

Improving Patient Lives Through Technology Innovation



To Our Shareholders:

SurModics' vision is to extend and improve the lives of patients around the world by solving unmet clinical needs through innovation. We share this common vision not only among our employees, but also with our customers developing new products in the healthcare industry, as well as physicians and healthcare organizations dedicated to caring for patients. Every day, people around the world are treated with products using technology licensed from SurModics. The dedication of our employees is based on their certain knowledge that their individual contributions are helping save and improve the lives of people everywhere.

Fiscal 2008

We have much to be proud of in fiscal 2008, a year unlike any other in our history. For the eleventh consecutive year since our IPO in 1998, SurModics achieved record revenue, having grown revenue at a compounded annual rate of 26% during that period. Our non-Cypher business continued to grow at an impressive rate, up 58% year-over-year; we realized record revenue in all three operating segments; and we generated strong cash flow and pro forma earnings.

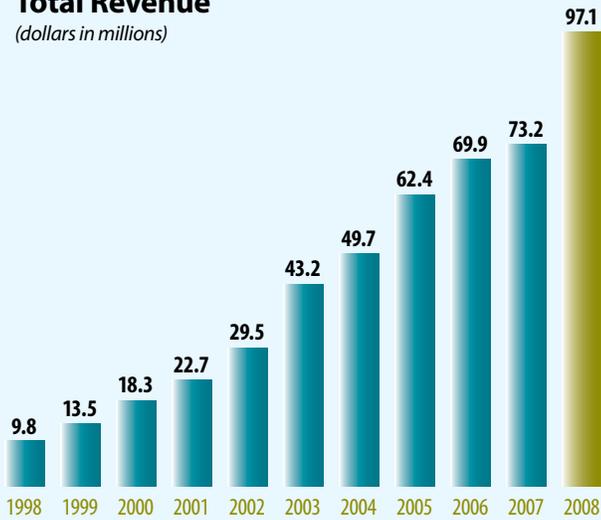
Beyond our financial results, we achieved a number of noteworthy milestones. In fiscal 2008, we successfully integrated two acquisitions—Brookwood Pharmaceuticals and BioFX Laboratories. Two of our key technologies—the SynBiosys™ biodegradable polymer and Finale™ prohealing coating—advanced in separate first-in-human clinical trials. And we accomplished the vast majority of our fiscal 2008 corporate goals.

These notable achievements were tempered by some recent setbacks, including Merck's decision to terminate its agreement with us as part of its company-wide cost cutting efforts. Also, we were unable to finalize negotiations during the year for a second

Financial Highlights

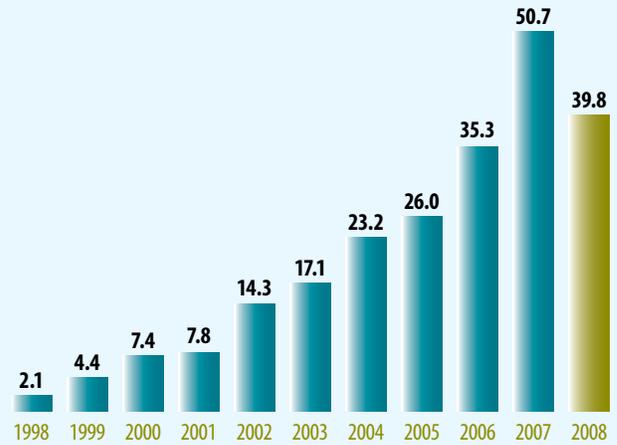
Total Revenue

(dollars in millions)



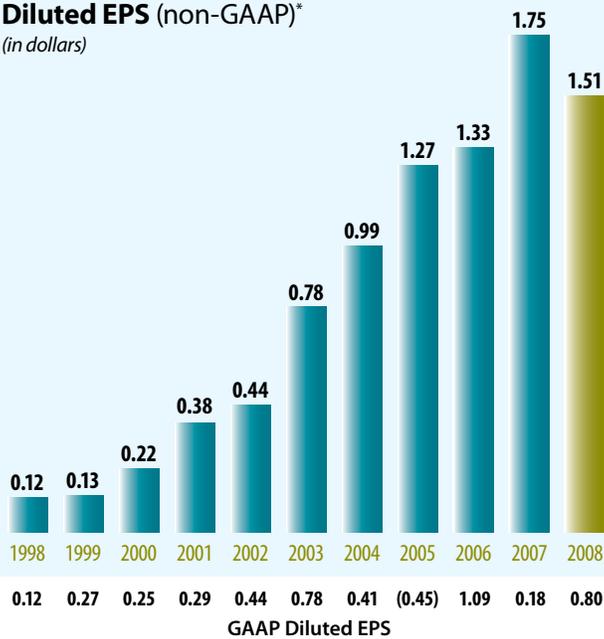
Operating Cash Flow

(dollars in millions)



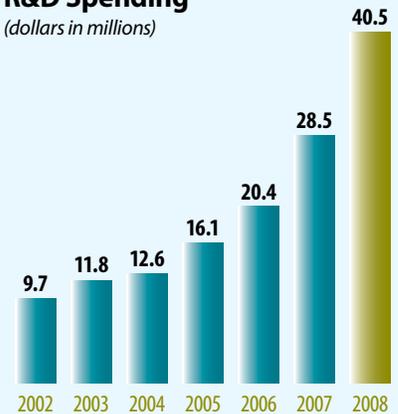
Diluted EPS (non-GAAP)*

(in dollars)

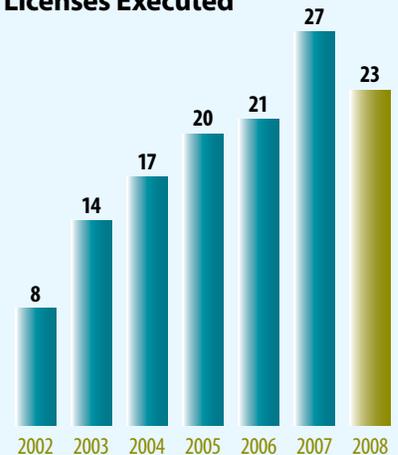


R&D Spending

(dollars in millions)



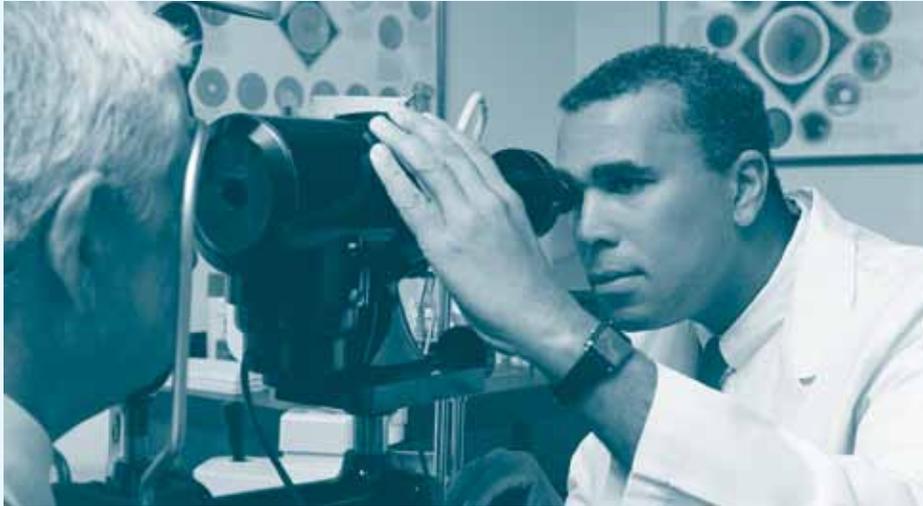
New Customer Licenses Executed



* Certain non-GAAP adjustments consist of: 2008—including amounts billed less the revenue recognized in the period associated with Merck of \$14.2 million and excluding OctoPlus impairment charge of \$4.3 million. 2007—including amounts billed less revenue recognized in the period associated with Merck of \$20.6 million and excluding the in-process research and development charge of \$15.6 million. 2006—excluding Novocell impairment charge of \$4.7 million. 2005—excluding in-process research and development charge of \$30.3 million and excluding Bloomington facility impairment charge of \$2.5 million. 2004—excluding Bloomington facility impairment charge of \$16.5 million. 2001—before cumulative effect of a change in accounting principle of \$1.7 million. 2000—assuming change in accounting principle was applied retroactively. 1999—excluding reversal of a \$2.5 million income tax valuation allowance.

ophthalmology license despite significant customer interest and ongoing development efforts with a number of potential partners. And although many of our licensed partners in the drug-eluting stent space made good progress during the year, sales of Johnson & Johnson's Cypher® Sirolimus-Eluting Coronary Stent, as expected, continued to erode.

Amidst our achievements and setbacks this year, one thing has not changed—we are a technology-rich company with a highly talented group of employees and an experienced management team more focused than ever on serving our customers and meeting the unmet clinical needs of the patients we ultimately serve.



Meeting the Changing Needs of Patient Therapy and Diagnosis

SurModics' vision is to extend and improve the lives of patients around the world through technology innovation. We recognize the importance of developing technology solutions that will support the clinical needs of not only today, but also far into the future. That is why SurModics is committed to the development of novel drug delivery solutions capable of delivering not only traditional drugs, such as small molecule compounds, but also advanced therapeutics, including protein, cellular, and siRNA therapies. The application of our innovations is transforming patient health worldwide, through added convenience, compliance, and quality of life.

An Emerging Leader in Drug Delivery

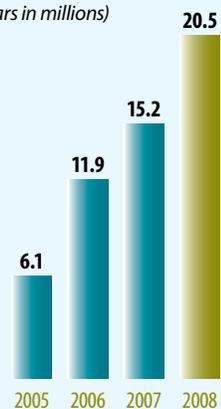
SurModics continues to demonstrate its unique ability to leverage multiple technology platforms across a variety of markets. Several important revenue generators have resulted from SurModics' ability to successfully exploit the convergence of drugs and devices. Indeed, our future success is predicated on our ability to broaden our platforms, climb the value chain and further diversify our revenue streams.

In fiscal 2008, SurModics continued to evolve beyond our original focus on surface modification into an emerging leader in drug delivery. Our goal is to develop comprehensive solutions for unmet clinical needs based on technologies spanning a wide range of applications and end markets. Our two acquisitions, the purchase of several exciting new technologies, and most important, our continuing focus on innovation and partnership with our customers played a critical role in this evolution.

The integration of Brookwood has gone exceptionally well. Our technical teams are driving excellent synergies by combining our technologies. Using Brookwood microparticle technology in concert with SurModics polymers yields a broad array of drug delivery technologies and the capability to address most polymer-based needs. For example, the combined technologies of Brookwood and SurModics allow us to provide more comprehensive solutions for the treatment of cardiovascular disease, such as drug-eluting balloons, and in ophthalmology where we offer multiple drug delivery platforms (see insets on page 4). In addition, we can now fill the needs of larger and almost entirely new pharmaceutical and biotechnology markets. In the next several years, more than \$60 billion of drugs will lose patent protection. We believe that creating sustained release

Brookwood Pharmaceuticals Total Revenue

(dollars in millions)



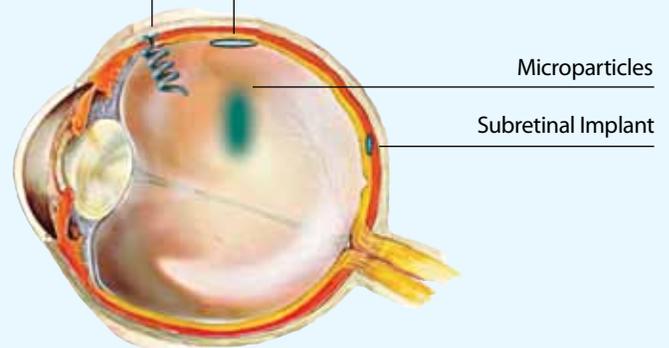
SurModics' Ophthalmic Drug Delivery Platforms

Combining the technical capabilities of SurModics and Brookwood Pharmaceuticals has resulted in an unmatched ability to provide customers with a diverse array of technology solutions.

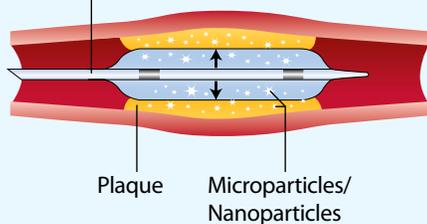
Take drug delivery for example. SurModics' Ophthalmology business unit offers multiple intraocular drug delivery solutions ranging from drug-coated implants to microparticle injections, providing sustained drug delivery for treatment of retinal diseases (e.g., DME, AMD, etc.) and other eye diseases and conditions affecting both the front and back of the eye.

I-vation™
Sustained Drug Delivery System

Biodegradable Implant



Drug-Eluting Balloon Catheter



In the cardiovascular arena, we offer comprehensive solutions for delivering therapeutics from drug-eluting balloons, now seen as an increasingly viable alternative to drug-eluting stents in the treatment of coronary artery disease. Drug-eluting balloon catheters deliver drugs directly to the lesion, with the goal of enhancing drug uptake into vascular tissue. With the combined drug delivery expertise of SurModics and Brookwood, we offer customers solutions that can leverage microparticles and nanoparticles as well as device coating technologies.

formulations for many of these drugs presents a compelling opportunity to develop new proprietary products offering strong competitive differentiation.

To better support our customers in these new markets, we have added to our offerings and expanded our capabilities. For example, in early fiscal 2009 we acquired several proprietary drug delivery technologies and collaborative customer programs from PR Pharmaceuticals. These complementary technologies enable the delivery of injectable drugs, including proteins, with microparticles through smaller diameter needles compared with competing technologies. Smaller diameter needles are particularly relevant in ophthalmology applications and other applications requiring subcutaneous or intra-muscular injections, especially where patient self-administration is desired.

A Major Commitment to R&D

Innovation is the cornerstone of our company. In fiscal 2008, we dedicated \$40.5 million, or 42% of the Company's revenue, to R&D. The magnitude of our R&D work is a testament to the depth of our capabilities, as well as the significant potential value we see in our pipeline.

Just as we have broken new ground in the delivery of small molecule compounds, we have also made tremendous strides in the delivery of large molecules, such as proteins and peptides, and nucleic acids, such as siRNA. We also believe that the new organizational structure we announced in November 2008, with a centralized R&D organization, will streamline development and make all our technologies more readily accessible to customers. Moreover, organizing our business units along clinical and market lines will help us better understand customer and patient needs and allow us to develop innovative solutions leveraging our technologies and core competencies.

We continued to expand our technical team, adding capabilities to better support our customers. We purchased an additional facility in Birmingham, Alabama, which greatly expands our research and development capacity and allows us to provide larger scale cGMP manufacturing of drug delivery products for pharmaceutical and biotechnology customers. Existing and prospective pharmaceutical and biotechnology customers have expressed strong interest in our ability to supply clinical trial materials and finished commercial products; our new facility will meet those needs once construction is completed.

We also have pursued business development activities in support of our In Vitro Technologies business. The integration of BioFX, which we acquired in August 2007, has gone well. In addition, we re-acquired from GE Healthcare the CodeLink™ microarray business, which has added greater depth to our in vitro diagnostics offerings. We are now able to capture the incremental value associated with distributing the products directly. Moreover, we intend to find new customers and create new products leveraging our core technologies.

2009 and Beyond

The continued expansion of our technology platforms and technical team has resulted in exciting new opportunities for SurModics as we look to fiscal 2009 and beyond.

In ophthalmology, SurModics' scientists and engineers are working on development projects with numerous customers for back-of-the-eye and front-of-the-eye diseases. These projects leverage our multiple drug delivery platforms and polymer matrix technologies for sustained delivery of customers' proprietary drugs to the eye, including

both large and small molecule compounds. Encouragingly, we continue to help our customers advance toward the next stages of their respective programs.

We are also applying our technology capabilities to some of the largest and most rapidly growing clinical areas in medicine. Applying SurModics technologies in markets such as neurology, diabetes, obesity, orthopedics, and oncology may offer the potential to improve the therapeutic benefit and patient outcomes in these areas.

On another front, the \$4+ billion dollar drug-eluting stent (DES) market remains an important area of focus. While Cypher sales have weakened, we have expanded our presence in the space

and continue to participate in the DES market in multiple ways. We remain active in the development of drug delivery polymers, hydrophilic coatings on DES delivery systems and various technologies to address thrombosis, such as prohealing. We were pleased with Medtronic's U.S. launch of its Endeavor® DES and CardioMind's initiation of a first-in-human clinical trial for its small vessel drug-eluting stent. Both Medtronic's Endeavor and the CardioMind stent incorporate our hydrophilic coating on the delivery system. Also, we were encouraged by Nexeon MedSystems' successful initiation of a first-in-human trial for its Protex™ coronary stent system, which incorporates SurModics' Finale™ prohealing coating technology. Xtent continues to make progress toward regulatory approval outside the U.S. Finally, early in fiscal 2009 we announced our 10th customer in the DES space, Elixir Medical, which licensed our hydrophilic coating technology on its stent delivery systems. We are optimistic about our future in the DES market, and believe that our best days in this market are ahead of us.

Key Fiscal 2008 Accomplishments

FINANCIAL

- Record annual revenue for the 11th consecutive year
 - GAAP revenue \$97.1 million
 - Non-GAAP revenue \$111.2 million*
- Record non-J&J revenue
 - Up 58% year-over-year
 - Since FY2004, this business has more than tripled, growing at 34% compound annual growth rate
- Record revenue in each of our operating segments
 - Drug Delivery
 - Hydrophilic and Other
 - In Vitro
- Generated more than \$17 million in revenue (non-GAAP) from Merck
- Strong EPS of \$1.51 (non-GAAP, including Merck and excluding impairment loss*)
- Excellent operating cash flow of \$39.8M
- Strong Balance Sheet
 - \$72 million cash, and virtually no debt
 - Share repurchase, business development, facilities investments

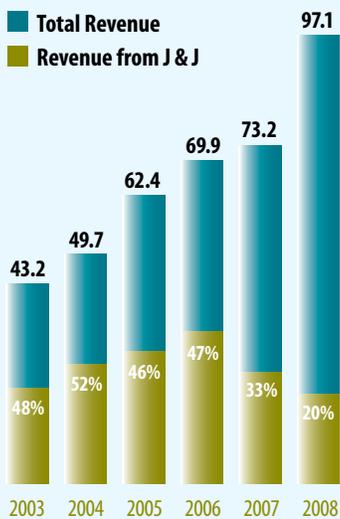
* See reconciliation footnote on page 2.

NON-FINANCIAL

- Successful initiation of clinical trials for our SynBiosys™ biodegradable polymer and Finale™ prohealing coatings
- Successful first full year with our two acquired companies
 - Brookwood Pharmaceuticals and BioFX Laboratories
 - Both generated record revenue
- Ophthalmic development work with industry leaders and others
- Continuation of strong clinical data from I-vation™ TA
- Acquired drug delivery assets from PR Pharmaceuticals (November 2008)
- 23 customer licenses signed vs. investor goal of 18
- 11 new product classes launched by our customers

Diversification

Strong Non-Cypher Growth
(dollars in millions)



Customer Partnership Through Manufacturing

SurModics offers customers a full spectrum of business and technical expertise, now including cGMP manufacturing of clinical and commercial drug delivery products for pharmaceutical and biotechnology customers.

As mentioned previously, SurModics is constructing a world-class facility that will be fully equipped to help pharmaceutical customers with product development and supply at every stage from early feasibility to production of marketed products, and will accommodate the manufacturing of large-scale pharmaceutical products needed by our customers.



Our hydrophilic technology platform continues to generate exceptional results, offering exciting potential as SurModics' technology and outstanding service remain the industry standard. Additionally, our collaboration with OakRiver Technology on the development, manufacture, distribution, and ongoing support of advanced coating equipment further demonstrates our commitment to provide our customers not only superior technology but also commercial scale-up success. These strengths, coupled with the growing trend in the medical device industry to embrace minimally invasive approaches, positions us for long-term growth in the hydrophilic coatings business.

Key Fiscal 2009 Goals

- Sign 18 new licenses with customers.
- Launch 10 new product classes by our customers.
- Return at least one-third of our operating cash flow to shareholders.
- Sign a new customer license using SurModics drug delivery technology (in ophthalmology).
- Sign a new customer license using SurModics drug delivery technology (outside ophthalmology).
- Sign two customer licenses relating to Brookwood technology.
- Initiate a human clinical trial for a product using SurModics drug delivery technology.

A Robust Pipeline

Beyond these opportunities, we have more than 100 licensed products generating royalties and nearly 200 projects in our pipeline not yet on the market, which we regard as significant drivers of future value. The number of licensed products not yet launched was 105 at the end of fiscal 2008, up from 94 at the close of fiscal 2007. Major non-licensed opportunities stood at 88, compared with 75 a year ago.

SurModics continues to be financially healthy. We have taken advantage of our strong balance sheet and cash flow to pursue business development opportunities as well as to continue executing our share repurchase program. In fiscal 2008, we repurchased approximately \$12.7 million of our stock under our November 2007 Board authorization and have a remaining authorization of more than \$22 million.

A Strong Culture; A Strong Future

Our growth and world class technology would not be possible without our dedicated, innovative and hard-working employees. These individuals not only excel as professionals, but are active in their communities. In fiscal 2008, SurModics and its employees donated time, money, clothing, and food to support local causes. We also launched our first company-wide volunteer effort to combat hunger in the primary communities in which SurModics operates. Toward this end, we made hundreds of meals for shelters and donated more than 1,200 pounds of food to food bank agencies. Our community efforts are a strong example of living our Core Values.



SurModics Corporate Officers

From left to right: Doug Astry, Lise Duran, Brian Robey, Paul Lopez, Bruce Barclay, Bryan Phillips, Art Tipton, Phil Ankeny, Mike Shoup, Charlie Olson, Aron Anderson, and Jan Webster

In fiscal 2008, we welcomed two new members of our Board of Directors, Robert C. Buhrmaster and Susan E. Knight. We are also pleased that Mary K. Brainerd will join the Board in February 2009.

At SurModics, we aspire to build a truly great company—one that is recognized and trusted worldwide, a preferred partner in developing drug delivery and surface modification technologies and products, an innovator in science and technology, a high quality investment, a rewarding place to work, and a socially responsible member of our communities.

We remain committed to fulfilling our vision of improving patient lives, and believe we are well positioned for substantial growth—in existing and new markets, with new products and applications driven by continued innovation and discovery. On behalf of the Board of Directors, the management team, and our dedicated employees, we thank you for your continued support.

Bruce J Barclay
President and CEO

Kendrick B. Melrose
Chairman of the Board

Catalyst Award
Excellence in Innovation

A catalyst is an entity that speeds the rate of a chemical reaction. Employees at SurModics have shown that they can speed the development of new technologies and products. To recognize these contributions, SurModics confers the Catalyst Award annually to recognize significant technical achievements.

The Catalyst Award is the highest scientific honor awarded to technical staff at SurModics. The mission of the Catalyst Award is to foster innovation and creativity through recognition of scientific excellence in technical work. To be nominated for the peer-selected award, an employee must make a substantial scientific or technical contribution to SurModics technology or product development. Their contribution must result in the achievement or potential achievement of a significant business milestone for the company (for example: invent a new technology, provide access to a new market, or create a new product). Since being instituted in 1994, there have been sixteen recipients of the Catalyst Award.

SurModics technologies recognized with the Catalyst Award include:

- Diagnostic assay methods (Abbott licensed technology)
- PhotoLink® coatings
- Stabilization Products (StabilCoat® and StabilZyme®)
- Hydrophilic coating technologies
- Novel chemical crosslinking agents
- DNA microarray products
- Drug delivery coatings
- Innovative coating process equipment

In 2008, we recognized two employees with the Catalyst Award:

Steve Anderson – Advanced analytical characterization capabilities

Signe Erickson – I-vation™ drug delivery platform

Forward-Looking Statements. Certain statements contained in this communication may be deemed to be forward-looking statements under federal securities laws, and SurModics intends that such forward-looking statements be subject to the safe harbor created thereby. SurModics does not undertake an obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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