settled;

(2) cancelling or suspending an Award, accelerating the vesting or extending the exercise period of an Award, or otherwise amending the terms and conditions of any outstanding Award, subject to the requirements of Sections 16(c) and (d); and

(3) establishing, amending or rescinding rules to administer the Plan, interpreting the Plan and any Award or Agreement made under the Plan, and making all other determinations necessary or desirable for the administration of the Plan.

Notwithstanding anything in this Plan to the contrary, the Board shall perform the duties and have the responsibilities of the Committee with respect to Awards made to Non-Employee Directors.

(c) Acts of the Committee; Delegation. A majority of the members of the Committee shall constitute a quorum for any meeting of the Committee, and any act of a majority of the members present at any meeting at which a quorum is present or any act unanimously approved in writing by all members of the Committee shall be the act of the Committee. To the extent not inconsistent with applicable law or stock exchange rules, the Committee may delegate all or any portion of its authority under the Plan to determine and administer Awards to Participants who are not subject to Section 16 of the Exchange Act to one or more persons who are either Non-Employee Directors or executive officers of the Company.

(d) Finality of Decisions. The Committee's interpretation of the Plan and of any Award or Agreement made under the Plan, and all related decisions or resolutions of the Board or Committee, shall be final and binding on all parties with an interest therein.

(e) Indemnification. Each person who is or has been a member of the Committee or of the Board, and any other person to whom the Committee delegates authority under the Plan in accordance with Section 3(c), shall be indemnified and held harmless by the Company, to the extent permitted by law, against and from (i) any loss, cost, liability or expense that may be imposed upon or reasonably incurred by such person in connection with or resulting from any claim, action, suit or proceeding to which such person may be a party or in which such person may be involved by reason of any action taken or failure to act, made in good faith, under the Plan and (ii) any and all amounts paid by such person in settlement thereof, with the Company's approval, or paid by such person in satisfaction of any judgment in any such action, suit or proceeding against such person, provided such person shall give the Company an opportunity, at the Company's expense, to handle and defend the same before such person undertakes to handle and defend it on such person's own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such person or persons may be entitled under the Certificate of Incorporation or Bylaws of the Company, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

4. Shares Available Under the Plan.

(a) Maximum Shares Available. Subject to Sections 4(b) and 4(c), and to adjustment as provided in Section 17, a total of 1,500,000 Shares shall be authorized for grant under the Plan. All Shares authorized for grant under this Plan may be granted as Incentive Stock Options. In determining the

number of Shares to be counted against this limit in connection with any Award, the following rules shall apply:

(1) Each Share that is subject to an Award of Options or Stock Appreciation Rights shall be counted against the Shares available for distribution under this Plan as one Share.

(2) Each Share (or security that is convertible into, or equivalent to, a Share) that is subject to any Award other than Options or Stock Appreciation Rights shall be counted against the Shares available for distribution under this Plan as one and one-half (1.50) Shares.

(3) Where the number of Shares subject to the Award is variable on the Grant Date, the number of Shares to be counted against the limit prior to the settlement of the Award shall be the maximum number of Shares that could be received under that particular Award.

(4) Where two or more types of Awards are granted to a Participant in tandem with each other, such that the exercise of one type of Award with respect to a number of Shares cancels at least an equal number of Shares of the other, the number of Shares to be counted against the limit prior to the settlement of the Award shall be the largest number of Shares that would be counted against the limit under either of the Awards.

(b) Effect of Forfeitures and Other Actions. To the extent that any Award is forfeited or terminates without vesting, or any Option or Stock Appreciation Right terminates, expires or lapses without being exercised, the Shares subject to such Award not delivered as a result thereof shall again be available for Awards under the Plan. Shares tendered or withheld to pay the exercise price of an Option or to pay any tax withholding related to any Award will count against the limitations set forth in Section 4(a) and will not be added back to the Shares available under the Plan. When a Stock Appreciation Right that may be settled for Shares is exercised, the number of Shares subject to the Agreement shall be counted against the number of Shares available for issuance under the Plan as one Share for every Share subject thereto, regardless of the number of Shares used to settle the Stock Appreciation Right upon exercise.

(c) Forfeitures Under Prior Plan. To the extent that any stock option or restricted stock award is forfeited or terminates without vesting, or any stock option terminates, expires or lapses without being exercised, under the Prior Plan, the Shares subject to such stock option or restricted stock award not delivered as a result thereof shall be available for Awards under the Plan. Notwithstanding the foregoing, Shares tendered or withheld to pay the exercise price of a stock option or to pay tax withholding on an award under the Prior Plan will not be added back to the Shares available under the Plan.

(d) Source of Shares. Shares issued under the Plan shall be authorized and unissued Shares. No fractional Shares may be issued under the Plan, but the Committee may, in its discretion, pay cash in lieu of any fractional Share in settlement of an Award.

(e) Individual Option and SAR Limit. The aggregate number of Shares subject to Options and/or Stock Appreciation Rights granted during any calendar year to any one Participant shall not exceed 200,000.

5. Eligibility. Participation in the Plan shall be limited to (i) Service Providers and (ii) any individual the Company desires to induce to become a Service Provider, so long as any such inducement grant is contingent upon such individual becoming a Service Provider. Notwithstanding the foregoing, Incentive Stock Options may only be granted to Employees.

6. General Terms of Awards.

(a) Award Agreement. Except for Other Stock-Based Awards that involve only the immediate issuance of unrestricted and fully vested Shares, each Award shall be evidenced by an Agreement setting forth the number of Shares subject to the Award together with such other terms and conditions applicable to the Award (and not inconsistent with the Plan) as determined by the Committee. An Award to a Participant may be made singly or in combination with any form of Award.

(b) Vesting and Term. Each Agreement shall set forth the period until the applicable Award is scheduled to expire and any applicable Performance Period. The Committee may provide for such vesting conditions as it may determine.

(c) Transferability. Except as provided in this Section 6(c), (i) during the lifetime of a Participant only the Participant (or that Participant's Successor) may exercise an Option or Stock Appreciation Right, or receive payment with respect to any other Award; and (ii) no Award may be sold, assigned, transferred, exchanged or encumbered other than to a Successor in the event of a Participant's death. Any attempted transfer in violation of this Section 6(c) shall be of no effect. The Committee may, however, provide in an Agreement or otherwise that an Award (other than an Incentive Stock Option) may be transferred or assigned pursuant to a divorce decree or a domestic relations order, and may be transferable, to the extent permitted by law, to a Transferee if the Participant does not receive any consideration for the transfer. Any Award held by a Transferee shall continue to be subject to the same terms and conditions that were applicable to that Award immediately before the transfer thereof to the Transferee. For purposes of any provision of the Plan relating to notice to a Participant or to acceleration or termination of an Award upon the death or termination of employment of a Participant, the references to "Participant" shall mean the original grantee of an Award and not any Transferee or Successor.

(d) Termination of Service. Unless otherwise provided in an Agreement, and subject to Section 13 of this Plan, if a Participant's Service with the Company and all of its Affiliates terminates, the following provisions shall apply (in all cases subject to the scheduled expiration of an Option or Stock Appreciation Right, as applicable):

(1) Upon termination of Service for Cause, all unexercised Options and SARs and all unvested portions of any other outstanding Awards shall be immediately forfeited and terminated without consideration;

(2) Upon termination of Service for any reason other than for Cause, all unvested and unexercisable portions of any outstanding Awards shall be immediately forfeited and terminated without consideration;

(3) Upon termination of Service for any reason other than Cause, death or Disability, the currently vested and exercisable portions of Options and SARs may be exercised within three months of the date of such termination; or

(4) Upon termination of Service due to death or Disability, the currently vested and exercisable portions of Options and SARs may be exercised within six months of the date of such termination.

(e) Rights as Shareholder. No Participant, Successor, or Transferee shall have any rights as a shareholder with respect to any securities covered by an Award unless and until the date the Participant, Successor, or Transferee becomes the holder of record of the Shares, if any, to which the Award relates.

(f) Performance-Based Awards. Any Award may be granted as Performance-Based Compensation if the Committee establishes one or more Performance Measures upon which vesting, the

lapse of restrictions or settlement in solely in Shares is contingent. With respect to any Award intended to be Performance-Based Compensation, the Committee shall establish and administer Performance Measures in the manner described in Section 19.

7. Restricted Stock Awards.

(a) Shares subject to a Restricted Stock Award shall be subject to vesting conditions, and the corresponding lapse or waiver of forfeiture conditions and other restrictions, based on such factors and occurring over such period of time as the Committee may determine in its sole discretion. The Committee may provide whether any consideration other than Services must be received by the Company or any Affiliate as a condition precedent to the grant of a Restricted Stock Award.

(b) Unvested Shares subject to a Restricted Stock Award shall be evidenced by a book-entry in the name of the Participant with the Company's transfer agent or by one or more Common Stock certificates issued in the name of the Participant. Any such Common Stock certificate shall be deposited with the Company or its designee, together with an assignment separate from the certificate, in blank, signed by the Participant, and bear an appropriate legend referring to the restricted nature of the Restricted Stock evidenced thereby. Any book-entry shall be subject to transfer restrictions and accompanied by a similar legend. Upon the vesting of Shares of Restricted Stock and the corresponding lapse of the restrictions and forfeiture conditions, the transfer restrictions and restrictive legend applicable to any book-entry evidencing such Shares will be removed, or a certificate for the Shares bearing no restrictive legend shall be delivered to the Participant or a Successor or a Transferee.

(c) Except as otherwise provided in this Plan or the applicable Agreement, a Participant with a Restricted Stock Award shall have all the other rights of a shareholder, including the right to receive dividends and the right to vote the Shares of Restricted Stock. Except as otherwise provided in this Plan or the applicable Agreement, any Shares or property other than regular cash dividends distributed with respect to unvested Shares subject to a Restricted Stock Award shall be subject to the same conditions and restrictions as the underlying Shares. Notwithstanding the foregoing, cash dividends on Shares subject to Restricted Stock or Restricted Stock Units Awards that have performance vesting provisions shall be subject to the same conditions and restrictions as the related Shares.

8. Restricted Stock Unit Awards. A Restricted Stock Unit Award shall be subject to vesting conditions, and the corresponding lapse or waiver of forfeiture conditions and other restrictions, based on such factors and occurring over such period of time as the Committee may determine in its discretion. The Committee may provide whether any consideration other than Services must be received by the Company or any Affiliate as a condition precedent to the grant of a Restricted Stock Unit Award. Following the vesting of a Restricted Stock Unit Award, payment to the Participant shall be made in the form of cash, Shares or a combination of cash and Shares as determined by the Committee. Such payment shall either comply with the provisions of Code Section 409A or be made within such time period after vesting as will qualify such payment for the "short-term deferral" exemption from Code Section 409A.

9. Stock Option Awards.

(a) Type and Exercise Price. The Agreement pursuant to which an Option is granted shall specify whether the Option is an Incentive Stock Option or a Non-Statutory Stock Option. The exercise price at which each Share subject to an Option may be purchased shall be determined by the Committee and set forth in the Agreement, and shall not be less than the Fair Market Value of a Share on the Grant Date.

(b) Payment of Exercise Price. The purchase price of the Shares with respect to which an Option is exercised shall be payable in full at the time of exercise, which may include, to the extent permitted by the Committee, payment under a broker-assisted sale and remittance program acceptable to the Committee. The purchase price may be paid in cash or, if the Committee so permits, by withholding Shares otherwise issuable to the Participant upon exercise of the Option or by delivery to the Company of Shares (by actual delivery or attestation) already owned by the Participant (in each case, such Shares having a Fair Market Value as of the date the Option is exercised equal to the purchase price of the Shares being purchased), or a combination thereof, unless otherwise provided in the Agreement. A Participant exercising an Option shall not be permitted to pay any portion of the purchase price with Shares if, in the opinion of the Committee, payment in such manner could have adverse financial accounting consequences for the Company.

(c) Exercisability and Expiration. Each Option shall be exercisable in whole or in part on the terms provided in the Agreement. No Option shall be exercisable more than seven years after its Grant Date. In no event shall any Option be exercisable at any time after its scheduled expiration. When an Option is no longer exercisable, it shall be deemed to have terminated.

(d) No Reload Options. Options will not be granted under the Plan in consideration for, and the grant of Options will not be conditioned on, the delivery of Shares to the Company in payment of the exercise price and/or tax withholding obligation under any other Option.

(e) Incentive Stock Options.

(1) An Option will constitute an Incentive Stock Option only if the Participant receiving the Option is an Employee, and only to the extent that (i) it is so designated in the applicable Agreement and (ii) the aggregate Fair Market Value (determined as of the Option Grant Date) of the Shares with respect to which Incentive Stock Options held by the Participant first become exercisable in any calendar year (under the Plan and all other plans of the Company and its Affiliates) does not exceed \$100,000 (or such other limit as may be required by the Code to qualify the Option as an Incentive Stock Option). To the extent an Option granted to a Participant exceeds this limit, the Option shall be treated as a Non-Statutory Stock Option.

(2) No Participant may receive an Incentive Stock Option under the Plan if, immediately after the grant of such Award, the Participant would own (after application of the rules contained in Code Section 424(d)) Shares possessing more than 10% of the total combined voting power of all classes of stock of the Company or an Affiliate, unless (i) the option price for that Incentive Stock Option is at least 110% of the Fair Market Value of the Shares subject to that Incentive Stock Option on the Grant Date and (ii) that Option will expire no later than five years after its Grant Date.

(3) The Agreement covering an Incentive Stock Option shall contain such other terms and provisions that the Committee determines necessary to qualify the Option as an Incentive Stock Option.

10. Stock Appreciation Rights

(a) Nature of Award. An Award of a Stock Appreciation Right shall entitle the Participant (or a Successor or a Transferee), subject to terms and conditions determined by the Committee, to receive upon exercise of the Stock Appreciation Right all or a portion of the excess of (i) the Fair Market Value of a specified number of Shares as of the date of exercise of the Stock Appreciation Right over (ii) a specified exercise price that shall not be less than 100% of the Fair Market Value of such Shares on the Grant Date of the Stock Appreciation Right.

(b) Exercise of SAR. Each Stock Appreciation Right may be exercisable in whole or in part at the times, on the terms and in the manner provided in the Agreement; provided that no Stock Appreciation Right shall be exercisable more than ten years after its Grant Date. No Stock Appreciation Right shall be exercisable at any time after its scheduled expiration. When a Stock Appreciation Right is no longer exercisable, it shall be deemed to have terminated. Upon exercise of a Stock Appreciation Right, payment to the Participant (or a Successor or Transferee) shall be made at such time or times as shall be provided in the Agreement in the form of cash, Shares or a combination of cash and Shares as determined by the Committee. The Agreement may provide for a limitation upon the amount or percentage of the total appreciation on which payment (whether in cash and/or Shares) may be made in the event of the exercise of a Stock Appreciation Right.

11. Performance Shares

(a) Initial Award.

(1) An Award of Performance Shares under the Plan shall entitle the Participant (or a Successor or Transferee) to future payments of Shares based upon the achievement of specified levels of one or more Performance Measures over the course of the relevant Performance Period. The Agreement shall specify the nature and requisite level(s) of achievement for each Performance Measure and the length of the Performance Period applicable to an Award of Performance Shares, and may provide that a portion of the Shares for a Participant's Award will be issued for performance that exceeds the minimum target but falls below the maximum target applicable to the Award. The Agreement shall also provide for the timing of the issuance, which shall either comply with the provisions of Code Section 409A or be in a lump sum occurring within the period necessary to cause it to qualify as a "short-term deferral" within the meaning of Code Section 409A.

(2) Following the conclusion or acceleration of each Performance Period, the Committee shall determine (i) the extent to which Performance Measures have been attained; (ii) the number of Performance Shares that have been earned and the value thereof; and (iii) the extent to which any other terms and conditions with respect to an Award relating to the Performance Period have been satisfied.

(b) Acceleration and Adjustment. The Agreement may permit an acceleration of the Performance Period and an adjustment of Performance Measures and issuance of Shares with respect to some or all of the Performance Shares awarded to a Participant upon the occurrence of certain events, which may include a Change of Control, a Corporate Transaction, a recapitalization of the Company or an Affiliate, a change in the accounting practices of the Company, a change in the Participant's title or employment responsibilities, or the Participant's death or Disability. The Agreement also may provide for a limitation on the value of an Award of Performance Shares that a Participant may receive.

12. Other Stock-Based Awards. The Committee may from time to time grant Common Stock and other Awards that are valued by reference to and/or payable in whole or in part in Shares under the Plan. The Committee, in its sole discretion, shall determine the terms and conditions of such Awards, which shall be consistent with the terms and purposes of the Plan. The Committee may, in its sole discretion, direct the Company to issue Shares subject to restrictive legends and/or stop transfer instructions that are consistent with the terms and conditions of the Award to which the Shares relate.

13. Corporate Transaction

(a) In the event of a proposed Corporate Transaction, the Committee may, but shall not be obligated to:

(1) With respect to a Corporate Transaction that involves a merger or consolidation, make appropriate provision for the protection of the outstanding Awards by the substitution of options, stock appreciation rights, restricted stock, restricted stock units, Performance Shares or other stock-based awards and appropriate voting common stock of the corporation surviving any such merger or consolidation or, if appropriate, the Parent of the Company or such surviving corporation, in lieu of such outstanding Awards;

(2) With respect to any Corporate Transaction, including, without limitation, a merger or consolidation, declare, prior to the occurrence of the Corporate Transaction, and provide written notice of such declaration to each holder of an Option or Stock Appreciation Right, that (i) each outstanding Option and Stock Appreciation Right, whether or not then exercisable, shall be canceled at the time of, or immediately prior to the occurrence of, the Corporate Transaction in exchange for payment to each holder of an Option or Stock Appreciation Right, promptly after the Corporate Transaction, of cash (or, if the Committee so elects in lieu of solely cash, of such form(s) of consideration, including cash and/or property, solely or in such combination as the Committee shall determine, that the holders of Options and Stock Appreciation Rights would have received as a result of the Corporate Transaction if such holders had exercised the Options and Stock Appreciation Rights immediately prior to the Corporate Transaction) equal to, for each Share covered by a canceled Option or Stock Appreciation Right, the amount, if any, by which the fair market value (as defined in this Section 13(a)(2)) per Share exceeds the exercise price per Share covered by such Option or Stock Appreciation Right, and (ii) at the time of the declaration, each Option and Stock Appreciation Right shall immediately become exercisable in full and each holder of an Option or Stock Appreciation Right shall have the right, during the period preceding the time of cancellation of the Option or Stock Appreciation Right, to exercise the Option or Stock Appreciation Right as to all or any part of the Shares covered thereby in whole or in part, as the case may be. In the event of a declaration pursuant to this Section 13(a)(2), each outstanding Option and Stock Appreciation Right, to the extent that it shall not have been exercised prior to the Corporate Transaction, shall be canceled at the time of, or immediately prior to, the Corporate Transaction, as provided in the declaration. For purposes of Section 13(a) only, "fair market value" per Share means the fair market value, as determined in good faith by the Committee, of the consideration to be received per Share by the shareholders of the Company upon the occurrence of the Corporate Transaction, notwithstanding anything to the contrary provided in this Agreement;

(3) With respect to any Corporate Transaction, including, without limitation, a merger or consolidation, declare, prior to the occurrence of the Corporate Transaction, and provide written notice of such declaration to each holder of an Option or Stock Appreciation Right, that (i) each outstanding Option and Stock Appreciation Right then exercisable, or that becomes exercisable pursuant to the terms of the Agreement related to such Option or Stock Appreciation Right prior to the occurrence of such Corporate Transaction, shall be canceled at the time of, or immediately prior to the occurrence of, the Corporate Transaction in exchange for payment to each holder of an Option or Stock Appreciation Right, promptly after the Corporate Transaction, of cash (or, if the Committee so elects in lieu of solely cash, of such form(s) of consideration, including cash and/or property, solely or in such combination as the Committee shall determine, that the holders of Options and Stock Appreciation Rights would have received as a result of the Corporate Transaction if such holders had exercised the Options and Stock Appreciation Rights immediately prior to the Corporate Transaction) equal to, for each Share covered by a canceled Option or Stock Appreciation Right, the amount, if any, by which the fair market value per Share exceeds the exercise price per Share covered by such Option or Stock Appreciation Right, and (ii) each outstanding Option and Stock Appreciation Right that does not become exercisable prior to the occurrence of such Corporate Transaction, shall be canceled at

the time of, or immediately prior to, the Corporate Transaction without payment or any other consideration. In the event of a declaration pursuant to this Section 13(a)(3), each outstanding Option and Stock Appreciation Right, to the extent that it shall not have been exercised prior to the Corporate Transaction, shall be canceled at the time of, or immediately prior to, the Corporate Transaction, as provided in the declaration;

(4) With respect to any Corporate Transaction, including, without limitation, a merger or consolidation, declare, prior to the occurrence of the Corporate Transaction, and provide written notice of such declaration to each holder of an Option or Stock Appreciation Right, that each outstanding Option and Stock Appreciation Right shall be canceled at the time of, or immediately prior to the occurrence of, the Corporate Transaction without payment or any other consideration. In the event of a declaration pursuant to this Section 13(a)(4), each outstanding Option and Stock Appreciation Right, to the extent that it shall not have been exercised prior to the Corporate Transaction, shall be canceled at the time of, or immediately prior to, the Corporate Transaction, as provided in the declaration;

(5) With respect to any Corporate Transaction, including, without limitation, a merger or consolidation, declare, prior to the occurrence of the Corporate Transaction, and provide written notice of such declaration to each holder of an Option or Stock Appreciation Right, that (i) each outstanding Option and Stock Appreciation Right shall be canceled at the time of, or immediately prior to the occurrence of, the Corporate Transaction without payment or any other consideration, and (ii) at the time of the declaration, each Option and Stock Appreciation Right shall immediately become exercisable in full and each holder of an Option or Stock Appreciation Right shall have the right, during the period preceding the time of cancellation of the Option or Stock Appreciation Right, to exercise the Option or Stock Appreciation Right as to all or any part of the Shares covered thereby in whole or in part, as the case may be. In the event of a declaration pursuant to this Section 13(a)(5), each outstanding Option and Stock Appreciation Right, to the extent that it shall not have been exercised prior to the Corporate Transaction, shall be canceled at the time of, or immediately prior to, the Corporate Transaction, as provided in the declaration;

(6) Provide, upon the occurrence of the Corporate Transaction, for the vesting and corresponding waiver of forfeiture conditions and other restrictions on Restricted Stock Awards, Restricted Stock Unit Awards or Performance Share Awards that are outstanding as of the occurrence of the Corporate Transaction, and provide for notice thereof to the holders of such Awards; or

(7) Provide that, upon the occurrence of the Corporate Transaction, any portions of any Restricted Stock Awards, Restricted Stock Unit Awards or Performance Share Awards that are subject to vesting conditions, forfeiture conditions or other restrictions as of the occurrence of the Corporate Transaction shall be canceled without payment or any other consideration, and provide for notice thereof to the holders of such Awards.

(b) Notwithstanding the foregoing, no holder of an Award shall be entitled to the payment provided for in this Section 13 with respect to any portion of such Award as shall have expired or been forfeited prior to the occurrence of the applicable Corporate Transaction.

14. Plan Participation and Service Provider Status. Status as a Service Provider shall not be construed as a commitment that any Award will be made under the Plan to that Service Provider or to eligible Service Providers generally. Nothing in the Plan or in any Agreement or related documents shall confer upon any Service Provider or Participant any right to continuous service with the Company or any Affiliate, nor shall it interfere with or limit in any way any right of the Company or any Affiliate to

terminate the person's continuous service at any time with or without Cause or change such person's compensation, other benefits, job responsibilities or title.

15. Tax Withholding. The Company or any Affiliate, as applicable, shall have the right to (i) withhold from any cash payment under the Plan or any other compensation owed to a Participant (including a Successor or a Transferee) an amount sufficient to cover any required withholding taxes, and (ii) require a Participant or other person receiving Shares under the Plan to pay to the Company or any Affiliate a cash amount sufficient to cover any required withholding taxes before actual receipt of those Shares. In lieu of all or any part of a cash payment from a person receiving Shares under the Plan, the Committee may permit the individual to cover all or any part of the required withholdings (up to the Participant's minimum required tax withholding rate or such other rate that will not trigger a negative accounting impact to the Company or any Affiliate) through a reduction in the number of Shares delivered or a delivery or tender to the Company of Shares held by the Participant or other person, in each case valued in the same manner as used in computing the withholding taxes under applicable laws.

16. Effective Date, Duration, Amendment and Termination of the Plan.

(a) Effective Date. The Plan shall become effective on the date it is approved by the requisite vote of the Company's shareholders.

(b) Duration of the Plan. The Plan shall remain in effect until all Shares subject to it shall be distributed, all Awards have expired or terminated, the Plan is terminated pursuant to Section 16(c), or the tenth anniversary of the date of shareholder approval of the Plan, whichever occurs first (the "Termination Date"). Awards made before the Termination Date may be exercised, vested or otherwise effectuated beyond the Termination Date unless limited in the Agreement or otherwise.

(c) Amendment and Termination of the Plan. Except as limited in Section 16(d) below, the Board may at any time and from time to time terminate, suspend or amend the Plan. The Company shall submit any amendment of the Plan to its shareholders for approval if the rules of the principal securities exchange on which the Shares are then listed or other applicable laws or regulations require shareholder approval of such amendment. No termination, suspension, or amendment of the Plan or any Agreement may materially and adversely affect any right acquired by any Participant (or Successor or Transferee) under an Award granted before the date of termination, suspension, or amendment, unless (i) otherwise agreed to by the Participant in the Agreement or otherwise, (ii) required as a matter of law or (iii) effectuated pursuant to Section 20(e) of this Plan. It will be conclusively presumed that any adjustment for changes in capitalization provided for in Sections 11(b) or 17, and any amendment to the Plan or any Agreement to avoid the imposition of any additional tax under Code Section 409A does not adversely affect these rights.

(d) No Option or SAR Repricing. Except as provided in Section 17, no Option or Stock Appreciation Right granted under the Plan may be amended to decrease the exercise price thereof, or be cancelled in conjunction with the grant of any new Option or Stock Appreciation Right with a lower exercise price, or otherwise be subject to any action that would be treated under accounting rules or otherwise as a "repricing" of such Option or Stock Appreciation Right, unless such action is approved by the Company's shareholders.

17. Adjustment for Changes in Capitalization. In the event of any equity restructuring (within the meaning of Statement of Financial Accounting Standards No. 123 (revised 2004), or as such standard is subsequently codified in the Financial Accounting Standards Board Accounting Standards Codification™, collectively referred to herein as "FAS 123R") that causes the per share value of Shares to change, such as a stock dividend or stock split, the Committee shall cause there to be made an equitable adjustment to the number and kind of Shares or other securities issued or reserved for issuance pursuant

to the Plan and to outstanding Awards (including but not limited to the number and kind of Shares to which such Awards are subject, and the exercise or strike price of such Awards) to the extent such other Awards would not otherwise automatically adjust in the equity restructuring; provided, in each case, that with respect to Incentive Stock Options, no such adjustment shall be authorized to the extent that such adjustment would cause such Incentive Stock Options to violate Code Section 422(b) or any successor provision; provided further, that no such adjustment shall be authorized under this Section to the extent that such adjustment would cause an Award to be subject to adverse tax consequences under Code Section 409A. In the event of any other change in corporate capitalization, which may include a merger, consolidation, any reorganization (whether or not such reorganization comes within the definition of such term in Code Section 368), or any partial or complete liquidation of the Company to the extent such events do not constitute equity restructurings or business combinations within the meaning of FAS 123R, such equitable adjustments described in the foregoing sentence may be made as determined to be appropriate and equitable by the Committee to prevent dilution or enlargement of rights. In either case, any such adjustment shall be conclusive and binding for all purposes of the Plan. Unless otherwise determined by the Committee, the number of Shares subject to an Award shall always be a whole number.

18. Dividend Equivalents. An Award (other than an Option or SAR) that does not involve the issuance of Shares concurrently with the grant of the Award may, if so determined by the Committee, provide the Participant with the right to receive dividend equivalent payments with respect to Shares subject to the Award (both before and after the Shares are earned, vested or acquired), which payments may be either made currently, credited to an account for the Participant, or deemed to have been reinvested in additional Shares which shall thereafter be deemed to be part of and subject to the underlying Award, including the same vesting and performance conditions. Dividend equivalent amounts credited to an account for the Participant may be settled in cash or Shares or a combination of both, as determined by the Committee, and shall be subject to the same vesting and performance conditions as the underlying Award.

19. Performance-Based Compensation.

(a) Designation of Awards. If the Committee determines at the time an Award is granted to a Participant who is then an executive officer of the Company that such Participant is, or is likely to be, a “covered employee” for purposes of Code Section 162(m) as of the end of the tax year in which the Company would ordinarily claim a tax deduction in connection with such Award, then the Committee may provide that this Section 19 will be applicable to such Award, which shall be considered Performance-Based Compensation.

(b) Performance Measures. If an Award is subject to this Section 19, then the lapsing of restrictions thereon and the distribution of Shares or other property pursuant thereto, as applicable, shall be subject to the achievement of one or more of the Performance Measures specified in the definition of that term in this Plan. When establishing Performance Measures for a Performance Period, the Committee may exclude amounts or charges relating to an event or occurrence that the Committee determines, consistent with the requirements of Code Section 162(m), should appropriately be excluded. The Committee may also adjust Performance Measures for a Performance Period to the extent permitted by Code Section 162(m) to prevent the dilution or enlargement of a Participant’s rights with respect to Performance-Based Compensation. The Committee will determine the amount of Shares to be issued in connection with an Award subject to this Section 19 consistent with the requirements of Code Section 162(m), and may adjust downward, but not upward, the number of Shares determined to be otherwise issuable in connection with such an Award.

(c) Limitations. Subject to adjustment as provided in Section 17, no Participant may be granted Performance-Based Compensation in any calendar year with respect to more than 200,000 Shares.

20. Other Provisions.

(a) Unfunded Plan. The Plan shall be unfunded and the Company shall not be required to segregate any assets that may at any time be represented by Awards under the Plan. Neither the Company, its Affiliates, the Committee, nor the Board shall be deemed to be a trustee of any amounts to be paid under the Plan nor shall anything contained in the Plan or any action taken pursuant to its provisions create or be construed to create a fiduciary relationship between on one hand the Company and/or its Affiliates, and on the other hand a Participant or Successor or Transferee. To the extent any person has or acquires a right to receive a payment in connection with an Award under the Plan, this right shall be no greater than the right of an unsecured general creditor of the Company.

(b) Limits of Liability.

(1) Any liability of the Company to any Participant or Successor or Transferee with respect to an Award shall be based solely upon contractual obligations created by the Plan and the Award Agreement.

(2) Except as may be required by law, neither the Company nor any member of the Board or of the Committee, nor any other person participating (including participation pursuant to a delegation of authority under Section 3(c) of the Plan) in any determination of any question under the Plan, or in the interpretation, administration or application of the Plan, shall have any liability to any party for any action taken, or not taken, in good faith under the Plan.

(c) Compliance with Applicable Legal Requirements. No Shares distributable pursuant to the Plan shall be issued and delivered unless the issuance of the Shares complies with all applicable legal requirements, including compliance with the provisions of applicable state securities laws, the Securities Act, the Exchange Act and the requirements of the exchanges on which the Company's Shares may, at the time, be listed.

(d) Other Benefit and Compensation Programs. Payments and other benefits received by a Participant under an Award made pursuant to the Plan shall not be deemed a part of a Participant's regular, recurring compensation for purposes of the termination, indemnity or severance pay laws of any country and shall not be included in, nor have any effect on, the determination of benefits under any other employee benefit plan, contract or similar arrangement provided by the Company or an Affiliate unless expressly so provided by such other plan, contract or arrangement, or unless the Committee expressly determines that an Award or portion of an Award should be included to accurately reflect competitive compensation practices or to recognize that an Award has been made in lieu of a portion of competitive cash compensation.

(e) Requirements of Law.

(1) To the extent that federal laws do not otherwise control, the Plan and all determinations made and actions taken pursuant to the Plan shall be governed by the laws of the State of Minnesota without regard to its conflicts-of-law principles and shall be construed accordingly.

(2) If any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

(3) It is intended that the Plan and all Awards granted pursuant to it shall be administered by the Committee so as to permit the Plan and Awards to comply with Exchange Act Rule 16b-3. If any provision of the Plan or of any Award would otherwise frustrate or conflict with the intent expressed in this Section 20(e)(3), that provision to the extent possible shall be interpreted and deemed amended in the manner determined by the Committee so as to avoid the conflict. To the extent of any remaining irreconcilable conflict with this intent, the provision shall be deemed void as applied to Participants subject to Section 16 of the Exchange Act to the extent permitted by law and in the manner deemed advisable by the Committee.

(4) It is intended that (i) all Awards of Options, SARs and Restricted Stock under the Plan will not provide for the deferral of compensation within the meaning of Code Section 409A and thereby be exempt from Code Section 409A, and (ii) all other Awards under the Plan will either not provide for the deferral of compensation within the meaning of Code Section 409A, or will comply with the requirements of Code Section 409A, and Awards shall be structured and the Plan administered in accordance with this intent. For Awards subject to Code Section 409A, the following provisions shall apply:

(A) Separation from Service. If any amount shall be payable with respect to any Award hereunder as a result of a Participant's termination of employment or other Service, then notwithstanding any other provision of this Plan, a termination of employment or other Service will be deemed to have occurred only at such time as the Participant has experienced a "separation from service," as such term is defined for purposes of Code Section 409A.

(B) Timing of Payment to a Specified Employee. If any amount shall be payable with respect to any Award hereunder as a result of a Participant's "separation from service" at such time as the Participant is a "specified employee," as such term is defined for purposes of Code Section 409A, then notwithstanding any other provision of this Plan, no payment shall be made, except as permitted under Code Section 409A, prior to the first day of the seventh (7th) calendar month beginning after the Participant's separation from service (or the date of his or her earlier death). The Company may adopt a specified employee policy that will apply to identify the "specified employees" for all deferred compensation plans subject to Code Section 409A; otherwise, "specified employees" will be identified using the default standards contained in the regulations under Code Section 409A.

SURMODICS, INC.
1999 EMPLOYEE STOCK PURCHASE PLAN
(As Amended and Restated November 30, 2009)

ARTICLE I — ESTABLISHMENT OF PLAN

- 1.01 **Adoption by Board of Directors.** By action of the Board of Directors of SurModics, Inc. (the “Corporation”) on November 15, 1999, the Corporation adopted an employee stock purchase plan (the “Original Plan”) pursuant to which eligible employees of the Corporation and certain of its subsidiaries may be offered the opportunity to purchase shares of Stock of the Corporation. The terms and conditions of this employee stock purchase plan, as amended from time to time as provided herein, are set forth in this plan document. The shareholders of the Corporation approved the Original Plan on January 24, 2000. The Corporation intends that the Original Plan, and as it may be amended and modified from time, shall qualify as an “employee stock purchase plan” under Section 423 of the Internal Revenue Code of 1986, as amended from time to time, (the “Code”) and shall be construed in a manner consistent with the requirements of Code Section 423 and the regulations thereunder.
- 1.02 **Amendment of the Plan.** On November 30, 2009, the Board of Directors of the Corporation adopted an amendment and restatement of the Original Plan pursuant to which, among other things, the number of shares reserved for issuance upon the exercise of options granted under the Original Plan was increased. Within twelve (12) months of the Board’s adoption of the amendment and restatement, the Plan as amended and restated shall be subject to approval by the shareholders of the Corporation in the manner provided under Code Section 423 and the regulations thereunder. In the event the shareholders fail to approve the amendment and restatement of the Plan within twelve (12) months after its adoption by the Board, the amendment and restatement of the Plan shall not become effective and shall have no force and effect, and the Original Plan shall continue in effect in the same form as it existed prior to its amendment and restatement. To the extent that options under the Plan had been granted with respect to shares of Stock added to the Plan as a result of the Board’s adoption of the amendment and restatement, if the shareholders do not approve such amendment and restatement, the Corporation shall cancel all such outstanding options and return all related payroll deductions to the affected Participants without interest. No shares of stock shall be issued to any Participant with respect to any such options unless and until the shareholders approve the Plan within such twelve-month period.
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ARTICLE II — PURPOSE

- 2.01 **Purpose.** The primary purpose of the Plan is to provide an opportunity for Eligible Employees of the Corporation to become shareholders of the Corporation, thereby providing them with an incentive to remain in the Corporation's employ, to improve operations, to increase profits and to contribute more significantly to the Corporation's success.

ARTICLE III — DEFINITIONS

- 3.01 **“Administrator”** means the Board of Directors or such Committee appointed by the Board of Directors to administer the Plan. The Board or the Committee may, in its sole discretion, authorize the officers of the Corporation to carry out the day-to-day operation of the Plan. In its sole discretion, the Board may take such actions as may be taken by the Administrator, in addition to those powers expressly reserved to the Board under this Plan.
- 3.02 **“Board of Directors”** or **“Board”** means the Board of Directors of SurModics, Inc.
- 3.03 **“Compensation”** means the Participant's base compensation, excluding commissions, overtime and all bonuses.
- 3.04 **“Corporation”** means SurModics, Inc., a Minnesota corporation.
- 3.05 **“Eligible Employee”** means any employee who, as determined on or immediately prior to an Enrollment Period, is a United States full-time or part-time employee of the Corporation or one of its Subsidiaries and is customarily employed for twenty (20) hours or more per week.
- 3.06 **“Enrollment Period”** means the period determined by the Administrator for purposes of accepting elections to participate during a Phase from Eligible Employees.
- 3.07 **“Fiscal Year”** means the fiscal year of the Corporation, which is the twelve-month period beginning October 1 each year and ending September 30 the following year.
- 3.08 **“Participant”** means an Eligible Employee who has been granted an option and is participating during a Phase through payroll deductions, but shall exclude those employees subject to the limitations described in Section 9.03 below.
- 3.09 **“Phase”** means the period beginning on the date that an option is granted under the Plan, otherwise referred to as the commencement date of the Phase, and ending on the date that the option is exercised, otherwise referred to as the termination date of the Phase.

3.10 **“Plan”** means the SurModics, Inc. 1999 Employee Stock Purchase Plan, as amended and restated.

3.11 **“Stock”** means the voting common stock of the Corporation.

3.12 **“Subsidiary”** means any corporation defined as a subsidiary of the Corporation in Code Section 424(f) as of the effective date of the Plan, and such other corporations that qualify as subsidiaries of the Corporation under Code Section 424(f) as the Board approves to participate in this Plan from time to time.

ARTICLE IV — ADMINISTRATION

4.01 **Administration.** Except for those matters expressly reserved to the Board pursuant to any provisions of the Plan, the Administrator shall have full responsibility for administration of the Plan, which responsibility shall include, but shall not be limited to, the following:

- (a) The Administrator shall, subject to the provisions of the Plan, establish, adopt and revise such rules and procedures for administering the Plan, and shall make all other determinations as it may deem necessary or advisable for the administration of the Plan;
- (b) The Administrator shall, subject to the provisions of the Plan, determine all terms and conditions that shall apply to the grant and exercise of options under this Plan, including, but not limited to, the number of shares of Stock that may be granted, the date of grant, the exercise price and the manner of exercise of an option. The Administrator may, in its discretion, consider the recommendations of the management of the Corporation when determining such terms and conditions;
- (c) The Administrator shall have the exclusive authority to interpret the provisions of the Plan, and each such interpretation or determination shall be conclusive and binding for all purposes and on all persons, including, but not limited to, the Corporation and its Subsidiaries, the shareholders of the Corporation and its Subsidiaries, the Administrator, the directors, officers and employees of the Corporation and its Subsidiaries, and the Participants and the respective successors-in-interest of all of the foregoing; and
- (d) The Administrator shall keep minutes of its meetings or other written records of its decisions regarding the Plan and shall, upon requests, provide copies to the Board.

ARTICLE V — PHASES OF THE PLAN

5.01 **Phases.** The Plan shall be carried out in one or more Phases, the duration, commencement dates and termination dates of which shall be determined by the Administrator in its sole discretion. Unless the Administrator determines otherwise, each Phase shall be three (3) months in duration and shall commence on March 1, June 1, September 1 and December 1 of each calendar year during the term of the Plan, and terminate on the last day of May, August, November and February, respectively. Unless the Administrator determines otherwise, no two Phases shall run concurrently.

Notwithstanding anything in the Plan to the contrary, the Administrator may also, in its sole discretion, designate a special commencement date for a special Phase with respect to those individuals who first become Eligible Employees after the commencement date of an existing Phase in connection with a merger, purchase or similar transaction. Such special phase shall terminate on the termination date of such existing Phase.

5.02 **Limitations.** The Administrator may, in its discretion, limit the number of shares available for option grants during any Phase as it deems appropriate. Without limiting the foregoing, in the event all of the shares of Stock reserved for the grant of options under Section 12.01 are issued pursuant to the terms hereof prior to the commencement of one or more Phases or the number of shares of Stock remaining is so small, in the opinion of the Administrator, as to render administration of any succeeding Phase impracticable, such Phase or Phases may be canceled or the number of shares of Stock limited as provided herein. In addition, if, based on the payroll deductions authorized by Participants at the beginning of a Phase, the Administrator determines that the number of shares of Stock which would be purchased at the end of that Phase exceeds the number of shares of Stock remaining reserved under Section 12.01 hereof for issuance under the Plan, or if the number of shares of Stock remaining available for purchase under the Plan is less than the number of shares Participants are entitled to purchase pursuant to option grants by the Administrator for such Phase, then the Administrator shall make a pro rata allocation of the shares of Stock remaining available in as nearly uniform and equitable a manner as the Administrator shall consider practicable as of the commencement date of the Phase or, if the Administrator so elects, as of the termination date of the Phase. In the event such allocation is made as of the commencement date of a Phase, the payroll deductions which otherwise would have been made on behalf of Participants shall be reduced accordingly.

ARTICLE VI — ELIGIBILITY

6.01 **Eligibility.** Subject to the limitations described in Section 9.03, each employee who is an Eligible Employee on or immediately prior to the commencement of a Phase shall be eligible to participate in such Phase; provided, however, that the

Administrator may, in its sole discretion, establish a special eligibility date for certain Eligible Employees who become eligible to participate in the Plan in connection with a merger, purchase or similar transaction pursuant to Section 5.01. If, in the discretion of the Administrator, any Phase commences on a date other than March 1, whether an employee is an Eligible Employee shall be determined on a date selected by the Administrator.

ARTICLE VII — PARTICIPATION

- 7.01 **Participation.** Participation in the Plan is voluntary. An Eligible Employee who desires to participate in any Phase of the Plan must complete the Plan enrollment form provided by the Administrator and deliver such form to the Administrator or its designated representative during the Enrollment Period established by the Administrator prior to the commencement date of the Phase.
- 7.02 **Subsequent Phases.** An Eligible Employee who elects to participate in a Phase shall be deemed to have elected to participate in each subsequent Phase unless such Participant elects to discontinue payroll deductions during a Phase or exercises his or her right to withdraw amounts previously withheld, as provided under Article X hereof. In such event, such Participant must complete a change of election form or a new Plan enrollment form and file such form with the Administrator during the Enrollment Period prior to the next Phase with respect to which the Eligible Employee wishes to participate.

ARTICLE VIII — PAYMENT: PAYROLL DEDUCTIONS

- 8.01 **Enrollment.** Each Eligible Employee electing to participate shall indicate such election on the Plan enrollment form and designate therein a percentage of such Participant's Compensation to be deducted during each pay period during the Phase and credited to such Employee's bookkeeping account under the Plan in accordance with Section 13.01. Subject to the Participant's right to discontinue payroll deductions as provided in Section 10.02, the Administrator's authority to limit payroll deductions as provided in Section 5.02, and the limitations contained in Section 9.03(a), such percentage shall be at least one percent (1%) but not more than ten percent (10%) of such Participant's Compensation to be paid during such Phase, or such other maximum percentage as the Administrator may establish from time to time. In order to be effective, such Plan enrollment form must be properly completed and received by the Administrator by the due date indicated on such form, or by such other date established by the Administrator.
- 8.02 **Payroll Deductions.** Payroll deductions for a Participant shall commence with the paycheck issued immediately after the commencement date of the Phase and shall terminate with the paycheck issued immediately prior to the termination date of that Phase, unless the Participant elects to discontinue payroll deductions or exercises his or her right to withdraw all accumulated payroll deductions previously withheld during the Phase as provided in Article X hereof. The

authorized payroll deductions shall be made from the paychecks issued during such Phase by deducting from the Participant's Compensation covered by each such paycheck that percentage specified by the Participant in the applicable Plan enrollment or deduction change form.

Unless the Participant elected to discontinue payroll deductions or exercised his or her right to withdraw all accumulated payroll deductions previously withheld during the preceding Phase (in which event the Participant must complete a change of election form or a new Plan enrollment form, as the case may be, to continue participation for any subsequent Phase), the Corporation shall continue to withhold from such Participant's Compensation the same designated percentage specified by the Participant in the most recent Plan enrollment or deduction change form previously completed by the Participant for all subsequent Phases.

- 8.03 **Change in Compensation During a Phase.** In the event that the Participant's Compensation is increased or decreased during a Phase for any reason so that the amount actually withheld on behalf of the Participant as of the termination date of the Phase is different from the amount anticipated to be withheld as determined on the commencement date of the Phase, then the extent to which the Participant may exercise his or her option shall be based on the amounts actually withheld on his or her behalf, subject to the limitations in Article IX. In the event of a change in the pay period of any Participant, such as from biweekly to monthly, an appropriate adjustment shall be made to the deduction in each new pay period so as to insure the deduction of the proper amount authorized by the Participant.
- 8.04 **Decreases During a Phase.** In addition to the right to discontinue or withdraw payroll deductions during a Phase as provided in Article X, a Participant may decrease the percentage of Compensation designated to be deducted as payroll deductions during a Phase (but not below 1%) by completing and filing such deduction change forms as the Administrator may require. Such decrease shall be effective with the next payroll period beginning after the date that the Administrator receives such forms and shall apply to all remaining Compensation paid during the Phase, as well as to Compensation paid during subsequent Phases. The Participant may exercise the right to decrease his or her payroll deductions only once during each Phase.

ARTICLE IX — OPTIONS

- 9.01 **Grant of Option.** Subject to Article X, a Participant who has elected to participate in the manner described in Article VIII and who is employed by the Corporation or a Subsidiary as of the commencement date of a Phase shall be granted an option as of such date to purchase that number of whole shares of Stock determined by dividing the total amount credited to the Participant's account as of the termination of that Phase by the option price per share set forth in Section 9.02(a) below. The option price per share for such Stock shall be

determined under Section 9.02 hereof, and the number of shares exercisable shall be determined under Section 9.03 hereof.

9.02 **Option Price.** Subject to the limitations hereinbelow, the option price for such Stock shall be the lower of the amounts determined under paragraphs (a) and (b) below:

(a) Eighty-five percent (85%) of the average closing price for a share of the Corporation's Stock as reported on The NASDAQ Global Select Market or such other established securities exchange on which the Stock then trades over the five (5) trading days immediately preceding the commencement date of the Phase; or

(b) Eighty-five percent (85%) of the average closing price for a share of the Corporation's Stock as reported on The NASDAQ Global Select Market or such other established securities exchange on which the Stock then trades over the five (5) trading days immediately preceding the termination date of the Phase.

If the Corporation's Stock is not listed on The NASDAQ Global Select Market or another established securities exchange, then the option price shall equal the lesser of (i) eighty-five percent (85%) of the fair market value of a share of the Corporation's Stock as of the commencement date of the Phase; or (ii) eighty-five percent (85%) of the fair market value of such stock as of the termination date of the Phase. Such "fair market value" shall be determined by the Board.

9.03 **Limitations.** No employee shall be granted an option hereunder:

(a) Which permits his or her rights to purchase Stock under all employee stock purchase plans of the Corporation and its Subsidiaries to accrue at a rate which exceeds Twenty-Five Thousand Dollars (\$25,000) of fair market value of such Stock (determined at the time such option is granted) for each calendar year in which such option is outstanding at any time;

(b) If such employee would own and/or hold, immediately after the grant of the option, Stock possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Corporation or of any Subsidiary. For purposes of determining stock ownership under this paragraph, the rules of Section 424(d) of the Code and the regulations thereunder shall apply.

(c) Which, if exercised, would cause the limits established by the Administrator under Section 5.02 to be exceeded.

9.04 **Exercise of Option.** Subject to a Participant's right to withdraw in the manner provided in Section 10.01, a Participant's option for the purchase of shares of Stock will be exercised automatically on the termination date of that Phase.

However, in no event shall a Participant be allowed to exercise an option for more shares of Stock than can be purchased with the payroll deductions accumulated by the Participant in his or her bookkeeping account as of the end of such Phase.

9.05 **Delivery of Shares.** As promptly as practicable after the termination of any Phase, the Corporation's transfer agent or other authorized representative shall deliver to each Participant herein certificates for that number of whole shares of Stock purchased upon the exercise of the Participant's option. The Corporation may, in its sole discretion, arrange with the Corporation's transfer agent or other authorized representative to establish, at the direction of the Participant, individual securities accounts to which will be credited that number of whole shares of Stock that are purchased upon such exercise, such securities account to be subject to such terms and conditions as may be imposed by the transfer agent or authorized representative.

The shares of the Corporation's common stock to be delivered to a Participant pursuant to the exercise of an option under Section 9.04 of the Plan will be registered in the name of the Participant or, if the Participant so directs by written notice to the Administrator prior to the termination date of the Phase, in the names of the Participant and one other person the Participant may designate as his joint tenant with rights of survivorship, to the extent permitted by law.

Any accumulated payroll deductions remaining after the exercise of the Participant's option shall be returned to the Participant, without interest, on the first paycheck issued for the payroll period which begins on or immediately after the commencement date of next Phase; provided, however, that the Corporation may, under rules of uniform application, retain such remaining amount in the Participant's bookkeeping account and apply it toward the purchase of shares of Stock in the next succeeding Phase, unless the Participant requests a withdrawal of such amount pursuant to Section 10.01.

ARTICLE X — WITHDRAWAL OR DISCONTINUATION OF PAYROLL WITHHOLDINGS

10.01 **Withdrawal.** Once during the Phase, a Participant may request a withdrawal of all accumulated payroll deductions then credited to the Participant's bookkeeping account by completing a change of election form and filing such form with the Administrator. The Participant's request shall be effective as of the beginning of the next payroll period immediately following the date that the Administrator receives the Participant's properly completed change of election form. As soon as administratively feasible after such payroll period, all payroll deductions credited to a bookkeeping account for the Participant will be paid to such Participant, with interest at the Federal Discount Rate as quoted in the Wall Street Journal as of the commencement date of the Phase, compounded monthly, from the commencement date of the Phase through the date of payment. No further payroll deductions will be made during that Phase or any future Phase unless the

Participant completes a new Plan enrollment form as provided in Section 8.02 above. If the Participant requests a withdrawal, the option granted to the Participant under that Phase of the Plan shall immediately lapse and shall not be exercisable. Partial withdrawals of payroll deductions are not permitted.

Notwithstanding the foregoing, in order to be effective for a particular Phase, the Participant's request for withdrawal must be properly completed and received by the Administrator on or before the date immediately preceding the termination date of the Phase established by the Administrator. Requests for withdrawal that are received after that due date shall not be effective and no withdrawal shall be made, unless otherwise determined by the Administrator.

- 10.02 **Discontinuation.** At any time during the Phase, a Participant may also request that the Administrator discontinue any further payroll deductions that would otherwise be made during the remainder of the Phase by completing a change of election form and filing such form with the Administrator on or before the date immediately preceding the termination date of the Phase established by the Administrator. The Participant's request shall be effective as of the beginning of the next payroll period immediately following the date that the Administrator receives the Participant's properly completed change of election form. Upon the effective date of the Participant's request, the Corporation will discontinue making payroll deductions for such Participant for that Phase, and all future Phases, unless the Participant completes another change of election form as provided above. Amounts credited to the Participant's bookkeeping account prior to the effective date of the request to discontinue deductions shall be used to purchase additional shares of Stock upon termination of the current Phase in accordance with the terms of the Plan.

ARTICLE XI — TERMINATION OF EMPLOYMENT

- 11.01 **Termination.** If, on or before the termination date of any Phase, a Participant's employment terminates with the Corporation for any reason, voluntarily or involuntarily, including by reason of retirement or death, the payroll deductions credited to such Participant's bookkeeping account for such Phase, if any, will be returned to the Participant, without interest, and any options granted to such Participant under the Plan shall immediately lapse and shall not be exercisable. The return of such payroll deductions shall be made to the Participant as soon as administratively practicable following the Participant's termination of employment. In the event that such termination occurs near the end of a Phase and the Corporation is unable to discontinue payroll deductions for such Participant for his or her final paycheck(s), such deductions shall still be made but shall be returned to the Participant as provided herein. In no event shall the accumulated payroll deductions be used to purchase any shares of Stock.

If the option lapses as a result of the Participant's death, any accumulated payroll deductions credited to the Participant's bookkeeping account will be paid to the

Participant's estate, without interest. In the event a Participant dies after exercise of the Participant's option but prior to delivery of the Stock to be transferred pursuant to the exercise of the option under Section 9.04 above, any such Stock and/or accumulated payroll deductions remaining after such exercise shall be paid by the Corporation to the Participant's estate.

The Corporation will not be responsible for or be required to give effect to the disposition of any cash or Stock or the exercise of any option in accordance with any will or other testamentary disposition made by such Participant or in accordance with the provisions of any law concerning intestacy, or otherwise. No person shall, prior to the death of a Participant, acquire any interest in any Stock, in any option or in the cash credited to the Participant's bookkeeping account during any Phase of the Plan.

- 11.02 **Subsidiaries.** In the event that any Subsidiary ceases to be a Subsidiary of the Corporation, the employees of such Subsidiary shall be considered to have terminated their employment for purposes of Section 11.01 hereof as of the date the Subsidiary ceased to be a Subsidiary of the Corporation.

ARTICLE XII — STOCK RESERVED FOR OPTIONS

- 12.01 **Shares Reserved.** Four Hundred Thousand (400,000) shares of Stock, which may be authorized but unissued shares of the Corporation (or the number and kind of securities to which said 400,000 shares may be adjusted in accordance with Section 14.01 hereof) are reserved for issuance upon the exercise of options to be granted under the Plan. Shares subject to the unexercised portion of any lapsed or expired option may again be subject to option under the Plan.

- 12.02 **Rights as Shareholder.** The Participant shall have no rights as a shareholder with respect to any shares of Stock subject to the Participant's option until the date of the issuance of a stock certificated evidencing such shares, or the electronic delivery of such shares to the account of the Participant, in each case as provided in Section 9.05. No adjustment shall be made for dividends (ordinary or extraordinary, whether in cash, securities or other property), distributions or other rights for which the record date is prior to the date such shares of Stock are actually issued, except as otherwise provided in Section 14.01 hereof.

ARTICLE XIII — ACCOUNTING AND USE OF FUNDS

- 13.01 **Bookkeeping Account.** Payroll deductions for Participants shall be credited to bookkeeping accounts, established by the Corporation for each such Participant under the Plan. A Participant may not make any cash payments into such account. Such account shall be solely for bookkeeping purposes and shall not require the Corporation to establish any separate fund or trust hereunder. All funds from payroll deductions received or held by the Corporation under the Plan may be used, without limitation, for any corporate purpose by the Corporation,

which shall not be obligated to segregate such funds from its other funds. Except as otherwise provided in Section 10.01, Participants shall not be entitled to interest on the amounts credited to such bookkeeping accounts.

ARTICLE XIV — ADJUSTMENT PROVISION

14.01 **General.** Subject to any required action by the shareholders of the Corporation, in the event of an increase or decrease in the number of outstanding shares of Stock or in the event the Stock is changed into or exchanged for a different number or kind of shares of stock or other securities of the Corporation or another corporation by reason of a reorganization, merger, consolidation, divestiture (including a spin-off), liquidation, recapitalization, reclassification, stock dividend, stock split, combination of shares, rights offering or any other change in the corporate structure or shares of the Corporation, the Board (or, if the Corporation is not the surviving corporation in any such transaction, the board of directors of the surviving corporation), in its sole discretion, shall adjust the number and kind of securities subject to and reserved under the Plan and, to prevent the dilution or enlargement of rights of those Participants to whom options have been granted, shall adjust the number and kind of securities subject to such outstanding options and, where applicable, the exercise price per share for such securities.

In the event of sale by the Corporation of substantially all of its assets and the consequent discontinuance of its business, or in the event of a merger, exchange, consolidation, reorganization, divestiture (including a spin-off), liquidation, reclassification or extraordinary dividend (collectively referred to as a "transaction"), after which the Corporation is not the surviving corporation, the Board may, in its sole discretion, at the time of adoption of the plan for such transaction, provide for one or more of the following:

- (a) The acceleration of the exercisability of outstanding options granted at the commencement of the Phase then in effect, to the extent of the accumulated payroll deductions made as of the date of such acceleration pursuant to Article VIII hereof;
- (b) The complete termination of this Plan and a refund of amounts credited to the Participants' bookkeeping accounts hereunder; or
- (c) The continuance of the Plan only with respect to completion of the then current Phase and the exercise of options thereunder. In the event of such continuance, Participants shall have the right to exercise their options as to an equivalent number of shares of stock of the corporation succeeding the Corporation by reason of such transaction.

In the event of a transaction where the Corporation survives, then the Plan shall continue in effect, unless the Board takes one or more of the actions set forth

above. The grant of an option pursuant to the Plan shall not limit in any way the right or power of the Corporation to make adjustments, reclassifications, reorganizations or changes in its capital or business structure or to merge, exchange or consolidate or to dissolve, liquidate, sell or transfer all or any part of its business or assets.

ARTICLE XV — NONTRANSFERABILITY OF OPTIONS

- 15.01 **Nontransferability.** Options granted under any Phase of the Plan shall not be transferable and shall be exercisable only by the Participant during the Participant's lifetime.
- 15.02 **Nonalienation.** Neither payroll deductions granted to a Participant's account, nor any rights with regard to the exercise of an option or to receive Stock under any Phase of the Plan may be assigned, transferred, pledged or otherwise disposed of in any way by the Participant. Any such attempted assignment, transfer, pledge or other disposition shall be null and void and without effect, except that the Corporation may, at its option, treat such act as an election to withdraw in accordance with Section 10.01.

ARTICLE XVI — AMENDMENT AND TERMINATION

- 16.01 **General.** The Plan may be terminated or suspended at any time by the Board of Directors, provided that, except as permitted in Sections 5.02 and 14.01 hereof, no such termination or suspension shall take effect with respect to any options then outstanding. No options may be granted during any suspension of the Plan or after its termination. The Board may, from time to time, amend the Plan as it may deem proper and in the best interests of the Corporation or as may be necessary to comply with Code Section 423, as amended, and the regulations thereunder, or other applicable laws or regulations; provided, however, no such amendment shall, without the consent of a Participant, materially adversely affect or impair the right of a Participant with respect to any outstanding option; and provided, further, that no such amendment shall:
- (a) increase the total number of shares for which options may be granted under the Plan (except as provided in Section 14.01 herein);
 - (b) change the definition of employees or the class of employees eligible to participate in the Plan; or
 - (c) materially increase the benefits accruing to Participants under the Plan;

without the approval of the Corporation's shareholders, if such approval is required for compliance with Code Section 423, as amended, and the regulations thereunder, or other applicable laws or regulations.

ARTICLE XVII — NOTICES

17.01 **General.** All notices, forms, elections or other communications in connection with the Plan or any Phase thereof shall be in such form as specified by the Corporation or the Administrator from time to time, and shall be deemed to have been duly given when received by the Participant or his or her personal representative or by the Corporation or its designated representative, as the case may be.

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

I, Bruce J Barclay, certify that:

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

Dated: May 7, 2010

Signature: /s/ Bruce J Barclay

Bruce J Barclay
President and Chief Executive Officer

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

I, Philip D. Ankeny, certify that:

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

Dated: May 7, 2010

Signature: /s/ Philip D. Ankeny

Philip D. Ankeny
Senior Vice President and
Chief Financial Officer

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

In connection with the Quarterly Report of SurModics, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2010, as filed with the Securities and Exchange Commission (the "Report"), I, Bruce J Barclay, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

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

Dated: May 7, 2010

/s/ Bruce J Barclay

Bruce J Barclay
President and Chief Executive Officer

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

In connection with the Quarterly Report of SurModics, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2010, as filed with the Securities and Exchange Commission (the "Report"), I, Philip D. Ankeny, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

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

Dated: May 7, 2010

/s/ Philip D. Ankeny

Philip D. Ankeny
Senior Vice President and
Chief Financial Officer