SURMODICS INC
Form DEF 14A
December 19, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

SCHEDULE 14A

(Rule 14a-101)

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant þ Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

þ Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Under Rule Pursuant to § 240.14a-12

SURMODICS, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

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1) Title of each class of securities to which transaction applies:

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3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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1) Amount previously paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

SURMODICS, INC.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders of SurModics, Inc. will be held on February 4, 2014, at 4:00 p.m. (Minneapolis time), at the Company s headquarters located at 9924 West 74th Street, Eden Prairie, Minnesota 55344. Shareholders will be asked to:

1. Elect two (2) Class III directors;

2. Set the number of directors at eight (8);

3. Ratify the appointment of Deloitte & Touche LLP as the Company s independent registered public accounting firm for fiscal year 2014;

4. Approve, in a non-binding advisory vote, the Company s executive compensation; and

5. Consider and act upon such other matters as may properly come before the meeting or any adjournment or postponement of the meeting.

Only shareholders of record at the close of business on December 6, 2013, are entitled to notice of and to vote at the meeting or any adjournment of the meeting.

In addition to the location noted above, the Annual Meeting will also be available via the Internet at www.virtualshareholdermeeting.com/SRDX. You will not, however, be able to vote your shares during the meeting. To vote your shares, we ask that you follow the instructions in the notice of internet availability of proxy materials or the proxy card that you received in the mail.

Your vote is very important. Whether or not you plan to attend the meeting, please vote at your earliest convenience. Prompt voting will save the Company the expense of further requests.

BY ORDER OF THE BOARD OF DIRECTORS

Robert C. Buhrmaster

Chair of the Board

Eden Prairie, Minnesota

December 23, 2013

SURMODICS, INC.

Annual Meeting of Shareholders

February 4, 2014

PROXY STATEMENT

INTRODUCTION

This proxy statement is furnished to shareholders of SurModics, Inc. (the Company) in connection with the solicitation by the Board of Directors of the Company for use at the Annual Meeting of Shareholders to be held on February 4, 2014 (the Annual Meeting), at the location and for the purposes set forth in the notice of meeting, and at any adjournment or postponement of the meeting.

The mailing address of the principal executive office of the Company is 9924 West 74th Street, Eden Prairie, Minnesota 55344. The Company expects that the Notice Regarding Availability of Proxy Materials (the Notice) and proxy materials will first be mailed to shareholders on or about December 23, 2013.

Solicitation of Proxies

The Company will pay all solicitation expenses in connection with this proxy statement and related proxy soliciting material of the Board, including the preparation and assembly of the proxies and soliciting material. In addition to the use of the mails, proxies may be solicited personally or by mail, telephone, fax or by our directors, officers and regular employees who will not be additionally compensated for any such services.

If You Hold Your Shares in Street Name

If you hold your shares in street name , i.e., through a bank, broker or other holder of record (a custodian), your custodian is required to vote your shares on your behalf in accordance with your instructions. If you do not give instructions to your custodian, your custodian will not be permitted to vote your shares with respect to non-routine items. Please note that if you intend to vote your street name shares in person at the Annual Meeting, you must provide a legal proxy from your custodian at the Annual Meeting.

Revocation of a Proxy

Any shareholder giving a Proxy may revoke it at any time prior to its use at the meeting by giving written notice of the revocation to the Secretary of the Company, or by submitting a subsequent Proxy by internet or mail. Personal attendance at the meeting is not, by itself, sufficient to revoke a Proxy unless written notice of the revocation or a subsequent Proxy is delivered to an officer before the revoked or superseded Proxy is used at the meeting. Proxies not revoked will be voted in accordance with the choices specified by shareholders by means of the ballot provided on the Proxy for that purpose.

Requesting Paper Copies and Voting

Pursuant to Securities and Exchange Commission (the SEC) rules related to the availability of proxy materials, we have chosen to make our proxy statement and related materials, including our annual report to shareholders, available online to our shareholders and, as permitted by the rules, paper copies of these materials will only be provided upon request. We are providing to our shareholders (other than those who previously requested electronic or paper delivery) the Notice containing instructions on how to access this proxy statement and related materials online. If your shares are held in street name , the Notice will be forwarded to you by your custodian. If you received the Notice by mail, you will not automatically receive a printed copy of the proxy materials in the mail. Instead, the Notice instructs you on how to access and review all of the important information contained in the proxy materials. The Notice also instructs you on how you may vote your shares, including via the internet. If you previously requested electronic delivery, you will still receive an e-mail providing you the Notice, and if you previously requested paper delivery, you will still receive a paper copy of the proxy materials by mail.

OUTSTANDING SHARES AND VOTING RIGHTS

The Board of Directors of the Company has fixed December 6, 2013, as the record date for determining shareholders entitled to vote at the Annual Meeting. Persons who were not shareholders on such date will not be allowed to vote at the Annual Meeting. At the close of business on December 6, 2013, 13,735,824 shares of the Company s common stock were issued and outstanding. Common stock is the only outstanding class of capital stock of the Company entitled to vote at the meeting. Each share of common stock is entitled to one vote on each matter to be voted upon at the meeting. Holders of common stock are not entitled to cumulative voting rights. If a shareholder votes, the shares will be counted as part of the quorum.

Vote Required

The affirmative vote of a plurality of the shares of common stock present in person or by proxy at the Annual Meeting and entitled to vote is required for the election to the Board of each of the nominees for director. Shareholders do not have the right to cumulate their votes in the election of directors. Plurality means that the individuals who receive the greatest number of votes cast For are elected as directors. Accordingly, the two nominees for director receiving the highest vote totals will be elected as directors of the Company. The vote to approve our executive compensation is advisory and not binding on our Board of Directors. However, our Board will consider our shareholders to have approved our executive compensation if the number of votes For Proposal 4 exceeds the number of votes Against Proposal 4.

The affirmative vote of the holders of the greater of (1) a majority of the shares of our common stock present in person or by proxy entitled to vote on the proposal or (2) a majority of the minimum number of shares entitled to vote that would constitute a quorum for the transaction of business at the meeting is required for approval of the other proposals presented in this Proxy Statement. A shareholder who abstains with respect to the election of directors and the advisory vote on executive compensation will not have any effect on the outcome of these proposals. A shareholder who abstains with respect to any proposal other than the election of directors and the advisory vote on executive compensation will have the effect of casting a negative vote on that proposal. A shareholder who does not vote in person or by proxy on a proposal (including a broker non-vote on a proposal) is not deemed to be present for the purpose of determining whether a proposal has been approved.

Custodians cannot vote on their customers behalf on non-routine proposals such as Proposal 1, the election of directors, Proposal 2, board size, and Proposal 4 related to executive compensation. Because custodians require their customers direction to vote on such non-routine matters, it is critical that shareholders provide their custodians with voting instructions. On the other hand, Proposal 3, ratification of the appointment of our independent registered public accounting firm, is a routine matter for which custodians do not need voting instruction in order to vote shares.

For vote requirement purposes for Proposals 1, 2, and 4, broker non-votes are considered to be shares present by proxy at the Annual Meeting but are not considered to be shares entitled to vote or votes cast on such items at the Annual Meeting.

PRINCIPAL SHAREHOLDERS

The following table provides information concerning persons known to the Company to be the beneficial owners of more than 5% of the Company s outstanding common stock as of December 6, 2013. Unless otherwise indicated, the shareholders listed in the table have sole voting and investment power with respect to the shares indicated.

Name and Address of Beneficial Owner	Amount and Nature of Shares Beneficially Owned	Percent of Class(1)
Blackrock Inc. 40 East 52nd Street New York, NY 10022	2,029,423(2)	14.8%
The Vanguard Group 100 Vanguard Blvd. Malvern, PA 19355	889,100(3)	6.5%
Mairs and Powers, Inc. 332 Minnesota Street St. Paul, MN 55101	750,540(4)	5.5%
Royce & Associates, LLC 745 Fifth Avenue New York, NY 10151	733,300(5)	5.3%

(1) In accordance with the requirements of the Securities and Exchange Commission, Percent of Class for a person or entity is calculated based on outstanding shares plus shares deemed beneficially owned by that person or entity by virtue of the right to acquire such shares as of December 6, 2013, or within sixty days of such date.

(2) Based on Schedule 13F filings by BlackRock, Inc. and its affiliates on November 12, 2013, reporting ownership of 135 shares by BlackRock Asset Management Australia Limited; 482 shares by BlackRock Asset Management Canada Limited; 10,616 shares by BlackRock Asset Management Ireland Limited; 268,332 shares by BlackRock Financial Management, Inc.; 1,612,997 shares by BlackRock Institutional Trust Company, N.A.; 46,600 shares by BlackRock Investment Management (UK) Ltd.; 48,375 shares by BlackRock Investment Management, LLC; and 41,886 shares by BlackRock Japan Co., Ltd.

(3) Based on a Schedule 13G filed on February 11, 2013, which reported sole voting power and sole and shared dispositive power as follows: sole voting power 17,842 shares; shared dispositive power 16,242 shares; and sole dispositive power 872,858 shares.

(4) Based on a Schedule 13F filed on November 14, 2013.

(5) Based on a Schedule 13F filed on November 12, 2013.

MANAGEMENT SHAREHOLDINGS

The following table sets forth the number of shares of common stock beneficially owned as of December 6, 2013, by each executive officer of the Company named in the Summary Compensation Table, by each current director of the Company and by all directors and executive officers (including the named executive officers) as a group. Unless otherwise indicated, the shareholders listed in the table have sole voting and investment power with respect to the shares indicated.

Name of Beneficial Owner or Identity of Group	Current Holdings	Acquirable within 60 days	Aggregate Number of Common Shares Beneficially Owned	Percent of Class(1)
Gary R. Maharaj	53,824	92,015	145,839	1.1%
Charles W. Olson(2)	25,819	74,010	99,829	*
Gerald B. Fischer(3)	10,950	61,495	72,445	*
Joseph J. Stich	17,630	49,711	67,341	*
John W. Benson	3,600	61,407	65,007	*
José H. Bedoya		64,022	64,022	*
Bryan K. Phillips	16,233	35,953	52,186	*
Robert C. Buhrmaster(4)	2,625	46,995	49,620	*
Susan E. Knight	500	46,995	47,495	*
Timothy J. Arens	6,392	35,580	41,972	*
Mary K. Brainerd		39,291	39,291	*
Scott R. Ward		19,776	19,776	*
David R. Dantzker, M.D.	500	17,448	17,948	*
Andrew D. C. LaFrence	5,234		5,234	*
All executive officers and directors as a group (14 persons)	147,227	644,698	791,925	5.8%

* Less than 1%

(1) See footnote (1) to preceding table.

(2) Includes 800 shares held in an IRA, over which Mr. Olson has sole voting and investment power.

(3) Includes 8,950 shares held in an IRA and 2,000 shares held jointly with Mr. Fischer s wife, over which Mr. Fischer has shared voting and investment power.

(4) Shares held in family limited partnership, over which Mr. Buhrmaster has shared voting and investment power.

ELECTION OF DIRECTORS

(Proposals #1 and #2)

General Information

The Bylaws of the Company provide that the number of directors, which shall not be less than three, shall be determined annually by the shareholders. The Company s Corporate Governance and Nominating Committee and Board of Directors have recommended that the number of directors be set at eight (8) at the Annual Meeting. The reduction in the size of the Board from our current nine (9) directors reflects the retirement of Robert C. Buhrmaster, our current Board chair, which will be effective at the conclusion of the Annual Meeting as we have previously disclosed on a Current Report on Form 8-K filed on September 20, 2013. The Corporate Governance and Nominating Committee is searching for qualified candidates to serve on the Board. In the event that such a qualified candidate is identified, the Board may vote to increase its size and appoint an additional director as permitted by the Bylaws.

The Bylaws also provide for the election of three classes of directors with terms staggered so as to require the election of only one class of directors each year, and further that each class be equal in number, or as nearly as possible. Only directors who are members of Class III will be elected at the Annual Meeting. Each Class III director will be elected to a three-year term and, therefore, will hold office until the Company s 2017 annual meeting of shareholders and until his or her successor has been duly elected and qualified, or until his or her resignation or removal from office. The terms of Class I and II directors continue until the 2015 and 2016 annual meetings, respectively.

The Corporate Governance and Nominating Committee has recommended, and the Board of Directors selected, José H. Bedoya and Susan E. Knight as the Board s nominees for election as Class III directors. Each of these nominees has indicated a willingness to serve as a director if elected and has consented to be named in the proxy statement. Brief biographical profiles of Mr. Bedoya and Ms. Knight, and each of our other directors are provided below. The Proxy will be voted for each of such nominees unless the Proxy withholds a vote for one or more nominees. If, prior to the meeting, it should become known that either of the nominees will be unable to serve as a director after the meeting by reason of death, incapacity or other unexpected occurrence, the Proxies will be voted for such substitute nominee as is recommended or selected by the Corporate Governance and Nominating Committee and the Board of Directors or, alternatively, not voted for any nominee. The Board of Directors has no reason to believe that any nominee will be unable to serve.

A plurality of votes cast is required for the election of directors. However, under the Company s Corporate Governance Guidelines, any nominee for director in an uncontested election (i.e., an election where the only nominees are those recommended by the Board of Directors) who receives a greater number of votes withheld from his or her election than votes for such election (a Majority Withheld Vote) will, within five business days of the certification of the shareholder vote by the inspector of elections, tender a written offer to resign from the Board of Directors. The Corporate Governance and Nominating Committee will promptly consider the resignation offer and recommend to the Board of Directors whether to accept it. The Nominating and Corporate Governance Committee will consider all factors its members deem relevant in considering whether to recommend acceptance or rejection of the resignation offer, including, without limitation:

the perceived reasons why shareholders withheld votes for election from the director;

the length of service and qualifications of the director;

the director s contributions to the Company;

compliance with listing standards;

the purpose and provisions of these principles; and

the best interests of the Company and its shareholders.

Any director who tenders his or her offer to resign from the Board pursuant to this provision shall not participate in the Corporate Governance and Nominating or Board deliberations regarding whether to accept the offer of resignation. The Board will act on the Corporate Governance and Nominating Committee s recommendation within 90 days following the certification of the shareholder vote by the inspector of elections, which action may include, without limitation:

acceptance of the offer of resignation;

adoption of measures intended to address the perceived issues underlying the Majority Withheld Vote; or

rejection of the resignation offer.

Thereafter, the Board will disclose its decision whether to accept the director s resignation offer and the reasons for rejecting the offer, if applicable, in a current report on Form 8-K to be filed with the Securities and Exchange Commission within four business days of the Board s determination.

As discussed above, Mr. Buhrmaster, our current Board chair, will retire effective at the conclusion of the Annual Meeting. The Board has elected Scott R. Ward to succeed Mr. Buhrmaster as Board chair. The following information is provided with respect to each director whose term continues after the Annual Meeting and each director nominee:

Name	**Age**	**Position with Company**
José H. Bedoya (2)(3)	57	Director
John W. Benson (1)(3)	69	Director
Mary K. Brainerd (1)(2)	59	Director
David R. Dantzker, M.D. (2)(3)	70	Director
Gerald B. Fischer (2)(3)	70	Director
Susan E. Knight (2)(3)	59	Director
Scott R. Ward(1)(3)	54	Director
Gary R. Maharaj	50	Director, President and Chief Executive Officer

(1) Member of the Organization and Compensation Committee, of which Mr. Benson is the Chair.

(2) Member of the Audit Committee, of which Ms. Knight is the Chair.

(3) Member of the Corporate Governance and Nominating Committee, of which Mr. Bedoya is the Chair.

José H. Bedoya (Class III) has been a director of the Company since 2002. Mr. Bedoya is President and Chief Executive Officer of Otologics, LLC, a Colorado-based technology company he founded in 1996. From 1986 to 1996, Mr. Bedoya held a number of positions at Storz Instrument Company, then a division of American Cyanamid and later a division of American Home Products, including Director of Operations, Director of Research and Director of Commercial Development. Prior to that, he served as Vice President of Research and Development for Bausch & Lomb s surgical division.

Mr. Bedoya brings to the board significant business, operational and management experience in the medical device, medical instruments and related industries. Additionally, his experience brings executive decision making, analytical and strategic planning skills gained as a chief executive. Mr. Bedoya serves as the chair of our Corporate Governance and Nominating Committee.

John W. Benson (Class II) has been a director of the Company since 2003. Mr. Benson retired from 3M Company in February 2003 where he served in various capacities for 35 years. Prior to his retirement, he served as Executive Vice President, Health Care Markets. Mr. Benson previously served on the Board of Regents at St. Olaf College.

As a former senior executive at 3M, Mr. Benson brings to the board extensive strategic planning and management skills from a large, diversified technology and consumer products company. His extensive knowledge of corporate leadership, governance and the healthcare industry gained at 3M make Mr. Benson a valued director. Mr. Benson serves as the chair of our Organization and Compensation Committee.

Mary K. Brainerd (Class II) has been a director of the Company since 2009. Ms. Brainerd is President and Chief Executive Officer of HealthPartners, Inc., a family of non-profit Minnesota health care organizations headquartered in Minneapolis, Minnesota. She has been with HealthPartners since 1992 and has served as President and Chief Executive Officer since 2002. Prior to joining HealthPartners, Ms. Brainerd held senior level positions with Blue Cross and Blue Shield of Minnesota. Ms. Brainerd also serves on the boards of Minnesota Life/Securian, Minnesota Philanthropy Partners, Greater MSP, Alliance of Community Health Plans, and the Federal Reserve Bank of Minneapolis.

As the President and Chief Executive officer of HealthPartners, Inc., Ms. Brainerd brings significant business, operational and executive management expertise to the board. Her extensive experience within the healthcare industry permits her to contribute valuable strategic management and organizational development insight to the Company.

David Dantzker, M.D. (Class I) has been a director of the Company since January 2011. Dr. Dantzker has been a Partner at Wheatley MedTech Partners L.P., a venture capital fund, since 2001. He manages Wheatley s Life Science and Healthcare investments. From 1997 to 2000, Dr. Dantzker was President of North Shore-LIJ Health System, a large academic health care system. He also co-founded the North Shore-LIJ Research Institute to direct and coordinate basic science research for the North Shore-LIJ Health System. He is a former Chair of the American Board of Internal Medicine, the largest physician-certifying board in the United States. Dr. Dantzker served on the board of directors of Datascope Corp. from January 2008 until its sale in January 2009. Dr. Dantzker holds a B.A. in Biology from New York University, and received his M.D. from the State University of New York at Buffalo School of Medicine. Dr. Dantzker sits on the boards of several Wheatley MedTech portfolio companies including Oligomerix, Inc., Care Management Technologies and Visionsense, Ltd. (all of which are private companies). He also serves on the board of iSonea Limited, a public company traded on the Australian Securities Exchange. Dr. Dantzker has also served on the faculty and in leadership positions of four major research-oriented medical schools, has authored or co-authored 130 research papers and five textbooks and is an internationally recognized expert in the area of pulmonary medicine and critical care.

His extensive management experience in a variety of roles, and board and board committee leadership experience, as well as his extensive knowledge of the medical industry, enable Dr. Dantzker to provide the Company with valuable financial and executive insights.

Gerald B. Fischer (Class II) has been a director of the Company since 2002. Mr. Fischer is President Emeritus of the University of Minnesota Foundation, a foundation dedicated to advancing the mission of the University of Minnesota, and served as its President and Chief Executive Officer from 1990 through August 2008, and as Vice President, Senior Philanthropy Advisor from August 2008 until December 2010. From 1985 to 1989, Mr. Fischer was with First Bank System, now U.S. Bancorp, serving as Executive Vice President, Chief Financial Officer and Treasurer. Previous to that, he spent 18 years in various finance positions at Ford Motor Company and its affiliates.

Mr. Fischer brings many years of leadership, strategic planning and governance experience to the board. His financial expertise, experience in the oversight of risk management and perspectives on financial markets provides valuable insight to the Company. Mr. Fischer qualifies as an audit committee financial expert as defined by SEC rules.

Susan E. Knight (Class III) has been a director of the Company since 2008. Since 2011, Ms. Knight has served as Senior Vice President and Chief Financial Officer of MTS Systems Corporation, a leading global supplier of test systems and industrial position sensors, having served as Vice President and Chief Financial Officer at MTS Systems Corporation since 2001. Prior to her position with MTS Systems, from 1977 to 2001, Ms. Knight served in various executive and management positions with Honeywell Inc., last serving as the Chief Financial Officer of the global Home and Building Controls division. Ms. Knight also serves on the board of the Greater Metropolitan Housing Corporation. Ms. Knight also served on the board of Plato Learning, Inc., from 2006 to 2010, where she served on the Audit Committee, including as Chair from 2009 to 2010, and on the Governance and Nominating and a Special Committee from 2009 to 2010.

As the Chief Financial Officer of MTS Systems Corporation, Ms. Knight brings significant audit, financial reporting, corporate finance and risk management experience to the board. She has extensive understanding of the board s role and responsibilities based on her prior service on the board of another public company. Ms. Knight serves as the chair of our Audit Committee and qualifies as an audit committee financial expert as defined by SEC rules.

Gary R. Maharaj (Class I) has served as a director and our President and Chief Executive Officer since December 2010. Prior to joining SurModics, Mr. Maharaj served as President and Chief Executive Officer of Arizant Inc., a provider of patient temperature management systems in hospital operating rooms, from 2006 to 2010. Previously, Mr. Maharaj served in several senior level management positions for Augustine Medical, Inc. (predecessor to Arizant Inc.) from 1996 to 2006, including Vice President of Marketing, and Vice President of

Research and Development. During his over 25 years in the medical device industry, Mr. Maharaj has also served in various management and research positions for the orthopedic implant and rehabilitation divisions of Smith & Nephew, PLC. Mr. Maharaj holds an M.B.A. from the University of Minnesota s Carlson School of Management, an M.S. in biomedical engineering from the University of Texas at Arlington and the University of Texas Southwestern Medical Center at Dallas, and a B.Sc. in Physics from the University of the West Indies.

Mr. Maharaj brings to the board strong experience in the medical technology industry, as well as leadership, strategic planning, and operating experience gained as a chief executive officer of a medical technology company.

Scott R. Ward (Class I) has been a director of the Company since 2010. Since 2013, Mr. Ward has been a Managing Director at SightLine Partners LLC and, since 2011, Mr. Ward has been President of Raymond Holdings, a firm with activities in venture capital, strategy and transactional advisory services. He has over 30 years of experience in the healthcare industry, including 15 years as an operating business leader. From 1981 until 2010, he served in a variety of senior leadership positions at Medtronic, Inc. From 2007 to 2010, he was Senior Vice President and President of Medtronic s CardioVascular business where he was responsible for all of the worldwide operations of that business, including the Coronary, Peripheral, Endovascular, Structural Heart Disease (SHD) and Revascularization and Surgical Therapies (RST) businesses. Prior to that, Mr. Ward served as Senior Vice President and President of Medtronic Neurological and Diabetes, with responsibility for the global Neurological, Neurologic Technologies, Diabetes, Gastroenterology and Urology businesses; Vice President and General Manager of the Medtronic Drug Delivery Business; and Director of Medtronic NeuroVentures. Mr. Ward serves on the board of Cardiovascular Systems, Inc., and from 2008 to 2013, he served on the board of MAP Pharmaceuticals, Inc., including as chair from 2011 to 2013. He also serves on the board of Gillette Children s Specialty Healthcare (as chair), and several private medical technology companies, including Creganna-Tactx Medical (as chair), iScience Inteventional, Inc., and Respicardia, Inc. He received his Bachelor s Degree in Genetics and Cell Biology in 1981, and his Masters Degree in Toxicology in 1983, both from the University of Minnesota.

As a former senior executive in the medical device industry, Mr. Ward brings to the board leadership, strategic planning, mergers and acquisitions and operating experience from a large, diversified medical technology company. He also serves on the board of another public company.

The Board of Directors unanimously recommends that the shareholders vote **FOR** the election of each of the Board s nominees and to set the Board at eight directors.

DIRECTOR COMPENSATION

The Company s Board Compensation Policy provides cash and equity compensation to our non-employee directors for their service on the Board and its committees as discussed below.

Cash Compensation. Each of our non-employee directors is paid an annual retainer of $35,000. Our non-employee directors are also eligible to receive additional annual retainers as follows:

- the chair of the Board will receive an additional annual cash retainer of $35,000;

- the chair of the Audit Committee will receive an additional annual cash retainer of $15,000, and the non-chair members of that committee will receive an additional annual cash retainer of $6,000;

- the chair of the Organization and Compensation Committee will receive an additional annual cash retainer of $8,500, and the non-chair members of that committee will receive an additional annual cash retainer of $4,500; and

- the chair of the Corporate Governance and Nominating Committee will receive an additional annual cash retainer of $6,500, and the non-chair members of that committee will receive an additional annual cash retainer of $3,500.

The cash retainers are paid quarterly following the completion of each calendar quarter. Furthermore, the cash retainers are reduced by 25% if a non-employee director does not attend at least 75% of the total meetings of the Board and board committees on which such director served during the year.

Equity Compensation. In addition to the cash compensation described above, each of our non-employee directors also receive stock awards as compensation for their service on the Board. Upon a director s initial election or appointment to the Board, such director will be awarded an equity grant having a value of $60,000, one-half of such award will be in the form of a nonqualified stock option to purchase shares of the Company s common stock (as estimated using the black-scholes option pricing model as of the date of the grant) and the other half will be in the form of restricted stock units (RSUs). Additionally, on the date of the Board s first regularly scheduled meeting during each fiscal year, each non-employee director will be awarded an equity grant having a value of $60,000 (on a pro-rata basis for directors who served on the Board for less than the entire preceding fiscal year), one-half of such award will be in the form of stock options and the other half will be in the form of RSUs. Each RSU grant will vest annually in equal increments, beginning on the first anniversary of the date of grant (except for RSUs granted in lieu of cash compensation as discussed below which are fully vested on the date of grant).

Stock in Lieu of Cash Compensation. A director may elect annually to receive all or a portion of their cash retainers in the form of RSUs. The RSU award will be granted on the date any regular annual cash retainer would have otherwise been paid and the number of units covered by such award will be determined using the fair market value of the Company s common stock on such date. Each such RSU award would be settled in shares of the Company s common stock after the non-employee director leaves the Board.

Dividend Equivalents. To the extent the Company pays a dividend, each non-employee director will have the right to receive dividend equivalents for each RSU held by such director on the record date for the payment of such dividend. The dividend equivalents will be treated as reinvested in an additional number of RSUs which will be determined by dividing (a) the cash amount of any such dividend that would have been paid if the RSUs held by the director were outstanding shares of Company stock by (b) the fair market value of the Company s common stock (i.e., the closing price) on the applicable dividend payment date.

Non-Employee Director Stock Ownership. The Board of Directors has established equity ownership guidelines for all non-employee directors. For a description of the equity ownership guidelines, see *Corporate Governance Equity Ownership Guidelines*.

Summary of Fiscal 2013 Director Compensation

The Director Compensation table below reflects all compensation awarded to, earned by or paid to the Company s non-employee directors during fiscal 2013. Compensation for Gary R. Maharaj, our President and Chief Executive Officer, is set forth below under the heading Executive Compensation and Other Information.

Other Compensation. All non-employee directors are reimbursed for their reasonable travel-related expenses incurred in attending board and committee meetings. Additionally, in connection with his service as our Board Chair, which will become effective at the conclusion of the Annual Meeting, the Company will make available to Mr. Ward, on a part-time basis, an administrative assistant.

Name	Fees Earned or Paid in Cash(1)	Stock Awards (2)(4)	Option Awards(3)(4)	Total
Robert C. Buhrmaster	$ 70,000	$ 30,000	$ 30,000	$ 130,000
Susan E. Knight	$ 53,500	$ 30,000	$ 30,000	$ 113,500
José H. Bedoya	$ 11,875	$ 65,625	$ 30,000	$ 107,500
John W. Benson	$ 11,750	$ 65,250	$ 30,000	$ 107,000
Mary K. Brainerd	$ 11,375	$ 64,125	$ 30,000	$ 105,500
David R. Dantzker, M.D	$ 11,125	$ 63,375	$ 30,000	$ 104,500
Gerald B. Fischer	$ 44,500	$ 30,000	$ 30,000	$ 104,500
Scott R. Ward .	$ 43,000	$ 30,000	$ 30,000	$ 103,000

(1) Represents the amount of cash retainers earned by or paid to directors in fiscal 2013 for Board and committee service. Pursuant to our Board Compensation Policy, Ms. Brainerd, Mr. Bedoya, Mr. Benson, and Dr. Dantzker elected to receive all of their cash compensation earned during tax year 2013 in the form of RSUs. The portion of the cash retainers paid to each such director in the form of RSUs is shown in the column Stock Awards.

(2) Reflects the aggregate grant date fair value dollar amount of restricted stock units granted in fiscal 2013 computed in accordance with Accounting Standards Codification Topic 718, Compensation Stock Compensation (ASC 718). Mr. Bedoya, Mr. Benson, Ms. Brainerd, and Dr. Dantzker elected to receive stock in lieu of their respective cash compensation earned during tax year 2013, as a result of which, the following number of fully vested RSUs were granted in fiscal 2013: Mr. Bedoya, 1,527; Mr. Benson, 1,512, Ms. Brainerd, 1,463; and Dr. Dantzker, 1,430.

(3) Reflects the aggregate grant date fair value dollar amount of stock option awards granted in fiscal 2013 computed in accordance with ASC 718, but excludes any impact of assumed forfeiture rates.

(4) As of September 30, 2013, the aggregate number of stock options and restricted stock units held by each of our non-employee directors was as follows:

Name	**Stock Options**	**Restricted Stock Units**
José H. Bedoya	74,515	2,999
John W. Benson	71,915	2,984
Mary K. Brainerd	49,848	2,935
Robert C. Buhrmaster	59,015	1,472
David R. Dantzker, M.D	26,561	2,902
Gerald B. Fischer	73,515	1,472
Susan E. Knight	59,015	1,472
Scott R. Ward .	31,891	1,472

CORPORATE GOVERNANCE

The Company s business affairs are conducted under the direction of the Board of Directors in accordance with the Minnesota Business Corporation Act and the Company s Articles of Incorporation and Bylaws. Certain corporate governance practices that the Company follows are summarized below.

Code of Ethics and Business Conduct

We have adopted the SurModics Code of Ethics and Business Conduct (the Code of Conduct), which applies to our directors, officers and employees. The Code of Conduct is publicly available on our website at www.surmodics.com under the caption Investors/Corporate Governance. If we make any substantive amendments to the Code of Conduct or grant any waiver, including any implicit waiver from a provision of the Code of Conduct, to our directors or executive officers, we will disclose the nature of such amendment or waiver on a Current Report on Form 8-K.

Corporate Governance Guidelines

The Board has adopted a set of Corporate Governance Guidelines (the Guidelines). The Corporate Governance and Nominating Committee is responsible for overseeing the Guidelines and annually reviews them and makes recommendations to the Board concerning corporate governance matters. The Board may amend, waive, suspend, or repeal any of the Guidelines at any time, with or without public notice, as it determines necessary or appropriate in the exercise of the Board s judgment or fiduciary duties. We have posted the Guidelines on our web site at www.surmodics.com under the caption Investors/Corporate Governance.

Board Role in Risk Oversight

Our Board of Directors, in exercising its overall responsibility to oversee the management of our business and considers risks generally when reviewing the Company s strategic plan, financial results, business development activities, legal and regulatory matters. The Board satisfies this responsibility through regular reports directly from officers responsible for oversight of particular risks within the Company. The Board s risk management oversight also includes full and open communications with management to review the adequacy and functionality of the risk management processes used by management. In addition, the Board of Directors uses its committees to assist in its risk oversight responsibility as follows:

- The Audit Committee assists the Board of Directors in its oversight of the integrity of the financial reporting of the Company and its compliance with applicable legal and regulatory requirements. It also oversees our internal controls and compliance activities. The Audit Committee discusses risk assessment and management topics, as well as the Company s major financial and business risk exposures and the steps management has undertaken to monitor and control such exposures. It also meets privately with representatives from the Company s independent registered public accounting firm.

- The Organization and Compensation Committee assists the Board of Directors in its oversight of risk relating to the Company s compensation policies and practices.

Each year, the Organization and Compensation Committee reviews the Company s compensation policies, programs and procedures, including the incentives they create and mitigating factors that may reduce the likelihood of excessive risk taking, to determine whether they present a significant risk to the Company. Management assessed risk factors associated with specific compensation programs, as well as enterprise-level compensation risk factors. The program-specific risk factors assessed included payout potential, payout as a percentage of total compensation, risk of manipulation, overall plan design and market appropriateness. Enterprise-level risk factors evaluated included the overall compensation mix, consistency between annual and long-term objectives as well as metrics, achievability of performance goals without undue risk-taking, the relationship of long-term awards to the Company s pay philosophy, stock ownership requirements, the weighting and duration of performance metrics, and the interaction of compensation plans with the Company s financial performance and strategy. Based on this review, the Organization and Compensation Committee concluded that the Company s compensation policies, programs and procedures are not reasonably likely to have a material adverse effect on the Company.

Board Leadership Structure

Our Board currently separates the offices of Chair of our Board and CEO by appointing an independent, non-executive chair. While we do not have a written policy with respect to separation of these roles, our Board believes that an independent Board chair permits our CEO to focus on managing his day-to-day responsibilities to our company and facilitates our Board s independent oversight of our executive officers management of strategic direction, operational execution, and business risk, thereby better protecting stockholder value. Our current non-executive Board chair, Mr. Buhrmaster, presides over Board meetings and executive sessions of our independent directors. As noted above, Mr. Buhrmaster will retire effective at the conclusion of the Annual Meeting and the Board has elected Mr. Ward to succeed Mr. Buhrmaster as Board chair.

Related Person Transaction Approval Policy

Our Board of Directors has adopted a written policy for transactions with related persons, as defined in Item 404 of SEC Regulation S-K, which sets forth our policies and procedures for the review, approval or ratification of transactions with related persons which are subject to the policy. Our policy applies to any transaction, arrangement or relationship, or any series of similar transactions, arrangements or relationships in which we are a participant and a related person has a direct or indirect interest. Our policy, however, exempts the following:

- our payments of compensation to a related person for that person s service to us in the capacity or capacities that give rise to the person s status as a related person ;

- transactions available to all of our shareholders on the same terms; and
- transactions that, when aggregated with the amount of all other transactions between the related person and our company, involve less than $120,000 in a fiscal year.

We consider the following persons to be related persons under the policy:

- all of our officers and directors;
- any nominee for director;
- any immediate family member of any of our directors, nominees for director or executive officers; and
- any holder of more than 5% of our common stock, or an immediate family member of any such holder.

The Audit Committee of our Board of Directors must approve any related person transaction subject to this policy before commencement of the related person transaction. The Audit Committee will analyze the following factors, in addition to any other factors the Audit Committee deems appropriate, in determining whether to approve a related person transaction:

- whether the terms are fair to the Company;
- whether the transaction is material to the Company;
- the role the related person has played in arranging the related person transaction;
- the structure of the related person transaction; and
- the interests of all related persons in the related person transaction.

The Audit Committee may, in its sole discretion, approve or deny any related person transaction. Approval of a related person transaction may be conditioned upon the Company and the related person taking any actions that the Audit Committee deems appropriate.

If one of our executive officers becomes aware of a related person transaction that has not previously been approved under the policy:

- if the transaction is pending or ongoing, it will be submitted to the Audit Committee promptly and the committee will consider the transaction in light of the standards of approval listed above. Based on this evaluation, the committee will consider all options, including approval, ratification, amendment, denial or termination of the related person transaction; and
- if the transaction is completed, the committee will evaluate the transaction in accordance with the same standards to determine whether to ratify the transaction, or whether rescission of the transaction is appropriate and feasible.

Transactions with Related Persons. There were no related person transactions during fiscal 2013 required to be disclosed in this proxy statement.

Equity Ownership Guidelines

Our Board believes that ownership of significant amounts of our stock by our executive officers and directors will help align their interests with those of our shareholders. To that end, our Board has adopted equity ownership guidelines for our directors and executive officers. Under the guidelines, the value of our common stock held by an executive officer or non-employee director is required to be at least:

five times the annual base salary for our Chief Executive Officer;

three times the annual base salary for our other executive officers (other than our CEO); and

five times each non-employee director s annual cash retainer (excluding any additional retainers provided based on role or committee service).

Until the applicable ownership requirement set forth above is attained, (a) our executive officers (other than the CEO) shall be required to retain ownership of 50% of the net shares (as defined below) received, and (b) our CEO and each non-employee director shall be required to retain ownership of 75% of the net shares received. Following attainment of the applicable ownership requirement (and so long as it remains so), (i) our executive officers (other than the CEO) shall be required to hold 50% of the net shares received, and (ii) our CEO and each non-employee director shall be required to hold 75% of the net shares received, in each case, for a period of one year from the date of receipt of such shares. Net shares is defined as the number of shares of the Company s common stock that remain after the sale of stock options or the vesting of restricted or performance shares less the number of shares that are sold or netted to pay any applicable exercise price or withholding taxes. Shares that count toward meeting the ownership requirements include shares owned outright (directly or indirectly), restricted stock or restricted stock units. Shares that do not count toward meeting the stock ownership requirements include unexercised stock options. As of September 30, 2013, with the exception of Mr. Fischer, none of our non-employee directors nor any of our named executive officers have attained the required ownership guidelines. However, because of the requirement to hold a significant percentage of the net shares received in connected with the exercise or vesting of stock awards, our non-employee directors and officers are continuing to make satisfactory progress towards the required ownership guideline.

Majority of Independent Directors; Committees of Independent Directors

Our Board of Directors has determined that Mss. Brainerd and Knight, and Messrs. Bedoya, Benson, Buhrmaster, Dantzker, Fischer, and Ward, constituting all of our current directors other than Mr. Maharaj, are independent directors in accordance with rules of The NASDAQ Stock Market since none of them is believed to have any relationships that, in the opinion of the Board of Directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. Mr. Maharaj is not considered independent under the applicable rules of The Nasdaq Stock Market since he serves as an executive officer of the Company.

Each member of the Company s Audit Committee, Organization and Compensation Committee and Corporate Governance and Nominating Committee has been determined, in the opinion of the Board of Directors, to be independent in accordance with the applicable rules of The NASDAQ Stock Market.

Committee and Board Meetings

The Company s Board of Directors has three standing committees: the Audit Committee, the Organization and Compensation Committee, and the Corporate Governance and Nominating Committee. Each committee is comprised entirely of independent directors, as currently required under the SEC s rules and regulations and the NASDAQ listing standards, and each committee is governed by a written charter approved by the Board. These charters form an integral part of our corporate governance policies, and a copy of each charter is available on our website at www.surmodics.com. In addition to these committees, the Board also has a Business Development Committee which was formed to assist the Board in its oversight of strategic transactions and to assist management in reviewing and evaluating strategic transactions. Mr. Buhrmaster, as our Board chair, was not a formal member of any of the Board s committee. However, he did attend and participate at many of the committee meetings. The table below provides the composition of each committee of the Board (an asterisk indicates the committee chair):

	Audit	Organization and Compensation	Corporate Governance and Nominating	Business Development
Mr. Bedoya	x		x*	
Mr. Benson		x*	x	
Ms. Brainerd	x	x		
Dr. Dantzker	x		x	x
Mr. Fischer	x		x	
Ms. Knight	x*		x	x
Mr. Maharaj				
Mr. Ward		x	x	x

During fiscal 2013, the Board of Directors held seven meetings and the standing committees had the number of meetings noted below. Each incumbent director attended (in person or by telephone) 75% or more of the total number of meetings of the Board and of the committee(s) of which he or she was a member in fiscal year 2013. The principal functions of our standing committees (excluding the Business Development Committee) are described below.

Audit Committee

The Audit Committee is responsible for reviewing the quality and integrity of the Company s financial reports, the Company s compliance with legal and regulatory requirements, the independence, qualifications and performance of the Company s independent auditor, oversight of the Company s related person transaction policy, and the performance of the Company s internal audit function and its accounting and reporting processes. The Audit Committee held five meetings during fiscal 2013.

Pursuant to its written charter, the Audit Committee is required to pre-approve the audit and non-audit services performed by the Company s independent auditors in order to ensure that the provision of such services does not impair the auditor s independence. The Audit Committee also has a pre-approval policy which requires that unless a particular service to be performed by the Company s independent auditors has received general pre-approval by the Audit Committee, each service provided must be specifically pre-approved. Any proposed services exceeding pre-approved cost levels will require specific pre-approval by the Audit Committee. In addition, the Audit Committee may delegate pre-approval authority to the Chair of the Audit Committee, who will then report any pre-approval decisions to the Audit Committee at its next scheduled meeting.

Organization and Compensation Committee

The Organization and Compensation Committee is responsible for matters relating to executive compensation, organizational planning, succession planning at the executive level, key employee compensation programs, director compensation, and corporate culture programs. The Organization and Compensation Committee held four meetings during fiscal 2013.

Under the terms of its charter, the Organization and Compensation Committee has the authority to engage the services of outside advisors and experts to assist the Committee. Since 2008, the Committee has retained Mr. David A. Ness, an independent compensation consultant, to advise it on matters related to executive and director compensation. A description of the Committee s use of the independent compensation consultant is set forth in Compensation Discussion and Analysis Establishing Executive Compensation; Independent Compensation Consultant.

In February 2013, our Compensation Committee assessed Mr. Ness independence, taking into account the following factors:

- the provision of other services by Mr. Ness employer;
- the amount of fees received from the Company by Mr. Ness employer (as a percentage of the total revenue of such employer);
- the policies and procedures of Mr. Ness employer that are designed to prevent conflicts of interest;
- any business or personal relationship of Mr. Ness with a Committee member;
- any stock of the Company owned by Mr. Ness; and
- any business or personal relationship of Mr. Ness or his employer with an executive officer of the Company.

Based on its assessment, our Compensation Committee determined that Mr. Ness is independent for purposes of the NASDAQ listing requirements as they apply to compensation consultants and that his work does raise any conflicts of interest.

Corporate Governance and Nominating Committee; Procedures and Policy

The Corporate Governance and Nominating Committee is responsible for identifying individuals qualified to become Board members, recommending to the Board the director nominees for election to the Board, recommending to the Board corporate governance guidelines applicable to the Company, and leading the Board and its committees in their annual performance review process. The Corporate Governance and Nominating Committee held four meetings during fiscal 2013.

The Corporate Governance and Nominating Committee will consider candidates recommended from a variety of sources, including nominees recommended by the Board, management, shareholders, and others. Moreover, while we do not have a formal diversity policy, to ensure that the Board benefits from diverse perspectives, the Committee seeks qualified nominees from a variety of backgrounds, including candidates of gender and ethnic diversity. Four of the Board s directors are diverse two women, and two individuals with diverse ethnic backgrounds. Moreover, our directors have diverse business and professional backgrounds, including experience in academic administration, public company, and private company settings. In general, the Corporate Governance and Nominating Committee considers the following factors and qualifications:

- the appropriate size and the diversity of the Company s Board of Directors;
- the needs of the Board with respect to the particular talents and experience of its directors;
- the knowledge, skills and experience of nominees, including experience in the industry in which the Company operates, business, finance, management or public service, in light of prevailing business conditions and the knowledge, skills and experience already possessed by other members of the Board;
- familiarity with domestic and international business matters;
- age, legal and regulatory requirements;
- experience with accounting rules and practices;
- appreciation of the relationship of the Company s business to the changing needs of society; and
- the desire to balance the considerable benefit of continuity with the periodic injection of the fresh perspective provided by new members.

The Corporate Governance and Nominating Committee will consider the attributes of the candidates and the needs of the Board and will review all candidates in the same manner, regardless of the source of the recommendation. A shareholder wishing to recommend a candidate for our Board of Directors should send their recommendation in writing to the address specified under Procedures for Shareholder Communications to Directors below.

A shareholder who wishes to nominate one or more directors must provide a written nomination to the Corporate Secretary at the address set forth below. Notice of a nomination must include:

with respect to the shareholder:

- name, address, the class and number of shares such shareholder owns;

with respect to the nominee:

- name, age, business address and residence address;
- current principal occupation;
- five-year employment history with employer names and a description of the employer s business;
- the number of shares beneficially owned by the nominee;
- whether such nominee can read and understand basic financial statements; and
- membership on other boards of directors, if any.

The nomination must be accompanied by a written consent of the nominee to stand for election and to serve if elected by the shareholders. The Company may require any nominee to furnish additional information that may be needed to determine the qualifications of the nominee. Such nomination must be submitted to the Corporate Secretary no later than ninety (90) days prior to the date of the Annual Meeting.

The Corporate Governance and Nominating Committee believes that candidates for directors should have certain minimum qualifications, including being able to read and understand basic financial statements, having familiarity with the Company s business and industry, having high moral character and mature judgment, being able to work collegially with others, and not currently serving on more than three boards of directors of public companies. The Corporate Governance and Nominating Committee may modify these minimum qualifications from time to time.

It is also a policy of the Board as described in our Corporate Governance Guidelines that each director be required to retire from the Board effective at the conclusion of the annual meeting following his or her seventy-second birthday, unless special circumstances exist as determined by the Board. The Board believes, however, that any such exceptions should be rare. It is also the policy of the Board that every director should notify the Chair of his or her retirement, of any change in employer, and of any other significant change in the director s principal professional occupation, and in connection with any such change, offer to submit his or her resignation from the Board for consideration by the Corporate Governance and Nominating Committee. The Board, upon recommendation from the Corporate Governance and Nominating Committee, then may consider the continued appropriateness of board membership of such director under the new circumstances and the action, if any, to be taken with respect to the offer to submit his or her resignation.

Procedures for Shareholder Communications to Directors

Shareholders may communicate directly with the Board of Directors. All communications should be directed to our Corporate Secretary at the address below and should prominently indicate on the outside of the envelope that it is intended for the Board of Directors or for non-management directors. If no director is specified, the communication will be forwarded to the entire Board. Shareholder communications to the Board should be sent to:

Corporate Secretary

Attention: Board of Directors

SurModics, Inc.

9924 West 74th Street

Eden Prairie, MN 55344-3523

Director Attendance Policy

Directors attendance at our annual meetings of shareholders can provide our shareholders with an opportunity to communicate with directors about issues affecting the Company. Accordingly, all directors are expected to attend annual meetings of shareholders. All of the Company s directors attended the last annual meeting of shareholders, which was held on February 11, 2013.

COMPENSATION DISCUSSION AND ANALYSIS

Overview

Our Organization and Compensation Committee, or the Committee, reviews and approves our executive compensation programs. The following discussion and analysis describes the material elements of compensation awarded to, earned by, or paid to our executive officers, including our named executive officers, during fiscal 2013. Our named executive officers are determined in accordance with SEC rules. For fiscal 2013, our named executive officers were:

Gary R. Maharaj	President and Chief Executive Officer
Timothy J. Arens	Vice President, Corporate Development and Strategy
Andrew D. C. LaFrence	Vice President, Finance and Chief Financial Officer
Charles W. Olson	Sr. Vice President and General Manager, Medical Device
Bryan K. Phillips	Sr. Vice President, Legal and Human Resources, General Counsel and Secretary
Joseph J. Stich	Vice President and General Manager, In Vitro Diagnostics

Executive Transitions. Mr. Arens served as the Company s Vice President, Finance and interim Chief Financial Officer from August 2011 until February 2013. Mr. LaFrence joined our Company in January 2013 and his appointment as the Company s Vice President, Finance and Chief Financial Officer became effective on February 12, 2013, at which time, Mr. Arens was appointed to serve as the Company s Vice President, Corporate Development and Strategy. The Company entered into an offer letter with Mr. LaFrence dated December 17, 2012, outlining the terms of his employment and compensation. In September 2013, in connection with a strategic realignment of our business, we announced executive leadership and other organizational changes which impacted the scope of responsibilities of certain of our named executive officers. In particular, as a result of these changes, our Quality, Regulatory and Clinical Affairs function (which previously reported to Mr. Stich) and our Medical Device Research and Development function (which previously reported to Mr. Olson) began reporting to our President and Chief Executive Officer. Also as a result of the changes, our Operations function (which previously reported to Mr. Stich) and our Information Systems function (which previously reported to Mr. Phillips) began reporting to Mr. LaFrence.

Fiscal 2013 Performance Highlights

Executive compensation for fiscal 2013 aligned well with the objectives of our compensation philosophy (discussed below) and with our performance:

- Overall, we were pleased with our performance during fiscal 2013 and the corresponding improvement in stockholder value as reflected in our stock price. Our stock price increased 18% from a price of $20.22 at the beginning of fiscal 2013 to a price of $23.78 at the end of fiscal 2013.

- Our financial results during fiscal 2013 were strong. Our fiscal 2013 revenue was $56.1 million, which was in line with the guidance range of $55 to $58 million provided at the outset of the year. This represented an increase of 8% compared to the previous year.

- Our fiscal 2013 earnings per share were $0.99, which exceeded the guidance range of $0.75 to $0.87 per share provided at the outset of the year. This represented an increase of 71% compared to the previous year.

- We completed development activities and launched our Serene hydrophilic coating platform that optimizes lubricity and durability while significantly reducing particulates.

Compensation Philosophy and Objectives

Our compensation philosophy is performance-based, and focuses on aligning the financial interests of our executive officers with those of our shareholders. Generally, this is accomplished by placing a substantial portion

of our executive officers total compensation at risk, while providing overall compensation opportunities that are comparable to market levels. We provide a total compensation package comprised of salary, performance-based annual cash awards, and time-based and performance-based equity awards, supplemented by an employee benefits program. Together, these elements reinforce our pay for performance philosophy, and provide a balanced focus on both short- and long-term performance. Specifically, our executive compensation programs are designed to:

- attract, retain and motivate experienced and well-qualified executive officers who will enhance the Company s operating and financial performance;

- provide an overall compensation opportunity that rewards individual and corporate performance for achieving Company objectives that, if achieved, have the potential to enhance shareholder value; and

- encourage executive stock ownership to link a meaningful portion of compensation to the value of SurModics common stock.

Consistent with this philosophy, the Committee seeks to provide our executive officers with a total compensation opportunity, including cash and equity elements, at levels competitive with those provided by comparable companies and within the middle range of comparative pay at peer companies when the Company achieves the targeted performance levels. As noted above, a significant portion of each of our named executive officer s compensation is incentive-based compensation. With respect to our CEO, incentive-based compensation constituted 68% of his target compensation for fiscal 2013. With respect to all of our other named executive officers, as a group, incentive-based compensation constituted 56% of target compensation for fiscal 2013.

A key aspect of the design of our incentive plans relates to the requirement that, in order for incentive compensation to be paid, our actual performance must achieve at least the threshold level of performance established for the applicable objectives. In situations where this does not occur, no incentive compensation is paid. As a result of our financial performance in each of fiscal 2013, 2012 and 2011, the overall achievement percentage under the Company s annual incentive plan in such years was 118.6%, 134.4% and 138.6%, respectively (see the discussion below under Cash Incentive Compensation for a description of the fiscal 2013 annual incentive plan). However, in previous years where our actual performance did not achieve the threshold level for the applicable objectives, no incentive compensation was paid under our annual incentive plan for those years. This is what occurred in each of fiscal 2010 and 2009. Similarly, as a result of our financial performance over the three-year performance period that ended with fiscal 2013, the overall achievement percentage under the performance share plan for that period was 178.1% (see the discussion below under Long-term Incentive Compensation for a description of the fiscal 2013 annual incentive plan). By contrast, because the Company did not achieve the performance objectives associated with the three-year performance periods that ended with fiscal 2012, 2011 and 2010, none of the performance shares granted to our executive officers for those performance periods vested.

Establishing Executive Compensation

The Committee evaluates our executive compensation programs annually and considers a number of factors when determining the compensation for the Company s executive officers. In particular, the Committee considers the executive s experience and qualifications, the scope of the executive s responsibilities and ability to influence our performance, the competitiveness of the Company s executive compensation programs, individual performance, and the executive s current and historical compensation levels. The Committee receives input from our Chief Executive Officer concerning each officer s individual performance. Additionally, to assist it in its review of executive compensation, the Committee has retained an independent compensation consultant.

Independent Compensation Consultant. Since 2008, the Committee has retained Mr. David A. Ness as its independent compensation consultant to assist with executive and director compensation matters. Mr. Ness has over 35 years of experience designing and administering executive and director compensation programs while at Medtronic, Inc., from which he retired in 2010 after having served as its Corporate Vice President of Global Rewards and HR Operations. Mr. Ness reports directly to the Committee, and as necessary communicates directly with the Committee without management present. Mr. Ness attended all regularly-scheduled meetings of the Committee in fiscal 2013, and participated in executive sessions as requested.

During fiscal 2013, the scope of services provided by Mr. Ness included assistance regarding the design of our short- and long-term incentive programs for our executive officers, review of management prepared total compensation analyses, review and analysis of executive compensation market data, consultation regarding proxy statement preparation and other executive compensation services as requested by the Committee.

Executive Compensation Peer Companies and Competitive Market. The Committee assesses the competitiveness of our executive compensation programs relative to market and peer group data. It does not, however, base its decisions solely on such data. For fiscal 2013, the Committee established a peer group of companies by reviewing (i) the list of peer companies that were identified by Institutional Shareholder Services in its review of our fiscal 2012 executive compensation programs, and (ii) a list of potential peer companies that were identified by Equilar, Inc. (Equilar), a leading independent provider of executive compensation data and analysis, which list included companies that had identified us as a peer in their proxy statement. Based on this review, the Committee approved the following 19 peer companies based on public company status and comparative size (revenue, number of employees, and market capitalization), and business profile (generally medical device and equipment manufacturers and suppliers): Abiomed Inc., Anika Therapeutics Inc., Atricure, Inc., Biolase, Inc., Cardiovascular Systems Inc., Cutera, Inc., Derma Sciences, Inc., DGT Holdings Corp., Endologix, Inc., Iridex Corporation, Kensey Nash Corporation, Lemaitre Vascular, Inc., Orasure Technologies, Inc., Palomar Medical Technologies, LLC, Rochester Medical Corporation, Synergetics USA, Inc., Staar Surgical Company, Stereotaxis, Inc., and Vascular Solutions Inc.

With Mr. Ness assistance, compensation data from our peer group of companies (from the most recent proxy filings as reflected in the Equilar database) was reviewed and supplemented (as discussed below) to determine a composite market reference point (i.e., the median) for base salary and total cash compensation. There were sufficient positional matches within the peer group for our Chief Executive Officer and our Chief Financial Officer. As a result, no modifications were made to the peer group data for these positions. However, there were limited positional matches within the peer group for our other executive positions. As a result, the peer group data was supplemented with additional data (from the most recent proxy filings as reflected in the Equilar database) for companies of comparative size and business profile within the Company s global industry classification standard. For our executives with multiple roles, the data for multiple comparable positions was combined to achieve a blend that most closely matched such executive s responsibilities (with the exception of Mr. Phillips who was matched to executives serving in legal roles). Using this approach, the composite market reference point was the same for Messrs. Olson and Stich. As used throughout this discussion, the peer group data, as supplemented, is referred to as the Market Data.

Role of Executive Officers. Our executive officers have no role in recommending or setting their own compensation. Our Chief Executive Officer makes recommendations for compensation for his direct reports (including base salary, target incentive levels, and actual incentive payouts), and provides input on their performance. He also provides input regarding financial and operating goals and metrics. Our Chief Financial Officer certifies that financial performance goals have, or have not, been met relative to our annual incentive plan and performance-based equity grants. The Committee considers, discusses, modifies as appropriate, and takes action on the management recommendations that are presented for review.

Overview of Executive Compensation Components

The principal components of our executive compensation programs for fiscal 2013 consisted of annual cash compensation and long-term incentive compensation, and are generally shown in the diagram below. We also provide compensation in the form of health and welfare benefits.

Annual Cash Compensation

Annual cash compensation includes base salary and compensation available under our annual incentive plan. All of our cash compensation represents short-term compensation that is earned within a single fiscal year and paid in that fiscal year or shortly thereafter.

Base Salary. Base salaries provide a fixed level of cash compensation to each executive intended to provide stability and reduce the incentive for excessive risk-taking. The Committee reviews base salaries prior to the beginning of each fiscal year. In establishing base salaries, the Committee considers the following factors:

- individual performance and potential future contribution;
- responsibilities, including any recent changes in an executive s role or responsibilities;
- level of expertise and experience required for a position;
- strategic impact of a position;
- internal pay equity among positions; and
- competitiveness relative to our peer group.

Consistent with our compensation philosophy and objectives, the Committee generally sets base salaries within the median salary range of base salary levels for executives in comparable positions included in the Market Data. Prior to the start of fiscal 2013, reflecting his role as our interim Chief Financial Officer, the Committee established Mr. Arens annual base salary at $220,200, or approximately 80% of the median of base salaries paid to chief financial officer positions included in the Market Data. In connection with his appointment as our Vice President, Corporate Development and Strategy in February 2013, the Committee increased Mr. Arens salary to $230,000. In establishing this new base salary for Mr. Arens, the Committee reviewed base salary levels for executives in comparable positions included in the Market Data. The following table shows the annualized base salaries for each of our executive officers relative to comparable positions included in the Market Data:

Name	2012 Base Salary	2013 Base Salary	Percent Increase	Market (1)	% to Market
Gary R. Maharaj	$ 435,000	$ 435,000	0.0%	$ 434,900	100%
Timothy J. Arens (2)	$ 220,200	$ 230,000	4.5%	$ 277,500	83%
Andrew D. C. LaFrence (3)	n/a	$ 242,500	n/a	$ 277,500	87%
Charles W. Olson	$ 245,000	$ 280,000	14.3%	$ 268,600	104%
Bryan K. Phillips	$ 245,000	$ 280,000	14.3%	$ 299,000	94%
Joseph J. Stich	$ 230,000	$ 236,900	3.0%	$ 268,600	88%

(1) Represents the median of base salaries paid to executives in comparable positions included in the Market Data.

(2) The market reference point for Mr. Arens reflects the median of base salaries paid to chief financial officer positions included in the Market Data.

(3) Mr. LaFrence joined our company in January 2013 and his appointment as the Company s Vice President, Finance and Chief Financial Officer became effective on February 12, 2013. The Committee established Mr. LaFrence s annual base salary in connection with his hiring.

Cash Incentive Compensation. Cash incentive compensation for all of our employees, including our named executive officers, was provided through a cash-based annual incentive plan. The annual incentive plan is designed to motivate our employees, including our executive officers, to achieve both short- and long-term goals that, if achieved, would have the potential to significantly enhance shareholder value.

Target Incentive Opportunity. The Committee reviews and approves the target incentive opportunity for each of our executive officers each year in September. Consistent with our compensation philosophy and objectives, the committee generally sets the target incentive opportunity within the median range for annual cash incentive target pay at our peer group. For fiscal 2013, based on its review of the Market Data, the Committee established a target incentive opportunity of 60% of base salary for our Chief Executive Officer, and 40% of base salary for all other executive officers. The following table shows the target incentive opportunity for each of our executive officers relative to comparable positions included in the Market Data:

	Incentive Opportunity (as % of base salary)		Incentive Award Amount ($)		
	Market(1)	Target	Market(2)	Target	% to Market
Gary R. Maharaj	61%	60%	$ 272,400	$ 261,000	96%
Timothy J. Arens	47%	40%	$ 120,000	$ 92,000	77%
Andrew D. C. LaFrence	47%	40%	$ 120,000	$ 97,000	81%
Charles W. Olson	40%	40%	$ 131,600	$ 112,000	85%
Bryan K. Phillips	36%	40%	$ 118,800	$ 112,000	