

SURMODICS INC  
Form DEF 14A  
December 22, 2016

**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

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))**

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):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

- 1) Title of each class of securities to which transaction applies:
  
  
  
  
  
  
  
  
  
  
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- 1) Amount previously paid:
  
  
  
  
  
  
  
  
  
  
- 2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

## NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders of Surmodics, Inc. (the Company ) will be held on February 14, 2017, at 4:00 p.m. (Minneapolis time), as a virtual meeting at [www.virtualshareholdermeeting.com/SRDX](http://www.virtualshareholdermeeting.com/SRDX). Shareholders will be asked to:

1. Elect two (2) Class III directors;
2. Set the number of directors at six (6);
3. Ratify the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for fiscal year 2017;
4. Approve, in a non-binding advisory vote, the Company's executive compensation; and
5. Approve, in a non-binding advisory vote, the frequency of the non-binding shareholder advisory vote on executive compensation.

Only shareholders of record at the close of business on December 19, 2016, are entitled to receive notice of and to vote at the meeting or any adjournment of 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.

Very truly yours,

Susan E. Knight

Chair of the Board

Eden Prairie, Minnesota

December 23, 2016

**All shareholders are cordially invited to attend the virtual annual meeting of shareholders at [www.virtualshareholdermeeting.com/SRDx](http://www.virtualshareholdermeeting.com/SRDx). Whether or not you expect to attend, please vote over the Internet at [www.proxyvote.com](http://www.proxyvote.com) or by telephone at 1-800-690-6903. Alternatively, you may request a paper proxy card, which you may complete, sign and return by mail.**

**SURMODICS, INC.**

**Annual Meeting of Shareholders**

**February 14, 2017**

**PROXY STATEMENT**

**INTRODUCTION**

This proxy statement is furnished to shareholders of Surmodics, Inc. in connection with the solicitation of proxies by the Board of Directors of the Company to be voted at the virtual annual meeting of shareholders to be held on February 14, 2017 (the Annual Meeting ), at 4:00 p.m. Central Standard Time, or any adjournments or postponements thereof. This proxy statement and the form of proxy, along with the Annual Report for the fiscal year ended September 30, 2016, is being first sent or given to shareholders on or about December 23, 2016.

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, 2016.

**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. Attendance at the virtual meeting is not, by itself, sufficient to revoke a Proxy unless written notice of the revocation or a subsequent Proxy is delivered to the Secretary of the Company before the revoked or superseded Proxy is used at the virtual 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 19, 2016, 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 19, 2016, 13,265,234 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 at the Annual Meeting (including by proxy) 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 and the vote regarding the frequency of the vote on executive compensation are 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. With respect to Proposal 5, the option receiving the most votes among the choices of the frequency of the advisory non-binding vote on executive compensation will be deemed to have received the advisory approval of the shareholders.

The affirmative vote of the holders of the greater of (1) a majority of the shares of our common stock present (including by proxy) and 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, except for Proposals 4 and 5. A shareholder who abstains with respect to the election of directors, the advisory vote on executive compensation, and the vote regarding the frequency of the 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 at the Annual Meeting on a proposal (including by proxy) 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 Proposals 4 and 5 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, 4, and 5, 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.



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**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 19, 2016. Unless otherwise indicated, the shareholders listed in the table have sole voting and investment power with respect to the shares indicated.

| <b>Name and Address of Beneficial Owner</b>                            | <b>Amount and Nature of<br/>Shares<br/>Beneficially Owned</b> | <b>Percent of<br/>Class(1)</b> |
|--|---|--------------------------------|
| Blackrock Inc.<br>40 East 52nd Street<br>New York, NY 10022            | 1,427,621 (2)   | 10.8%                          |
| Renaissance Technologies LLC<br>800 Third Avenue<br>New York, NY 10022 | 754,938 (3)   | 5.7%                           |

(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 19, 2016, or within sixty days of such date.

(2) Based on Schedule 13G filed on January 8, 2016 by BlackRock, Inc., which reported sole voting power, and sole dispositive power as follows: sole voting power 1,395,401 shares; and sole dispositive power 1,427,621 shares.

(3) Based on a Schedule 13G filed on February 11, 2016, which reported sole voting power, sole dispositive power, and shared dispositive power as follows: sole voting power 676,152 shares; sole dispositive power 751,415 shares; and shared dispositive power 3,523 shares.

## MANAGEMENT SHAREHOLDINGS

The following table sets forth the number of shares of common stock beneficially owned as of December 19, 2016, 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                   | Aggregate<br>Number of<br>Common Shares |                                  |                       | Percent of<br>Class (2) |
|---|---|----------------------------------|-----------------------|-------------------------|
|   | Current<br>Holdings                     | Acquirable<br>within 60 days (1) | Beneficially<br>Owned |                         |
| Gary R. Maharaj   | 144,608                                 | 99,857                           | 244,465               | 1.8%                    |
| Joseph J. Stich   | 42,362                                  | 56,313                           | 98,675                | *                       |
| Charles W. Olson  | 29,387                                  | 56,313                           | 85,700                | *                       |
| José H. Bedoya  | 15,976                                  | 63,683                           | 79,659                | *                       |
| Bryan K. Phillips   | 30,434                                  | 40,212                           | 70,646                | *                       |
| Timothy J. Arens  | 23,953                                  | 34,844                           | 58,797                | *                       |
| Susan E. Knight   | 14,332                                  | 44,197                           | 58,529                | *                       |
| Andrew D. C. LaFrence   | 12,160                                  | 45,375                           | 57,535                | *                       |
| David R. Dantzker, M.D.   | 13,654                                  | 30,208                           | 43,862                | *                       |
| Ronald B. Kalich  | 7,999                                   | 20,893                           | 28,892                | *                       |
| Shawn T McCormick   | 2,965                                   | 7,331                            | 10,296                | *                       |
| Gregg S. Sutton   | 3,477                                   | 5,272                            | 8,749                 | *                       |
| Thomas A. Greaney   | 2,713                                   | 4,981                            | 7,694                 |                         |
| All executive officers and directors as a group<br>(13 persons) | 344,020                                 | 509,479                          | 853,499               | 6.4%                    |

\* Less than 1%

(1) Includes shares issuable upon the exercise of stock options that are exercisable on December 19, 2016, or within 60 days thereafter, and restricted stock units and deferred stock units that are vested on December 19, 2016, or will become vested within 60 days thereafter.

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

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

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## 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 six (6) at the Annual Meeting.

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 2020 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 2018 and 2019 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 are provided below. The Proxy will be voted for any 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.

The following information is provided with respect to each director whose term will continue after the Annual Meeting and each director nominee:

| <b>Name</b>                    | <b>Age</b> | <b>Position with Company</b>                    |
|--------------------------------|------------|---|
| José H. Bedoya (1)(3)          | 60         | Director  |
| David R. Dantzker, M.D. (1)(3) | 73         | Director  |
| Ronald B. Kalich (1)(2)        | 69         | Director  |
| Susan E. Knight (2)            | 62         | Chair of the Board                              |
| Gary R. Maharaj                | 53         | Director, President and Chief Executive Officer |
| Shawn T McCormick (2)(3)       | 52         | Director  |

(1) Member of the Organization and Compensation Committee, of which Dr. Dantzker is the Chair.

(2) Member of the Audit Committee, of which Mr. Kalich 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 served as President and Chief Executive Officer of Otologics, LLC, a Colorado-based technology company he founded in 1996, until 2015. Otologics filed for Chapter 11 bankruptcy protection in July 2012. 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.

*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 also sits on the boards of Oligomerix, Inc. and Origin, Inc., two privately-held medical technology companies. He served on the board of Comprehensive Clinical Development, an entity that filed for Chapter 11 bankruptcy protection in March 2013. 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 leadership experience, as well as his extensive knowledge of the medical industry, enable Dr. Dantzker to provide the Company with valuable general management and executive insights.

*Ronald B. Kalich* (Class II) has been a director of the Company since February 2014. Mr. Kalich has been a private investor since 2007. Mr. Kalich served as a Director and as President and Chief Executive Officer of FastenTech, Inc. from 2000 to 2007. He was President and Chief Executive Officer of National-Standard Company from 1999 to 2000 and President and Chief Executive Officer of Getz Bros. & Co., Inc. from 1994 to 1999. He is also a Director of H-E Parts International and past Chairman and Director of Arizant, Inc.

Mr. Kalich qualifications to serve on our Board include more than 40 years of business, operational and management experience. Mr. Kalich's extensive experience in multiple industries together with his management experience in a variety of roles enable him to provide the Board with valuable general management and executive insights.

*Susan E. Knight* (Class III) has been a director of the Company since 2008. From 2001 until 2014, she served in a variety of senior leadership positions at MTS Systems Corporation (MTS), a leading global supplier of test systems and industrial position sensors. From 2011 to 2014, she served as Senior Vice President and Chief Financial Officer of MTS. From 2001 to 2011, she served as Vice President and Chief Financial Officer of MTS. Prior to her positions with MTS, 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 served on the board of the Greater Metropolitan Housing Corporation from 2000 to 2016, where she

was the Chair of the Board from 2012 to 2015, and Chair of the Audit Committee from 2003 to 2012. 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 a former Chief Financial Officer of a publicly traded company, 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 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 28 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. He has been a director of NVE Corporation, a public technology company since 2014, and serves as a member of the audit committee and as a member of the nominating and corporate governance committee. 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.

*Shawn T McCormick* (Class II) has been a director of the Company since December 2015. From 2012 to 2015, Mr. McCormick served as Chief Financial Officer of Tornier N.V., a public medical device company acquired by Wright Medical Group, Inc. From 2011 to 2012, Mr. McCormick was Chief Operating Officer of Lutonix, Inc., a medical device company acquired by C. R. Bard, Inc. From 2009 to 2010, Mr. McCormick served as Senior Vice President and Chief Financial Officer of ev3 Inc., a public endovascular device company acquired by Covidien plc in 2010. From 2008 to 2009, Mr. McCormick served as Vice President, Corporate Development at Medtronic, Inc., a public medical device company, where he was responsible for leading Medtronic's worldwide business development activities. From 2007 to 2008, Mr. McCormick served as Vice President, Corporate Technology and New Ventures of Medtronic. From 2002 to 2007, Mr. McCormick was Vice President, Finance for Medtronic's Spinal, Biologics and Navigation business. Prior to that, Mr. McCormick held various other positions with Medtronic. Prior to joining Medtronic, he spent four years with the public accounting firm KPMG Peat Marwick. He has been a director of Entellus Medical, Inc., a public medical device company, since 2014, and serves as the chairman of its audit committee and as a member of its nominating and corporate governance committee. He also serves as a director of Nevro Corp., a public medical device company, since 2014, and serves as the chairman of its audit committee. Mr. McCormick earned his M.B.A. from the University of Minnesota's Carlson School of Management and his B.S. in Accounting from Arizona State University. He is a Certified Public Accountant.

We believe that Mr. McCormick is qualified to serve on our Board due to his financial expertise and extensive management experience in a variety of roles at companies in the medical device industry. He also brings to the Board experience as a director and member of the audit committee of other public companies in the medical device industry. Mr. McCormick qualifies as an audit committee financial expert as defined by SEC rules.

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 six directors.





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## DIRECTOR COMPENSATION

The Company's Board Compensation Policy (the Policy) provides cash and equity compensation to our non-employee directors for their service on the Board and its committees as discussed below. On a periodic basis, the Organization and Compensation Committee reviews the Policy to ensure that the level of compensation is appropriate to attract and retain a diverse group of directors with the breadth of experience necessary to perform our Board's duties and to compensate our directors fairly for their services. The review includes the consideration of qualitative and comparative factors. To ensure directors are compensated relative to the scope of their responsibilities, the Organization and Compensation Committee considers: (1) the time and effort involved in preparing for Board and committee meetings and the additional duties assumed by committee chairs and our Chair; (2) the risks associated with fulfilling fiduciary duties; and (3) the compensation paid to directors at the same peer group of companies used to assess the competitiveness of our executive compensation programs (as discussed below). The Policy was last reviewed and amended in April 2016.

*Cash Compensation.* During fiscal 2016, each of our non-employee directors was 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 \$16,000, and the non-chair members of that committee will receive an additional annual cash retainer of \$6,500;

the chair of the Organization and Compensation Committee will receive an additional annual cash retainer of \$12,000, and the non-chair members of that committee will receive an additional annual cash retainer of \$5,000; and

the chair of the Corporate Governance and Nominating Committee will receive an additional annual cash retainer of \$8,000, and the non-chair members of that committee will receive an additional annual cash retainer of \$4,000.

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). On an annual basis thereafter, 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. Stock options granted under the Policy (a) have a seven-year term, (b) vest ratably on a monthly basis, and (c) have an exercise price equal to the fair market value of the Company's common stock on the date of grant. RSUs and deferred stock units (discussed below) were first granted in fiscal 2013.

In April 2016, the Board approved an amendment to the Policy in order to further align it with current corporate governance best practices. In particular, prior to the amendment, equity awards granted to our non-employee directors were granted on the date of the Board's first regularly scheduled meeting during each fiscal year and would become fully vested on the first anniversary of the date of grant. Under the amended Policy, beginning with fiscal 2017, equity awards granted to our non-employee directors will (a) be granted on the date of the Company's annual meeting of shareholders, and (b) become fully vested on the earlier of the 12-month anniversary of the grant date, or the date of the next year's annual meeting.

*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 deferred stock units that are vested upon issuance (DSUs). Each DSU 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 DSU 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 and DSU 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 and DSUs 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. RSUs and DSUs granted after fiscal 2014 do not include a right to dividend equivalents.

*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*.

*Other Compensation.* All non-employee directors are reimbursed for their reasonable travel-related expenses incurred in attending board and committee meetings.

### Summary of Fiscal 2016 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 2016. Compensation for Gary R. Maharaj, our President and Chief Executive Officer, is set forth below under the heading Executive Compensation and Other Information.

| Name                      | Fees                               | Stock              | Option             | Total                |
|---------------------------|------------------------------------|--------------------|--------------------|----------------------|
|                           | Earned or<br>Paid in<br>Cash \$(1) | Awards<br>\$(2)(4) | Awards<br>\$(3)(4) | Compensation<br>(\$) |
| Susan E. Knight           | 76,500                             | 30,000             | 30,000             | 136,500              |
| Ronald B. Kalich          |                                    | 86,000             | 30,000             | 116,000              |
| José H. Bedoya            |                                    | 78,375             | 30,000             | 108,375              |
| David R. Dantzker,<br>M.D |                                    | 78,327             | 30,000             | 108,327              |
| Shawn T McCormick         | 1,731                              | 64,125             | 30,000             | 95,856               |
| John W. Benson(5)         | 19,475                             | 30,000             | 30,000             | 79,475               |

(1) Represents the amount of cash retainers earned by or paid to directors in fiscal 2016 for Board and committee service. Messrs. Bedoya, Kalich and McCormick, and Dr. Dantzker each elected to receive all or a portion of their respective cash compensation in the form of DSUs. The portion of the cash retainers paid to each such director in the form of RSUs is included in the column entitled, Stock Awards.

(2) Reflects the aggregate grant date fair value dollar amount of restricted stock units and deferred stock units granted in fiscal 2016 computed in accordance with Accounting Standards Codification Topic 718, Compensation Stock Compensation (ASC 718). The following directors elected to receive all or a portion of their respective cash compensation in the form of DSUs, which election resulted in the following number of fully vested DSUs being granted during fiscal 2016: Mr. Bedoya, 2,170; Dr. Dantzker, 2,150; Mr. Kalich, 2,511; and Mr. McCormick, 1,479.

(3) Reflects the aggregate grant date fair value dollar amount of stock option awards granted in fiscal 2016 computed in accordance with ASC 718, but excludes any impact of assumed forfeiture rates.

(4)

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The aggregate number of stock options, restricted stock units and deferred stock units held by each of our continuing non-employee directors as of September 30, 2016, was as follows:

| <b>Name</b>            | <b>Stock Options</b> | <b>Restricted Stock Units</b> | <b>Deferred Stock Units</b> |
|------------------------|----------------------|-------------------------------|-----------------------------|
| José H. Bedoya         | 55,032               | 5,693                         | 7,958                       |
| David R. Dantzker, M.D | 17,054               | 5,693                         | 7,461                       |
| Ronald B. Kalich       | 12,894               | 3,821                         | 4,178                       |
| Susan E. Knight        | 38,504               | 5,693                         |                             |
| Shawn T. McCormick     | 4,366                | 1,486                         | 1,479                       |

(5) Mr. Benson's service on our Board ended on February 17, 2016.

## 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](http://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](http://www.surmodics.com) under the caption Investors/Corporate Governance.

### Board Evaluation

The Board and each of its committees follow a process, overseen by the Corporate Governance and Nominating Committee, to determine their effectiveness and opportunities for improvement. Our Guidelines provide that the Board will annually evaluate its performance to determine whether the Board, its committees and its individual members are functioning effectively. Typically, the evaluation process involves each director completing an assessment questionnaire soliciting feedback regarding the effectiveness of the Board and any committee on which the director serves, and opportunities for improvement. Alternatively, the Board or any of its committees may, without the use of questionnaires, engage in discussions concerning their effectiveness. In any event, for both the Board and the relevant committee, the evaluation process is intended to solicit feedback from directors across several areas, including:

improving prioritization of issues;

improving quality of presentations from management;

improving quality of Board or committee discussions on key matters;

maintaining an effective relationship between the Board and management;

identifying how specific issues in the past year could have been handled better;

identifying specific issues which should be discussed in the future; and

identifying any other matter of importance to Board or committee functioning.

The Board and each committee, as the case may be, review the results of the assessments and identify areas of focus for future years and any necessary follow-up actions.

### **Board Role in Risk Oversight**

Our Board of Directors, in exercising its overall responsibility to oversee the management of our business, has an active and ongoing role in the management of the risks of our business and considers risks when reviewing the Company's strategic plan, financial results, corporate 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 internal auditors and 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.

Periodically, 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 shareholder value. Ms. Knight serves as our non-executive Board chair. Ms. Knight (a) manages and provides leadership to the Board of Directors, (b) through the Chief Executive Officer, acts as a direct liaison between the Board and the management of the Company, and (c) presides at all meetings of the shareholders and of the Board, including executive sessions of our independent directors.

### **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

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transactions that, when aggregated with the amount of all other transactions between the related person and the 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 2016 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 exercise of stock options or the vesting of restricted or performance shares less the number of shares that are sold or netted against the award to pay any applicable exercise price or withholding taxes. Shares that count toward meeting the ownership requirements include shares owned outright (directly or indirectly), vested RSUs or DSUs. Shares that do not count toward meeting the stock ownership requirements include unexercised stock options. As of September 30, 2016, all of our non-employee directors, with the exception of Mr. McCormick who joined our Board in December 2015, have attained the minimum level of ownership set forth in the guidelines. With respect to our executive officers, only Mr. Maharaj (whose holdings as of September 30, 2016, were approximately 8.6 times his base salary) and Mr. Stich have attained the minimum level of ownership set forth in the guidelines. However, we believe that our executives are continuing to make satisfactory progress towards the minimum level of ownership set forth in the guidelines.

## Majority of Independent Directors; Committees of Independent Directors

Our Board of Directors has determined that Ms. Knight, and Messrs. Bedoya, Kalich, and McCormick, and Dr. Dantzker 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. Benson, who served on the Board of Directors for part of fiscal 2016, was also considered an independent director in accordance with the rules of the NASDAQ Stock Market. 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](http://www.surmodics.com). Ms. Knight is a member of our Audit Committee and an ex-officio member of the Organization and Compensation Committee, and Corporate Governance and Nominating Committee, attending and participating at the meetings of those committees. The table below provides the composition of each committee of the Board (an asterisk indicates the committee chair):

| Director      | Audit | Organization and Compensation | Corporate Governance and Nominating |
|---------------|-------|-------------------------------|-------------------------------------|
| Mr. Bedoya    |       | x                             | x*                                  |
| Dr. Dantzker  |       | x*                            | x                                   |
| Mr. Kalich    | x*    | x                             |                                     |
| Ms. Knight    | x     |                               |                                     |
| Mr. Maharaj   |       |                               |                                     |
| Mr. McCormick | x     |                               | x                                   |

During fiscal 2016, the Board of Directors held six meetings and the standing committees had the number of meetings noted below. Each director attended (in person or by telephone) 75% or more of the total number of meetings of the Board and of the committee(s) on which he or she served in fiscal year 2016. The principal functions of our standing committees 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 seven meetings during fiscal 2016. The Board of Directors and the Audit Committee believe that the Audit Committee's composition satisfies the rules of The NASDAQ Stock Market that governs audit committee composition, including the requirement that audit committee members all be independent directors as that term is defined by the rules of The NASDAQ Stock Market. Additionally, the Board of Directors has determined that Susan E. Knight and Shawn T McCormick each qualify as an audit committee financial expert under federal securities laws.

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 five meetings during fiscal 2016.

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. Prior to and during part of fiscal 2016, the Committee engaged Mr. David A. Ness, an independent compensation consultant, to advise it on matters related to executive and director compensation. In May 2016, the Committee retained Pay Governance LLC, an independent compensation consulting firm, to advise it on similar matters. 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 connection with their engagement, the Committee determined that both Mr. Ness and Pay Governance were independent taking into consideration the factors required by the Nasdaq listing standards and applicable SEC rules.

***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 three meetings during fiscal 2016.

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. Three of the Board's directors are diverse—one woman 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 first anniversary of the date of the preceding years' annual meeting of shareholders.

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. Under this policy, Dr. Dantzker, who attained the age of seventy-two during fiscal 2015, would normally have retired at the conclusion of the Company's 2016 annual meeting. Given Dr. Dantzker's substantial experience and familiarity with the Company and the Board, and his experience as a physician and extensive knowledge of the healthcare industry, the Board, based upon the recommendation of the Corporate Governance and Nominating Committee, determined it to be appropriate for Dr. Dantzker to continue his service on the Board as a Class I director whose term will expire at the conclusion of the Company's 2018 annual meeting.

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 then serving directors attended the last annual meeting of shareholders, which was held on February 17, 2016. The Board has no formal policy regarding attendance at the company's annual meetings of shareholders.



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## 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 2016. Our named executive officers are determined in accordance with SEC rules. For fiscal 2016, our named executive officers were:

|                       |  |
|-----------------------|--|
| Gary R. Maharaj       | President and Chief Executive Officer  |
| Andrew D. C. LaFrence | Vice President, Finance and Information Systems, and Chief Financial Officer |
| Charles W. Olson      | Sr. Vice President of Commercial and Business Development, Medical Devices   |
| 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 Summary

The Compensation Committee believes our executive compensation program reflects a strong pay-for-performance philosophy and is well-aligned with the short- and long-term interests of shareholders.

*Fiscal 2016 Performance Highlights.* We believe that our executive compensation programs are aligned with our performance and the objectives of our compensation philosophy (discussed below), as highlighted by the following factors:

Overall, we were pleased with our fiscal 2016 results and the corresponding improvement in shareholder value as reflected in our stock price. Our stock price increased approximately 38% from a price of \$21.85 at the beginning of fiscal 2016 to a price of \$30.09 at the end of fiscal 2016.

Over the last several years, we have focused on a strategy to develop and manufacture proprietary medical device products that combine our surface technologies with medical devices or delivery systems (whole-product solutions). During fiscal 2016, we made significant progress towards this strategy, including as follows:

- In November 2015, we acquired Creagh Medical Limited (Creagh), a developer and manufacturer of balloon catheters products based in Ballinasloe, Ireland. In January 2016, we acquired NorMedix, Inc. (NorMedix), a developer of thin-walled, minimally invasive catheter technologies. As a result of these acquisitions, we have greatly enhanced our device design, development and manufacturing capabilities, significantly increasing the value we are able to offer to our customers in the medical device industry. During fiscal 2016, as discussed below, we successfully completed all of our strategic objectives associated with these acquisitions.

- In April 2016, we enrolled the first patient in an early feasibility study of our SurVeil drug-coated balloon (DCB ). The *SurVeil* DCB is the first complete vascular medical device to be clinically tested by Surmodics. Since its initiation, we have completed an interim look at the data from the early feasibility study and believe that we remain on track to continue the clinical evaluation of this product. During fiscal 2016, as discussed below, we successfully completed all of our strategic objectives associated with the clinical evaluation of the *SurVeil* DCB.

In addition to the strategic accomplishments noted above, our financial results during fiscal 2016 were strong. Our fiscal 2016 revenue was \$71.4 million. Compared to fiscal 2015, our revenue increased by 15.3%, including \$4.1 million from our fiscal 2016 acquisitions.

Our fiscal 2016 earnings per share were \$0.76. Compared to fiscal 2015, our earnings per share decreased 18.4% reflecting the investments made in our whole-product solutions strategy.

For a more detailed discussion of our fiscal 2016 results, please refer to the financial statements for the fiscal year ended September 30, 2016 included in our Annual Report on Form 10-K.

*Fiscal 2016 Executive Compensation Highlights*. Highlights of our fiscal 2016 executive compensation program include the following:

*Pay-for-Performance*. A substantial portion of each of our named executive s compensation is tied to Company performance against objectives set by the Committee. Approximately 62% of our named executive officer target total compensation (base salary, target annual incentive and long-term equity awards based on grant date fair value) is provided in the form of variable, at-risk compensation.

*Fiscal 2016 Annual Incentive Plan:* Established rigorous financial and strategic objectives tied to the Company's Board of Director approved annual operating plan. We fully achieved or exceeded all of those objectives resulting in an aggregate payout of 150% for the fiscal year. Each of our named executive officers earned a cash incentive award based on our actual performance achievement. No discretionary bonuses were awarded.

*Equity Incentive Awards:* Granted our named executive officers equity awards with both performance vesting and time vesting conditions. Both of these vehicles are aligned with the long-term interests of our stockholders. The value realized from the performance share awards is based on achievement of specified corporate performance objectives. We substantially achieved the objectives established for our fiscal 2014-16 performance share program resulting in a payout of approximately 98%. During the three-year period ending with fiscal 2016, our stock price increased 27.1% from a price of \$23.67 at the beginning of fiscal 2014 to a price of \$30.09 at the end of fiscal 2016.

*Market-based Approach to Establishing Compensation.* As a helpful reference point in making executive compensation decisions, the Committee utilizes market data from an appropriate and relevant group of peer companies. For fiscal 2016, the peer group consisted of 22 companies of comparative size (revenue, number of employees, and market capitalization) and business profile (generally medical device and equipment manufacturers and suppliers).

*Shareholder Advisory Vote on Executive Compensation.* At our annual meeting of shareholders held in February 2016, we held an advisory vote on executive compensation. Approximately 97% of our shareholders that voted on this proposal approved the compensation of our named executive officers as disclosed in the proxy statement for that meeting. Our Compensation Committee reviewed these final vote results and determined that, given the level of support, no material changes to our executive compensation policies and programs were necessary as a result of the advisory vote on executive compensation.

*Executive Compensation Governance Highlights.* We believe that the following executive compensation-related practices, which were in effect during fiscal 2016, serve our shareholders' long-term interests:

#### What We Do

- Maintain an executive compensation program designed to align pay with performance.
- Structure a substantial portion of pay opportunities in the form of at-risk performance-based compensation.
- Conduct an annual say-on-pay vote.
- Employ a clawback policy.
- Utilize robust stock ownership guidelines for executive officers and directors.
- Have double-trigger change of control severance arrangements.

Retain an independent compensation consultant and periodically conduct a compensation risk review.

What We Don't Do

- × Provide tax gross-ups or single-trigger equity acceleration.
- × Provide excessive perquisites.
- × Provide guaranteed bonuses.

**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 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. Together, these elements provide a balanced focus on both short- and long-term goals while reinforcing our pay-for-performance philosophy. 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 based on 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.

***Significant At-Risk Compensation.*** The charts below illustrate the fiscal 2016 target total compensation pay mix, comprised of base salary, target bonus opportunity under the fiscal 2016 cash incentive plan and actual fiscal 2016 long-term incentive awards (presented using their grant date fair values) for the Chief Executive Officer and other named executive officers. As illustrated below, approximately 69% of our Chief Executive Officer's and 58% of our other named executive officers' compensation was variable and at-risk.

#### CEO Pay Mix at Target

#### Other Named Executive Officer Pay Mix at Target

A key aspect of the design of our incentive plans is 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 years where our actual performance does not achieve the threshold level for the applicable objectives, no incentive compensation is paid. We believe this design reinforces our pay-for-performance philosophy. The table below provides the payouts under our incentive plans for each of our past five fiscal years and under our performance share programs for each of the last five three-year performance periods (reflecting corporate financial and strategic objectives).

| Annual Incentive Plans |        | Performance Share Programs |        |
|------------------------|--------|----------------------------|--------|
| Fiscal Year            | Payout | Performance Period         | Payout |
| 2016                   | 150.0% | 2014 - 2016                | 98.0%  |
| 2015                   | 135.1% | 2013 - 2015                | 99.3%  |
| 2014                   | 96.8%  | 2012 - 2014                | 157.0% |
| 2013                   | 118.6% | 2011 - 2013                | 178.1% |
| 2012                   | 134.4% | 2010 - 2012                | 0%     |

A description of our fiscal 2016 annual incentive plan is provided below under the heading "Cash Incentive Compensation." A description of the performance share program that ended in fiscal 2016 is provided below under the heading "Long-term Incentive Compensation."

### **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. Prior to fiscal 2016 and through February 2016, the Committee engaged Mr. David A. Ness, an independent compensation consultant with over 35 years of experience designing and administering executive and director compensation programs. Mr. Ness provided consulting services on matters related to executive and director compensation, including consultation regarding (i) the competitiveness of our executive compensation programs relative to market practices and peer group data, (ii) the design and structure of our short- and long-term incentive programs, (iii) management prepared total compensation analyses, including the recommended levels of compensation, and (iv) consultation regarding proxy statement preparation and other executive compensation services as requested by the Committee. During his engagement, Mr. Ness attended all of the regularly scheduled meetings of the Committee, reported directly to the Committee, and, as necessary, communicated directly with the Committee without management present.

In May 2016, the Committee engaged Pay Governance LLC (Pay Governance), an independent compensation consulting firm, to provide consulting services on matters related to executive compensation, including consultation regarding (i) the design and structure of the company's executive compensation programs relative to market practices, and (ii) refinements to the peer group of companies. During its engagement, Pay Governance attended all of the regularly-scheduled meetings of the Committee, reported directly to the Committee, and, as necessary, communicated directly with the Committee without management present.

Executive Compensation Peer Companies and Competitive Market. The Committee assesses the competitiveness of our executive compensation programs relative to market practices and peer group data. It does not, however, base its decisions solely on such data. For fiscal 2016, 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 2015 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 22 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):

|                                |                            |                            |
|--------------------------------|----------------------------|----------------------------|
| Anika Therapeutics Inc.        | Cutera, Inc.               | Rockwell Medical, Inc.     |
| Atricure, Inc.                 | Derma Sciences Inc.        | Staar Surgical Company     |
| Atrion Corp.                   | Endologix Inc.             | Stereotaxis Inc.           |
| Biolase, Inc.                  | Genmark Diagnostics, Inc.  | Synergetics USA, Inc.      |
| Cardiovascular Systems<br>Inc. | Hansen Medical, Inc.       | Utah Medical Products Inc. |
| Cerus Corporation              | Iridex Corporation         | Vascular Solutions Inc.    |
| Cogentix Medical               | Lemaitre Vascular, Inc.    |                            |
| Cryolife Inc.                  | Orasure Technologies, Inc. |                            |

With Mr. Ness's 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, there was no need to supplement 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) from companies of comparative size and business profile within the Company's global industry classification standard. Messrs. Olson and Stich were compared against the same position (i.e., head of division / sales). The data for Mr. Stich, however, was adjusted to account for the smaller size of our IVD business relative to our Medical Device business. The data for Mr. Phillips was adjusted to account for his additional responsibilities as the executive leader of human resources. 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 and target incentive levels), and provides input on their performance. He also provides input regarding financial and operating goals and metrics. Our Chief Financial Officer certifies the financial results used to determine the payouts for 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 2016 consisted of annual cash compensation and long-term incentive compensation, and are generally shown in the diagram below. We also provide our executive officers with change of control benefits, and offer them participation in our 401(k) plan, health and welfare insurance programs, flexible spending accounts and certain other benefits available generally to all full-time employee.

### *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 level of cash compensation to each executive intended to provide stability and reduce the incentive for excessive risk-taking. The Committee reviews base salaries at 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. The following table shows the annualized base salaries for each of our executive officers for each of the past two fiscal years:

| <b>Name</b>     | <b>2015 Base Salary (\$)</b> | <b>2016 Base Salary (\$)(1)</b> | <b>Percent Increase</b> |
|-----------------|------------------------------|---------------------------------|-------------------------|
| Gary Maharaj    | 457,000                      | 489,000                         | 7.0%                    |
| Andrew LaFrence | 270,000                      | 275,400                         | 2.0%                    |

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|                |         |         |      |
|----------------|---------|---------|------|
| Charles Olson  | 288,500 | 291,300 | 1.0% |
| Bryan Phillips | 294,200 | 305,900 | 4.0% |
| Joseph Stich   | 248,900 | 261,300 | 5.0% |

(1) Reflects the base salary approved by the Committee at its first regularly scheduled meeting in fiscal 2016, which meeting occurred in November 2016. Changes in base salary typically become effective on January 1 of each year. As a result, the amount of salary actually received in any year may differ from the annual base salary amount shown above. The amount of base salary actually received during fiscal 2016 is shown in the Summary Compensation Table below.

**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.** 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 2016, 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:

|                 | <b>Incentive Opportunity<br/>(as % of base salary)</b> |                    |
|-----------------|--|--------------------|
|                 | <b>Target (\$)</b>                                     | <b>Target (\$)</b> |
| Gary Maharaj    | 60%  | 293,400            |
| Andrew LaFrence | 40%  | 110,160            |
| Charles Olson   | 40%  | 116,520            |
| Bryan Phillips  | 40%  | 122,360            |
| Joseph Stich    | 40%  | 104,520            |

**Fiscal Year 2016 Performance Objectives.** Performance under the annual incentive plan was based upon the achievement of financial objectives and strategic objectives. The financial objectives for Messrs. LaFrence, Maharaj and Phillips (our corporate executives) were based entirely on corporate financial objectives (as described below). The financial objectives for Messrs. Olson and Stich (our business unit executives) were a combination of the same corporate financial objectives and business unit revenue, each weighted as provided below. The strategic objectives (as described below) reflected our fiscal 2016 priorities. The Committee approved the targets for the financial objectives and the strategic objectives based on the board-approved annual operating plan for fiscal 2016, including the planned financial impact of the Creagh acquisition and the NorMedix acquisition.

The corporate financial objectives were specified levels of revenue and earnings before interest, taxes, depreciation and amortization (EBITDA) (disclosed in the table below under the column titled Actual Performance), each weighted equally. The business unit financial objective for Mr. Olson was a specified level of revenue for our Medical Device business unit. The business unit financial objective for Mr. Stich was a specified level of revenue for our In Vitro Diagnostic (IVD) business unit. The Committee determined that these objectives were appropriate because they are financial metrics that are widely used by management, our Board, investors, and analysts to evaluate our performance. In addition, each executive officer can contribute (directly or indirectly) to the achievement of these objectives. The following table shows the weighting of the financial objectives and strategic objectives as a percentage of the total incentive opportunity for each of our named executive officers:

| <b>Executive</b> | <b>Financial Objectives</b> |                         |                              |                             |
|------------------|-----------------------------|-------------------------|------------------------------|-----------------------------|
|                  | <b>Corporate Revenue</b>    | <b>Corporate EBITDA</b> | <b>Business Unit Revenue</b> | <b>Strategic Objectives</b> |
| Gary Maharaj     | 33.3%                       | 33.3%                   | n/a                          | 33.3%                       |
| Andrew LaFrence  | 35.0%                       | 35.0%                   | n/a                          | 30.0%                       |
| Charles Olson    | 20.0%                       | 20.0%                   | 30.0                         | 30.0%                       |
| Bryan Phillips   | 35.0%                       | 35.0%                   | n/a                          | 30.0%                       |
| Joseph Stich     | 20.0%                       | 20.0%                   | 30.0                         | 30.0%                       |

For all of our executive officers, including our Chief Executive Officer, payouts associated with the corporate financial objectives (if any) could range between 50% (at threshold) and 150% (at maximum) of the target opportunity based upon the actual performance against each measure. No payout would be available under the plan unless at least the threshold level of corporate EBITDA was achieved.

The strategic objectives (described below) were associated with the SurVeil DCB and our strategic acquisitions reflecting separate milestones generally within the follows areas: (1) milestones associated with the SurVeil DCB clinical trial (constituting approximately 33.3% of the incentive opportunity associated with the strategic objectives); (2) milestones associated with our acquisition and integration of Creagh (constituting approximately 33.3% of the incentive opportunity associated with the strategic objectives); and (3) milestones associated with our acquisition and integration of NorMedix (constituting approximately 33.3% of the incentive opportunity associated with the strategic objectives). The Committee determined that these objectives were appropriate because their achievement would have the potential to advance our whole-product solutions strategy and significantly enhance shareholder value. For all of our executive officers, including our Chief Executive Officer, payouts associated with the strategic objectives could range between 0% (if none of the objectives were achieved) and 150% (if all of the objectives were achieved) of the target incentive opportunity based upon which of the objectives were achieved and their respective value.

**Actual Performance.** At the Committee's November 2016 meeting, the Committee confirmed the Company's performance against the financial objectives and the strategic objectives. The achievement percentage associated with each financial objective was determined by interpolating actual performance within the applicable performance range. The achievement percentage associated with the strategic objectives was determined by multiplying a target value for each milestone by a performance factor based on full, partial or no achievement of the milestone relative to a specified target completion date. In determining the level of achievement of each milestone, the Committee also considers factors outside of the Company's control that impact the timing of completion of the milestones. In this regard, the Committee gave full credit for completion of a milestone tied to the enrollment the first patient in the *SurVeil* early feasibility study because this milestone was achieved within days of the specified target completion date, and because of the uncontrollable nature of the regulatory review process and the significant effort on the part of our employees required to achieve the milestone. Based on the Company's performance, the Committee determined the payouts associated with the corporate financial objectives, business unit financial objectives, and strategic objectives as follows (all dollar values are in millions):

| <b>Corporate Financial Objectives</b> | <b>Threshold</b> | <b>Target</b> | <b>Maximum</b> | <b>Actual Performance</b> | <b>Achievement</b> |
|---------------------------------------|------------------|---------------|----------------|---------------------------|--------------------|
| Corporate EBITDA                      | \$ 16.5          | \$ 17.5       | \$ 20.8        | \$ 24.5                   | 150.0%             |
| Corporate Revenue                     | \$ 61.9          | \$ 64.2       | \$ 69.0        | \$ 69.4                   | 150.0%             |
| Combined Achievement:                 |                  |               |                |                           | 150.0%             |

| <b>Business Unit Financial Objectives</b> | <b>Threshold</b> | <b>Target</b> | <b>Maximum</b> | <b>Actual Performance</b> | <b>Achievement</b> |
|---|------------------|---------------|----------------|---------------------------|--------------------|
| Medical Device Revenue                    | \$ 45.6          | \$ 47.3       | \$ 50.8        | \$ 51.3                   | 150.0%             |
| IVD Revenue                               | \$ 16.3          | \$ 16.9       | \$ 18.2        | \$ 18.2                   | 148.6%             |

(1) Amounts reflect the adjustments noted below under the heading "Adjustments for Significant Events", which also includes information disclosing how the corporate financial objectives are derived from the Company's audited financial statements.

| <b>Strategic objectives</b>          | <b>Maximum</b> | <b>Actual Performance</b> | <b>Achievement</b> |
|--------------------------------------|----------------|---------------------------|--------------------|
| SurVeil early feasibility study      | 50.0%          | Full Achievement (100%)   | 50.0%              |
| Creagh acquisition and integration   | 50.0%          | Full Achievement (100%)   | 50.0%              |
| NorMedix acquisition and integration | 50.0%          | Full Achievement (100%)   | 50.0%              |

Combined Achievement: 150.0%

The overall achievement percentage for each executive was determined by adding the products of the assigned weighting and achievement percentage for each component. Using this methodology, the Committee approved the following overall achievement percentages:

| <b>Corporate Financial Objectives</b> | <b>Business Unit Financial Objectives</b> | <b>Strategic objectives</b> | <b>Overall Achievement</b> |
|---------------------------------------|---|-----------------------------|----------------------------|
|---------------------------------------|---|-----------------------------|----------------------------|

| <b>Executive</b> | <b>Weight Achievement</b> |        | <b>Weight Achievement</b> |        | <b>Weight Achievement</b> |        |        |
|------------------|---------------------------|--------|---------------------------|--------|---------------------------|--------|--------|
| Gary Maharaj     | 66.6%                     | 150.0% | n/a                       | n/a    | 33.3%                     | 150.0% | 150.0% |
| Andrew LaFrence  | 70.0%                     | 150.0% | n/a                       | n/a    | 30.0%                     | 150.0% | 150.0% |
| Charles Olson    | 40.0%                     | 150.0% | 30.0%                     | 150.0% | 30.0%                     | 150.0% | 150.0% |
| Bryan Phillips   | 70.0%                     | 150.0% | n/a                       | n/a    | 30.0%                     | 150.0% | 150.0% |
| Joseph Stich     | 40.0%                     | 150.0% | 30.0%                     | 148.6% | 30.0%                     | 150.0% | 149.6% |

The actual incentive payouts were determined by multiplying the named executive officer's eligible earnings by his target incentive opportunity, and then by the applicable overall achievement percentage. The following table summarizes the compensation earned by our named executive officers under the plan:

| <b>Executive</b> | <b>Target Payout</b> | <b>Overall Achievement</b> | <b>Actual Payout</b> | <b>Actual Payout (\$)</b> |
|------------------|----------------------|----------------------------|----------------------|---------------------------|
| Gary Maharaj     | 60%                  | 150.0%                     | 90.0%                | 432,900                   |
| Andrew LaFrence  | 40%                  | 150.0%                     | 60.0%                | 164,430                   |
| Charles Olson    | 40%                  | 150.0%                     | 60.0%                | 174,360                   |
| Bryan Phillips   | 40%                  | 150.0%                     | 60.0%                | 181,785                   |
| Joseph Stich     | 40%                  | 149.6%                     | 59.8%                | 154,492                   |

## Long-Term Incentive Compensation

Long-term incentive compensation provides our executive officers with financial rewards based on the long-term performance of the Company. The Committee believes that this form of compensation promotes long-term retention and aligns the interests of our executive officers with those of our shareholders through stock ownership. Historically, our long-term incentive compensation has consisted of equity awards, including stock options, restricted stock, and performance shares. Special, one-time awards are used in limited circumstances, including, as may be necessary to attract, retain and motivate experienced and well-qualified executive officers. No special, one-time grants were made in fiscal 2016 to any of our named executive officers.

The Committee selects the type of equity awards to be provided to our executive officers based on its assessment of the advantages provided by each award. The Committee also considers the forms and amounts of outstanding equity awards held by our named executive officers, the financial accounting and tax treatment on our company, and the tax treatment to our named executive officers, in determining the form and amount of equity compensation to award.

Consistent with our philosophy of tying a significant portion of each executive's total compensation to performance, the Committee set the target long-term incentive opportunity as a significant percentage of each executive's annual base salary. While the Committee considered the Market Data as a market check when setting the target long-term incentive opportunity, it did not base its decision solely on such data. The target long-term incentive opportunity for our executives was the same for all executives reflecting our desire to encourage collaboration among our executive team and our view that each executive can contribute (directly or indirectly) to the achievement of our long-term objectives.

*Fiscal 2016 Long-Term Incentive Plan.* For fiscal 2016, long-term incentive compensation for our executive officers was provided in the form of stock options and performance shares, with each component constituting one-half of the total target value. The target values of each component of the equity awards provided for our named executive officers were as follows:

| Name            | Performance Shares (2) |                |             | Total Target LTI (\$) |
|-----------------|------------------------|----------------|-------------|-----------------------|
|                 | Stock Options (\$)     | Threshold (\$) | Target (\$) |                       |
| Gary Maharaj    | 375,000                | 75,000         | 375,000     | 750,000               |
| Andrew LaFrence | 137,500                | 27,500         | 137,500     | 275,000               |
| Charles Olson   | 137,500                | 27,500         | 137,500     | 275,000               |
| Bryan Phillips  | 137,500                | 27,500         | 137,500     | 275,000               |
| Joseph Stich    | 137,500                | 27,500         | 137,500     | 275,000               |

(1) Represents the grant date fair value of stock options (as estimated using the Black-Scholes option pricing model) awarded to each executive officer.

(2) Represents the value of the performance shares (at threshold, target and maximum levels) using the closing market price of our common stock on the date of grant. The actual number of shares that may vest, if any, will be based on the Company's achievement of certain performance objectives over a three-year performance period.

*Stock Options.* Stock options provide value only when the price of our Company's stock appreciates over the grant price. The number of shares subject to the stock option is determined by dividing the target value of the award by the grant date fair value estimated using the Black-Scholes valuation model. All stock option grants have an exercise price

that is equal to the closing market price of our common stock on the date of grant, a seven-year term, and vest in equal increments of 25% per year beginning on the first anniversary of the date of grant.

Performance Shares. Performance shares were granted under the fiscal 2016 performance share program (the 2016 PSP ). The target number of shares is determined by dividing the target value by the closing market price of our common stock on the date of grant. The actual number of shares that may vest will be based on the Company's achievement of specified performance objectives over a three-year performance period ending September 30, 2018.

The performance objectives under the 2016 PSP are specified as cumulative revenue and EBITDA over the three-year performance period. The Committee established the three-year performance objectives based on the financial projections included in the Company's long-range plan approved by the Board of Directors immediately prior to the start of fiscal 2016. The Committee determined that the use of these measures was appropriate because they are financial metrics that are widely used by management, our Board, investors, and analysts to evaluate our performance. The Committee considers the targets associated with these objectives to be difficult to achieve, but attainable. Furthermore, the Committee determined that, if achieved, these performance objectives would have the potential to significantly enhance shareholder value. As discussed above, there has been a payout under our performance share programs for four of the last five performance periods demonstrating that our target levels are aggressive but within reach for our executives.



The number of shares that will actually vest, if any, under the 2016 PSP can range between 20% (at threshold) and 200% (at maximum) of the target number of shares based on the Company's actual performance against the performance objectives. None of the performance shares will vest under the 2016 PSP unless at least the threshold level of cumulative EBITDA is achieved. Following the end of the performance period, the achievement percentage associated with each of the performance objectives will be determined by interpolating actual performance within the performance range for each objective. These achievement percentages will then be weighted equally, and summed to arrive at an overall achievement percentage. The actual number of shares that will vest will be determined by multiplying each executive's target number of shares by the overall achievement percentage for the plan.

*Fiscal Year 2014 - 2016 Performance Share Program Results.* At its November 2016 meeting, the Committee reviewed and approved the results for the performance share program that began in fiscal 2014 and was completed at the end of fiscal 2016 (the 2014 PSP). The performance objectives for this performance share program were specified as cumulative revenue and earnings per share over the three-year performance period. Our stock price increased 27.1% from a price of \$23.67 at the beginning of fiscal 2014 to a price of \$30.09 at the end of fiscal 2016. The table below shows the 2014 PSP performance objectives, results and calculated payout.

| Performance Objective           | Weight | Threshold<br>(20% Payout) | Target<br>(100% Payout) | Maximum<br>(200% Payout) | Actual<br>Performance(1) | Weighted<br>Achievement<br>(% of Target) |
|---------------------------------|--------|---------------------------|-------------------------|--------------------------|--------------------------|--|
| Earnings per share              | 50%    | \$2.80                    | \$2.99                  | \$3.40                   | \$3.20                   | 151.2%                                   |
| Revenue                         | 50%    | \$184.1 M                 | \$196.9 M               | \$216.5 M                | \$188.0 M                | 44.7%                                    |
| Overall Achievement Percentage: |        |                           |                         |                          |                          | 98.0%                                    |

(1) Reflects our cumulative financial results for the three-year period ended September 30, 2016. The earnings per share result was \$0.97 in fiscal 2014, \$1.08 in fiscal 2015, and \$1.15 in fiscal 2016. The revenue result was \$57.4 million in fiscal 2014, \$61.1 million in fiscal 2015, and \$69.4 million in fiscal 2016. Where applicable, the cumulative financial results reflect the adjustments approved by the Committee for purposes of determining performance under our incentive programs, including the adjustments to our fiscal 2016 results (discussed below under Adjustment for Significant Events).

#### **Adjustments for Significant Events**

The Company's performance-based compensation plans require that when special events (such as, significant one-time revenue events, charges for expenses, acquisitions, divestitures, capital gains, or other adjustments) significantly impact operating results, this impact will be reviewed and evaluated by the Committee when determining the level of achievement of the corporate performance objectives. Committee review is required if the impact represents an amount that is five percent or greater of the Company's prior year results for the corporate performance objectives. This provision benefits shareholders by allowing management to make decisions of material strategic importance without undue concern for impact on compensation. These adjustments can have both a positive and negative impact.

In accordance with these principles, for fiscal year 2016, the Committee approved several adjustments to the Company's results for purposes of determining performance under short- and long-term incentive programs. The following table reconciles the adjustments made in fiscal year 2016 and provides a brief description of each adjustment:

### Fiscal Year 2016 Adjustments to Financial Results

#### Performance under Incentive Programs

| <b>Financial Results, as reported</b>   | <b>Revenue</b>    |                |
|---|-------------------|----------------|
| <b>GAAP Revenue</b> (in millions)   | <b>\$ 71.4</b>    |                |
| Adjustments:  |                   |                |
| Net impact of \$1.9 million of customer royalty over/under payments.                              | (1.9)(1)          |                |
| <b>Revenue used for Incentive Plans</b>   | <b>\$ 69.4</b>    |                |
|   | <b>EBITDA</b>     | <b>EPS</b>     |
| <b>EBITDA</b> (in millions) / <b>GAAP EPS</b>   | <b>\$ 19.3(2)</b> | <b>\$ 0.76</b> |
| Adjustments:  |                   |                |
| Net after tax impact of \$1.9 million of customer royalty over/under payments.                    | (1.9)             | (0.10)         |
| Acquisition transaction, integration and other costs of \$3.2 million.                            | 3.2               | 0.22           |
| Amortization of acquisition-related intangible assets and associated tax impact of \$2.4 million. | 2.4               | 0.15           |
| Accretion expense of \$1.5 million related to contingent consideration liabilities.               | 1.5               | 0.11           |
| Foreign currency exchange gain/loss of \$0.4 million.   |                   | 0.03           |
| Net impact of \$0.5 million gain associated with one of the Company's strategic investments.      |                   | (0.04)         |
| <b>EBITDA</b> (in millions) / <b>EPS used for Incentive Plans</b>                                 | <b>\$ 24.5</b>    | <b>\$ 1.15</b> |

(1) The Medical Device business unit revenue result was adjusted from \$53.2 million to \$51.3 million to account for the net impact of these customer royalty over/under payments. There were no adjustments to the IVD business unit revenue result.

(2) The EBITDA performance objective is based on the Company's reported operating income of \$16.9 million adjusted to include a total of \$2.5 million in depreciation and non-acquisition related amortization expense recognized during fiscal 2016.

(3) The data in the above chart has been intentionally rounded and, therefore, may not sum.

**Clawback Policy**

Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Act) directs the SEC to issue rules to require national securities exchanges and national securities associations to list only those companies that implement a policy requiring the mandatory recoupment of incentive compensation paid to current and former executive officers for the three-year period preceding a restatement of a listed company's financial statements that would not have been paid under the restated financial statements. The SEC has not yet issued final rules to implement this aspect of the Act. Notwithstanding this fact, in December 2015, based upon the recommendation of the Committee, the Board approved a clawback policy regarding the recovery of incentive compensation from our executive officers (including our named executive officers) in certain circumstances. Under the policy, the Company will require reimbursement or forfeiture of all or a portion of any incentive-based compensation (including cash- or equity-based compensation) awarded to an executive officer of the Company where the Committee has determined that all of the following factors are present: (a) the Company is required to prepare an accounting restatement to correct an error that is material to previously issued financial statements, (b) the incentive-based compensation was granted, vested or earned based wholly or in part on the achievement of certain financial reporting measures that were affected by the restatement and such grant, vesting or earning occurred during the three completed fiscal years immediately preceding the date on which the Company is required to prepare the restatement, (c) the amount of incentive-based compensation granted to, vested in or earned by the executive officer was greater than the amount that otherwise would have been granted to, vested in or earned by the executive officer if determined based upon the restated financial results, and (d) fraud or intentional misconduct on the part of one or more

current or former executive officers was a significant contributing factor to the restatement. In determining whether, in its discretion, there are appropriate circumstances to require such reimbursement, cancellation or recovery, the Committee can consider relevant facts and circumstances, including without limitation, the degree to which any particular executive officer was involved in the fraud or misconduct that contributed to the financial restatement, the extent to which any particular executive officer acted in the normal course of the executive officer's duties and in good faith. Once final regulations are adopted by the SEC, the Committee intends to revise the clawback policy as necessary to comply with the regulations.

### **Change of Control Agreements**

Compensation in a change of control situation is designed: (1) to protect the compensation already earned by executives and to ensure that they will be treated fairly in the event of a change of control; and (2) to help ensure the retention and dedicated attention of key executives critical to the ongoing operation of the Company. We believe shareholders will be best served if the interests of our executive officers are aligned with those of our shareholders. Consistent with these principles, we have provided each of our executive officers with change-of-control benefits so that our executive officers can focus on our business without the distraction of searching for new employment. None of the agreements providing these benefits require the Company to make excise tax gross-up payments upon a change of control. Moreover, the Committee has determined that it does not intend to enter into any agreements or arrangements that will require the Company to make excise tax gross-up payments to any person.

The Company has entered agreements with our named executive officers providing each of them with certain benefits payable if the Company undergoes a change of control (as defined in the agreements). The term of these agreements extends until the twelve-month anniversary of the date on which a change of control occurs. Each agreement will automatically terminate and the executive will not be entitled to any of the compensation and benefits described in the agreement if, prior to a change of control occurring, the executive's employment with the Company terminates for any reason or no reason, or if the executive no longer serves as an executive officer of the Company. No benefits are payable to an executive officer under the agreement unless both a change of control occurs, and the executive's employment is terminated by the Company within 12 months after a change of control without cause, or by the executive for good reason. Absent a change of control, the agreements do not require the Company to retain the executives or to pay them any specified level of compensation or benefits. Our change of control agreements are discussed in more detail in the Potential Payments Upon Termination or Change of Control section of Executive Compensation.

### **Other Compensation**

We provide our executive officers with the same benefits as our other full-time employees, including medical and insurance benefits and a 401(k) retirement plan.

### **Committee Consideration of the Company's 2016 Shareholder Vote on Executive Compensation**

When setting compensation, and in determining compensation policies, the Committee took into account the results of the shareholder advisory vote on executive compensation that took place in February 2016. In those votes, which were advisory and not binding, approximately 97% of our shareholders voting on this matter approved the compensation of our named executive officers as disclosed in the proxy statement for the 2016 Annual Meeting of Shareholders. The Committee believes that our executive compensation program has been tailored to our company's business strategies, aligns pay with performance and reflects many of the best practices regarding executive compensation. The Committee will continue to consider shareholder sentiments about our core principles and objectives when determining executive compensation.

## **ORGANIZATION AND COMPENSATION COMMITTEE REPORT**

The Organization and Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K for the year ended September 30, 2016 with management. Based on the foregoing reviews and discussions, the Committee recommended to the Board, and the Board has approved, that the Compensation Discussion and Analysis be included in the proxy statement for the 2017 Annual Meeting of Shareholders to be held on February 14, 2017.

**Members of the Organization and**

**Compensation Committee:**

David R. Dantzker, M.D., Chair

José H. Bedoya

Ronald B. Kalich

## EXECUTIVE COMPENSATION AND OTHER INFORMATION

### SUMMARY COMPENSATION TABLE

The following table shows the compensation awarded to, earned by or paid to our named executive officers during the last three fiscal years. You should refer to Compensation Discussion and Analysis above to understand the elements used in setting the compensation for our named executive officers.

| Name and Principal Position   | Fiscal Year | Salary<br>(\$)(1) | Stock<br>Awards<br>(\$)(2)(3) | Option<br>Awards<br>(\$)(2) | Non-Equity                                   | All                              | Total<br>(\$) |
|---|-------------|-------------------|-------------------------------|-----------------------------|--|----------------------------------|---------------|
|   |             |                   |                               |                             | Incentive<br>Plan<br>Compensation<br>(\$)(4) | Other<br>Compensation<br>(\$)(5) |               |
| Gary R. Maharaj,<br><i>President and Chief Executive Officer</i>  | 2016        | 481,000           | 375,000                       | 375,000                     | 432,900                                      | 4,879                            | 1,668,779     |
|   | 2015        | 457,000           | 325,000                       | 325,000                     | 370,542                                      | 7,950                            | 1,485,492     |
|   | 2014        | 443,700           | 325,000                       | 325,000                     | 257,701                                      | 5,974                            | 1,357,375     |
| Andrew D. C. LaFrence,<br><i>Vice President, Finance and Information Systems, and Chief Financial Officer</i> | 2016        | 274,050           | 137,500                       | 137,500                     | 164,430                                      | 6,065                            | 719,545       |
|   | 2015        | 270,000           | 112,500                       | 112,500                     | 145,947                                      | 6,103                            | 647,050       |
|   | 2014        | 252,200           | 112,500                       | 112,500                     | 97,652                                       | 6,302                            | 581,154       |
| Charles W. Olson,<br><i>Senior Vice President of Commercial and Business Development, Medical Devices</i>     | 2016        | 290,600           | 137,500                       | 137,500                     | 174,360                                      | 3,898                            | 743,858       |
|   | 2015        | 288,500           | 112,500                       | 112,500                     | 153,541                                      | 6,147                            | 673,187       |
|   | 2014        | 285,600           | 112,500                       | 112,500                     | 110,584                                      | 4,459                            | 625,643       |
| Bryan K. Phillips<br><i>Senior Vice President, Legal and Human Resources, General Counsel &amp; Secretary</i> | 2016        | 302,975           | 137,500                       | 137,500                     | 181,785                                      | 8,768                            | 768,528       |
|   | 2015        | 294,200           | 112,500                       | 112,500                     | 159,028                                      | 7,753                            | 685,981       |
|   | 2014        | 285,600           | 112,500                       | 112,500                     | 110,584                                      | 7,776                            | 628,960       |
| Joseph J. Stich<br><i>Vice President and General Manager, In Vitro Diagnostics</i>                            | 2016        | 258,200           | 137,500                       | 137,500                     | 154,492                                      | 8,435                            | 696,127       |
|   | 2015        | 248,900           | 112,500                       | 112,500                     | 135,326                                      | 7,969                            | 617,195       |
|   | 2014        | 241,638           | 112,500                       | 112,500                     | 93,562                                       | 7,264                            | 567,464       |

(1) Reflects base salary earned in each applicable period.

(2) Reflects the aggregate grant date fair value of options, restricted stock and performance shares in accordance with Accounting Standards Codification Topic 718 (ASC 718), but excluding the effect of estimated forfeitures related to service-based vesting conditions. Because the grant dates cover the date on which the compensation was granted and not the performance period over which the compensation would be earned, the compensation is reflected in the fiscal year in which the award was approved rather than in the year to which the performance relates. The ultimate payout value may be significantly more or less than the amounts shown, and could be zero, depending on the Company's performance against the relevant performance objectives (in the case of performance shares) and the

price of our common stock at the end of the performance or restricted period or the expiration of stock options. For a description of the performance criteria applicable to the performance shares, see Compensation Discussion and Analysis Elements of Executive Compensation; Long-Term Incentive Compensation.

(3) Reflects the aggregate grant date fair value of restricted stock and performance shares awarded to each named executive officer under ASC 718. With respect to performance share awards, amounts represent achievement at the target level. The table below shows the aggregate grant date fair value of performance share awards based on both target and maximum levels of achievement, respectively.

| <b>Name</b>           | <b>Fiscal Year</b> | <b>ASC 718 Value of Performance Shares at Target (\$)</b> | <b>ASC 718 Value of Performance Shares at Maximum (\$)</b> |
|-----------------------|--------------------|---|--|
| Gary R. Maharaj       | 2016               | 375,000   | 750,000  |
|                       | 2015               | 325,000   | 650,000  |
|                       | 2014               | 325,000   | 650,000  |
| Andrew D. C. LaFrence | 2016               | 137,500   | 275,000  |
|                       | 2015               | 112,500   | 225,000  |
|                       | 2014               | 112,500   | 225,000  |
| Charles W. Olson      | 2016               | 137,500   | 275,000  |
|                       | 2015               | 112,500   | 225,000  |
|                       | 2014               | 112,500   | 225,000  |
| Bryan K. Phillips     | 2016               | 137,500   | 275,000  |
|                       | 2015               | 112,500   | 225,000  |
|                       | 2014               | 112,500   | 225,000  |
| Joseph J. Stich       | 2016               | 137,500   | 275,000  |
|                       | 2015               | 112,500   | 225,000  |
|                       | 2014               | 112,500   | 225,000  |

(4) Represents amounts earned under the annual cash incentive plan for each applicable fiscal year, which is discussed in detail in Compensation Discussion and Analysis above.

(5) Represents matching contributions made by the Company under our 401(k) Plan and amounts received under other benefit plans generally available to all employees.



## GRANTS OF PLAN-BASED AWARDS IN FISCAL 2016

The following table sets forth certain information concerning plan-based awards earned by or granted to each of our named executive officers during fiscal 2016. You should refer to the sections of Compensation Discussion and Analysis above relating to the annual incentive plan and the long-term incentive program to understand how plan-based awards are determined.

|                       | Grant Date | Estimated Possible Payouts Under Non-Equity Incentive Plan Awards(1) |             |              | Estimated Future Payouts Under Equity Incentive Plan Awards(2) |            |             | All Other Awards: Number of Securities Underlying Option Awards | Exercise or Price of Option Awards (\$/Sh) | Grant Date Fair Value of Stock and Option Awards (\$)(4) |
|-----------------------|------------|--|-------------|--------------|--|------------|-------------|---|--|--|
|                       |            | Threshold (\$)   | Target (\$) | Maximum (\$) | Threshold (#)  | Target (#) | Maximum (#) | (#)(3)  |  |  |
| Gary R.               | 12/17/15   | 144,300  | 288,600     | 432,900      |  |            |             |   |  |  |
| Maharaj               | 12/17/15   |  |             |              | 3,566  | 17,831     | 35,662      | 54,347  | 21.03                                      | 375,000  |
| Andrew D. C. LaFrence | 12/02/14   | 54,810   | 109,620     | 164,430      |  |            |             |   |  |  |
|                       | 12/02/14   |  |             |              | 1,307  | 6,538      | 13,076      | 19,927  | 21.03                                      | 137,500  |
| Charles W. Olson      | 12/02/14   | 58,120   | 116,240     | 174,360      |  |            |             |   |  |  |
|                       | 12/02/14   |  |             |              | 1,307  | 6,538      | 13,076      | 19,927  | 21.03                                      | 137,500  |
| Bryan K. Phillips     | 12/02/14   | 60,595   | 121,190     | 181,785      |  |            |             |   |  |  |
|                       | 12/02/14   |  |             |              | 1,307  | 6,538      | 13,076      | 19,927  | 21.03                                      | 137,500  |
| Joseph J. Stich       | 12/02/14   | 51,640   | 103,280     | 154,920      |  |            |             |   |  |  |
|                       | 12/02/14   |  |             |              | 1,307  | 6,538      | 13,076      | 19,927  | 21.03                                      | 137,500  |

(1) Represents the potential cash payments under the Company's annual incentive plan at threshold, target and maximum performance. Under the terms of our annual cash incentive plan, results below the threshold level of performance would receive no award. For a further discussion of these awards, see Compensation Discussion and Analysis Annual Cash Compensation Cash Incentive Compensation.

(2) Represents the number of shares of common stock underlying the threshold, target and maximum payout of performance shares granted under the 2016 PSP. For a further discussion of these awards, see Compensation Discussion and Analysis Long-Term Incentive Compensation.

- (3) Represents the number of stock options granted to each named executive officer as a component of such officer's long-term incentive compensation. The exercise price of the stock options is equal to the closing price of our common stock on the date of grant.
  
- (4) Represents the aggregate grant date fair value of performance shares (at target), restricted stock awards, and stock options in accordance with ASC 718.

### OUTSTANDING EQUITY AWARDS AT 2016 FISCAL YEAR-END

The table below reflects all outstanding equity awards made to each of the named executive officers that were outstanding on September 30, 2016. The market or payout value of unearned shares, units or other rights that have not vested equals \$30.09 per share, which was the closing price of the Company's common stock as listed on The NASDAQ Global Select Market on September 30, 2016, the last day of our last fiscal year.

| Name                  | Option Awards(1)  |                        |                               |                            |                        | Stock Awards<br>Equity Incentive<br>Plan<br>Awards: Unearned<br>Shares,<br>Units or Other<br>Rights That Have<br>Not Vested |            |                             |
|-----------------------|-------------------|------------------------|-------------------------------|----------------------------|------------------------|---|------------|-----------------------------|
|                       | Option Grant Date | Underlying Options (#) | Unexercised Unexercisable (#) | Option Exercise Price (\$) | Option Expiration Date | Award Grant Date  | Number (#) | Market or Payout Value (\$) |
| Gary R. Maharaj       | 12/12/12          | 28,743                 | 9,582                         | 20.37                      | 12/12/19               | 11/18/13  | 14,099(2)  | 424,239                     |
|                       | 11/18/13          | 18,217                 | 18,217                        | 22.58                      | 11/18/20               | 12/02/14  | 3,090(3)   | 92,978                      |
|                       | 12/02/14          | 10,310                 | 30,933                        | 21.03                      | 12/02/21               | 12/17/15  | 3,703(4)   | 111,423                     |
|                       | 12/17/15          |                        | 54,347                        | 20.25                      | 12/17/22               |   |            |                             |
| Andrew D. C. LaFrence | 02/11/13          | 17,847                 | 5,950                         | 23.88                      | 02/11/20               | 12/12/12  | 4,880(2)   | 146,839                     |
|                       | 11/18/13          | 6,306                  | 6,306                         | 22.58                      | 11/18/20               | 11/18/13  | 1,069(3)   | 32,166                      |
|                       | 12/02/14          | 3,569                  | 10,707                        | 21.03                      | 12/02/21               | 12/02/14  | 1,358(4)   | 40,862                      |
|                       | 12/17/15          |                        | 19,927                        | 20.25                      | 12/17/22               |   |            |                             |
| Charles W. Olson      | 11/30/11          | 21,469                 |                               | 12.40                      | 11/30/18               | 12/12/12  | 4,880(2)   | 146,839                     |
|                       | 12/12/12          | 9,949                  | 3,317                         | 20.37                      | 12/12/19               | 11/18/13  | 1,069(3)   | 32,166                      |
|                       | 11/18/13          | 6,306                  | 6,306                         | 22.58                      | 11/18/20               | 12/02/14  | 1,358(4)   | 40,862                      |
|                       | 12/02/14          | 3,569                  | 10,707                        | 21.03                      | 12/02/21               |   |            |                             |
|                       | 12/17/15          |                        | 19,927                        | 20.25                      | 12/17/22               |   |            |                             |
| Bryan K. Phillips     | 11/30/11          | 5,368                  |                               | 12.40                      | 11/30/18               | 12/12/12  | 4,880(2)   | 146,839                     |
|                       | 12/12/12          | 9,949                  | 3,317                         | 20.37                      | 12/12/19               | 11/18/13  | 1,069(3)   | 32,166                      |
|                       | 11/18/13          | 6,306                  | 6,306                         | 22.58                      | 11/18/20               | 12/02/14  | 1,358(4)   | 40,862                      |
|                       | 12/02/14          | 3,569                  | 10,707                        | 21.03                      | 12/02/21               |   |            |                             |
|                       | 12/17/15          |                        | 19,927                        | 20.25                      | 12/17/22               |   |            |                             |
| Joseph J. Stich       | 03/15/10          | 20,000                 |                               | 22.11                      | 03/15/17               | 12/12/12  | 4,880(2)   | 146,839                     |
|                       | 11/30/10          | 27,548                 |                               | 9.25                       | 11/30/17               | 11/18/13  | 1,069(3)   | 32,166                      |
|                       | 11/30/11          | 21,469                 |                               | 12.40                      | 11/30/18               | 12/02/14  | 1,358(4)   | 40,862                      |
|                       | 12/12/12          | 9,949                  | 3,317                         | 20.37                      | 12/12/19               |   |            |                             |
|                       | 11/18/13          | 6,306                  | 6,306                         | 22.58                      | 11/18/20               |   |            |                             |

|          |       |        |       |          |
|----------|-------|--------|-------|----------|
| 12/02/14 | 3,569 | 10,707 | 21.03 | 12/02/21 |
| 12/17/15 |       | 19,927 | 20.25 | 12/17/22 |

- (1) Stock option awards granted generally become exercisable in four equal increments beginning on the first anniversary of the date of grant.
- (2) Represents performance shares granted for the three-year performance period ending September 30, 2016. The number of shares and payout value is based on actual performance through September 30, 2016, which shares vested on November 30, 2016. For a further discussion of these awards, see Compensation Discussion and Analysis Long-Term Incentive Compensation.
- (3) Represents performance shares granted for the three-year performance period ending September 30, 2017. The performance objectives for this plan are specified levels of revenue and earnings per share over the three-year performance period. Because cumulative performance for the three-year performance period applicable to these performance shares has not yet surpassed the threshold level established for payout, the number of shares and payout value are reported at the threshold level.
- (4) Represents performance shares granted for the three-year performance period ending September 30, 2018. The performance objectives for this plan are specified levels of revenue and earnings per share over the three-year performance period. Because cumulative performance for the three-year performance period applicable to these performance shares has not yet surpassed the threshold level established for payout, the number of shares and payout value are reported at the threshold level.

## 2016 OPTION EXERCISES AND STOCK VESTED

The table below includes information related to options exercised by each of the named executive officers during fiscal 2016 and restricted stock awards that vested during fiscal 2016. The value realized for such option and restricted stock awards is also provided.

| Name                  | Option Awards                             |                                    | Stock Awards                             |                                   |
|-----------------------|---|------------------------------------|--|-----------------------------------|
|                       | Number of Shares Acquired on Exercise (#) | Value Realized on Exercise (\$)(1) | Number of Shares Acquired on Vesting (#) | Value Realized on Vesting (\$)(2) |
| Gary R. Maharaj       | 130,587                                   | 2,297,651                          |  |                                   |
| Andrew D. C. LaFrence |   |                                    | 1,746                                    | 32,091                            |
| Charles W. Olson      | 49,274                                    | 649,873                            |  |                                   |
| Bryan K. Phillips     | 16,251                                    | 44,853                             |  |                                   |
| Joseph J. Stich       | 47,548                                    | 667,070                            |  |                                   |

(1) Value realized upon option exercises is calculated by multiplying (a) the difference between the closing price of our common stock on the date of exercise and the exercise price of the option by (b) the number of shares covered by the portion of each option exercised.

(2) Value realized upon the vesting of stock awards is calculated by multiplying the closing price of our common stock on the vesting date by the number of shares of common stock underlying the vested portion of each stock award.

### Potential Payouts Upon Termination or Change of Control

*Arrangements with Mr. Maharaj.* In connection with his hiring in December 2010, the Company entered into a Severance Agreement with Gary R. Maharaj, our President and Chief Executive Officer. Pursuant to the Severance Agreement, Mr. Maharaj will be eligible for certain severance benefits in the event that his employment is terminated by the Company without cause, or by him for good reason. In particular, in the event his employment is terminated without cause, Mr. Maharaj will receive (1) a severance payment equal to twelve months of his then-current annual base salary, and (2) continuation coverage of life, health or dental benefits for up to 18 months. Further, in the event that Mr. Maharaj's employment is terminated by the Company without cause and he is unable to secure subsequent employment primarily because of his obligations under the Non-Competition, Invention, Non-Disclosure Agreement, the Company will extend his base salary severance payments (not to exceed 12 additional months) so long as he is able to demonstrate that he is diligently seeking alternate employment.

Additionally, pursuant to the Severance Agreement, Mr. Maharaj will be provided with severance benefits in the event his employment with the Company is terminated following a change in control of the Company. If, within twelve months following the occurrence of a change of control, Mr. Maharaj's employment with the Company is terminated either by the Company without cause, or by him for good reason, then Mr. Maharaj will receive: (1) a severance

payment equal to two and one-half times the average cash compensation paid to him during the three most recent taxable years, and (2) continuation coverage of life, health or dental benefits for up to 18 months. In addition, any unvested portions of Mr. Maharaj's outstanding options will immediately vest and become exercisable, any remaining forfeiture provisions on his outstanding restricted stock awards will immediately lapse, and the target number of shares subject to his outstanding performance awards will immediately vest and become payable.

*Arrangements with other Executives.* In addition to the arrangements discussed above with respect to Mr. Maharaj, each of our other named executives has entered into Change of Control Agreements with the Company. The term of these agreements extends until the twelve-month anniversary of the date on which a change of control occurs. Each agreement will automatically terminate and the executive will not be entitled to any of the compensation and benefits described in the agreement if, prior to a change of control occurring, the executive's employment with the Company terminates for any reason or no reason, or if the executive no longer serves as an executive officer of the Company. Each executive will be provided with severance benefits in the event his employment with the Company is terminated following a change of control (as defined in the agreements) of the Company. If, within twelve months following the occurrence of a change of control, the executive's employment with the Company is terminated either by the Company without cause, or by him for good reason (as defined in the agreements), then the executive will receive: (1) a severance payment equal to two times the sum of the executive's (i) base salary in effect as of the date of the change of control termination, and (ii) an amount equal to the target short-term incentive opportunity for the year in which the change of control termination occurs; and (2) continuation coverage of life, health or dental benefits for up to 18 months. In addition, any unvested portions of the executive's outstanding options or stock appreciation rights will immediately vest and become exercisable; any remaining forfeiture provisions associated with his outstanding restricted stock awards will immediately lapse; and all shares or units subject to all outstanding performance share awards shall become immediately vested and payable at the applicable target performance objectives. None of the Change of Control Agreements includes provisions requiring the Company

to make an excise tax gross up payment. If the severance benefits payable to an executive would constitute an excess parachute payment under Section 280G of the Internal Revenue Code, such payment shall either be reduced so that it will not constitute an excess parachute payment, or paid in full, depending on which payment would result in the executive receiving the greatest after tax payment. In case of the latter, the executive would be liable for any excise tax owed.

Other than with respect to the arrangements described above, and as contained in the table below, no executive officer has any contractual right to severance or other termination benefits. The table below reflects estimated benefits for Mr. Maharaj under the Severance Agreement, and for Messrs. LaFrence, Olson, Phillips and Stich under the terms of their Change of Control agreements described above, in each case assuming that the triggering event occurred on September 30, 2016.

| Name                  | Accelerated Vesting       |                            |                       |                      |                        | Estimated Tax Gross-Up (\$) | Total (\$) |
|-----------------------|---------------------------|----------------------------|-----------------------|----------------------|------------------------|-----------------------------|------------|
|                       | Severance Amounts (\$)(1) | Performance Shares (\$)(2) | Stock Options (\$)(3) | Stock Awards (\$)(4) | Other Benefits (\$)(5) |                             |            |
| Gary R. Maharaj       | 1,899,157                 | 1,446,456                  | 1,319,917             | 213,579              | 33,280                 | 4,912,389                   |            |
| Andrew D. C. LaFrence | 771,120                   | 512,102                    | 482,518               | 81,634               | 32,808                 | 1,880,181                   |            |
| Charles W. Olson      | 815,640                   | 512,102                    | 477,809               | 81,634               | 27,047                 | 1,914,232                   |            |
| Bryan K. Phillips     | 856,520                   | 512,102                    | 477,809               | 81,634               | 932                    | 1,928,997                   |            |
| Joseph J. Stich       | 731,640                   | 512,102                    | 477,809               | 81,634               | 26,875                 | 1,830,060                   |            |

- (1) Represents estimated severance benefits that would be paid following an eligible termination occurring after a change of control. For Mr. Maharaj, this amount is equal to two and one-half times the average cash compensation (i.e., annual salary and cash incentive payments) paid to him during the three most recent taxable years prior to such termination. For all other executives, this amount is equal to two times the sum of the executive's annual salary and the target annual cash incentive opportunity.
- (2) Represents the target value of outstanding and unvested performance share awards, except for the performance shares granted for the three-year performance period ended September 30, 2016, which payout value is based on actual performance through September 30, 2016.
- (3) Represents the market gain (intrinsic value) of unvested options as of September 30, 2016 at the closing price on that date of \$30.09 per share.
- (4) Represents the value of unvested restricted stock awards as of September 30, 2016 at the closing price on that date of \$30.09 per share.
- (5) Represents the estimated value of the continuation of coverage under life, health, and dental benefit plans for up to eighteen months.

**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's executive officers, directors and persons who own more than 10% of the Company's common stock to file with the SEC initial reports of ownership and reports of changes in ownership of common stock and other equity securities of the Company. Officers, directors and greater than 10% shareholders are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file.

To our knowledge and based on written representations from our officers and directors, we believe that all reports required to be filed pursuant to Section 16(a) during the fiscal year ended September 30, 2016, were filed in a timely manner, except for (a) a Form 4 filing in February 2016 for Mr. LaFrence reporting the withholding of shares to satisfy taxes incident to vesting of a restricted stock award, (b) a Form 3 filing for Thomas Greaney in November 2015 upon his becoming subject to Section 16(a), and (c) a Form 3 filing for Gregg Sutton in January 2016 upon his becoming subject to Section 16(a).



## AUDIT COMMITTEE REPORT

The Board of Directors maintains an Audit Committee comprised of three of the Company's outside directors, including the directors listed below who were the members of the committee at the end of the fiscal year ended September 30, 2016. In accordance with the written charter adopted by the Board of Directors, the Audit Committee assists the Board of Directors with fulfilling its oversight responsibility regarding the quality and integrity of the accounting, auditing and financial reporting practices of the Company. In discharging its oversight responsibilities regarding the audit process, the Audit Committee:

- (1) reviewed and discussed the audited financial statements with management;
- (2) discussed with the Company's independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standards No. 16, Communications with Audit Committees, as amended or supplemented; and
- (3) received the written disclosures and the letter from the independent registered public accounting firm required by the applicable requirements of the Public Company Accounting Oversight Board regarding the registered public accounting firm's communications with the audit committee concerning independence, and has discussed with the independent registered public accounting firm the firm's independence.

Based upon the review and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2016, as filed with the SEC.

### Members of the Audit Committee:

Ronald B. Kalich, Chair

Susan E. Knight

Shawn T McCormick

### Audit and Other Fees

Set forth below are the aggregate fees billed by Deloitte & Touche LLP, our independent registered public accounting firm, for each of our last two fiscal years:

|                               | Fiscal year ended September 30 |                   |
|-------------------------------|--------------------------------|-------------------|
|                               | 2016                           | 2015              |
| Audit Fees <sup>(1)</sup>     | \$ 780,621                     | \$ 404,955        |
| Audit-Related Fees            |                                |                   |
| Tax Fees                      |                                |                   |
| All Other Fees <sup>(2)</sup> | 2,600                          | 2,600             |
| <b>Total</b>                  | <b>\$ 783,221</b>              | <b>\$ 407,555</b> |

(1) Audit services consisted principally of services related to the audit of our consolidated financial statements included in our Annual Reports on Form 10-K and review of financial statements included in our Quarterly Reports on Form 10-Q.

(2) All other fees for fiscal years 2016 and 2015 related to subscription fees for access to technical accounting materials.

The Company's Audit Committee pre-approved all of the services described in each of the items above. In addition, the Audit Committee considered whether provision of the above non-audit services was compatible with maintaining Deloitte & Touche LLP's independence and determined that such services did not adversely affect Deloitte & Touche LLP's independence.

## **RATIFICATION OF APPOINTMENT OF INDEPENDENT**

### **REGISTERED PUBLIC ACCOUNTING FIRM**

#### **(Proposal #3)**

The Audit Committee of the Board of Directors of the Company has appointed the firm of Deloitte & Touche LLP to serve as the independent registered public accounting firm of the Company for the fiscal year ending September 30, 2017, subject to ratification of this appointment by the shareholders of the Company. Deloitte & Touche LLP has acted as the Company's independent registered public accounting firm since fiscal 2002. In the event that shareholders do not ratify the selection of Deloitte & Touche LLP, the Audit Committee will re-evaluate their selection as the Company's independent registered public accounting firm for fiscal 2017.

Representatives of Deloitte & Touche LLP are expected to be present at the virtual Annual Meeting, will be given an opportunity to make a statement regarding financial and accounting matters of the Company if they so desire, and will be available to respond to appropriate questions from the Company's shareholders.

The Board of Directors recommends that you vote **FOR** the ratification of the appointment of Deloitte & Touche LLP as the independent registered public accounting firm of the Company for the fiscal year ending September 30, 2017.

## **ADVISORY VOTE ON EXECUTIVE COMPENSATION**

#### **(Proposal #4)**

The Company is presenting the following proposal, which gives you as a shareholder the opportunity to endorse or not endorse the compensation of our named executive officers as described in this proxy statement by voting for or against the following resolution. This resolution is required pursuant to Section 14A of the Securities Exchange Act. While our Board of Directors intends to carefully consider the shareholder vote resulting from the proposal, the final vote will not be binding on us and is advisory in nature.

RESOLVED, that the shareholders approve the compensation of the Company's named executive officers, as disclosed in the Compensation Discussion and Analysis, the compensation tables, and the related disclosure contained in the proxy statement set forth under the caption "Executive Compensation and Other Information" of this proxy statement.

The Board believes that our fiscal 2017 executive compensation programs were tailored to our company's business strategies, aligned pay with performance and reflect many of the best practices regarding executive compensation. Accordingly, the Board of Directors recommends that you vote **FOR** approval of the compensation of our named executive officers as disclosed in the Compensation Discussion and Analysis, the compensation tables, and the related disclosure contained in the proxy statement set forth under the caption "Executive Compensation and Other Information" of this proxy statement. Proxies will be voted **FOR** approval of the proposal unless otherwise specified.

The Board has decided that the Company will hold an advisory vote on the compensation of the Company's named executive officers (the Say-on-Pay Vote) annually until determining the outcome of the frequency of the Say-on-Pay Vote as set forth in Proposal #5 at our annual meeting or until the Board determines that it is in the best interest of the Company to hold such vote with a different frequency.

## **ADVISORY VOTE ON FREQUENCY OF SHAREHOLDER ADVISORY VOTES ON EXECUTIVE COMPENSATION**

#### **(Proposal #5)**

The Company is presenting the following proposal, which gives you as a shareholder the opportunity to inform the Company as to how often you wish the Company to include a proposal, similar to Proposal #4, in our proxy statement. Companies are required to provide a separate shareholder advisory vote once every six years to determine whether the Say-on-Pay Vote should occur every year, every two years or every three years and our shareholders last voted on this matter at our 2011 annual meeting of shareholders. We believe that approval of executive compensation should continue to occur every year because the Company believes that an annual advisory vote would allow our shareholders to provide us with their direct input on our compensation philosophy, policies and practices as disclosed in our proxy statement every year.

The Company is asking shareholders to vote on whether the say-on-pay vote should occur every year, every two years or every three years. As an advisory vote, this proposal is non-binding on the Company. If none of the options (e.g. year, two years or three years) receives a majority vote, the Board will consider the option receiving the most votes to have received the advisory approval of the shareholders.

The Board of Directors unanimously recommends that you vote to hold an advisory vote on executive compensation every **YEAR**.

## SHAREHOLDER PROPOSALS

Any appropriate proposal submitted by a shareholder of the Company and intended to be presented at the 2018 annual meeting of shareholders must be received by the Company by August 25, 2017, to be considered for inclusion in the Company's proxy statement and related materials for the 2018 annual meeting. Any other shareholder proposal intended to be presented at the 2018 annual meeting, but not included in the Company's proxy statement and related materials, must be received by the Company on or before November 16, 2017.

## ANNUAL REPORT

The notice regarding the availability of proxy materials will contain instructions as to how you can access our Annual Report to Shareholders, including our Annual Report on Form 10-K containing financial statements for the fiscal year ended September 30, 2016, over the internet. It will also tell you how to request, free of charge, a paper or e-mail copy of our Annual Report on Form 10-K.

## EXHIBITS TO FORM 10-K

**The Company will furnish to each person whose Proxy is being solicited, upon written request of any such person, a copy of any exhibit described in the exhibit list accompanying the Form 10-K, upon the payment, in advance, of reasonable fees related to the Company's furnishing such exhibit(s). Requests for copies of such exhibit(s) should be directed to Mr. Bryan K. Phillips, Corporate Secretary, at the Company's principal address.**

## OTHER BUSINESS

Neither management nor the Board knows of any matters to be presented at the Annual Meeting other than the matters described above. If any other matter properly comes before the Annual Meeting, the appointees named in the Proxies will vote the Proxies in accordance with their best judgment.

Your vote is very important no matter how many shares you own. You are urged to read this proxy statement carefully and, whether or not you plan to attend the Annual Meeting, to promptly submit a proxy by following the instructions for voting provided in the proxy.

BY ORDER OF THE BOARD OF DIRECTORS

Susan E. Knight

Chair of the Board

Dated: December 23, 2016

Eden Prairie, Minnesota

**VOTE BY INTERNET**

*SURMODICS, INC.*

*Before The Meeting - Go to [www.proxyvote.com](http://www.proxyvote.com)*

*9924 WEST 74TH STREET*

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 p.m. Eastern Time the day before the meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

*EDEN PRAIRIE, MN 55344-3523*

*During The Meeting - Go to [www.virtualshareholdermeeting.com/SRD17](http://www.virtualshareholdermeeting.com/SRD17)*

You may attend the Meeting via the Internet and vote during the Meeting. Have the information that is printed in the box marked by the arrow available and follow the instructions.

**VOTE BY PHONE - 1-800-690-6903**

Use any touch-tone telephone to transmit your voting instructions up until 11:59 p.m. Eastern Time the day before the meeting date. Have your proxy card in hand when you call and then follow the instructions.

**VOTE BY MAIL**

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

E16039-P84333

KEEP THIS PORTION FOR YOUR RECORDS

**THIS PROXY CARD IS VALID ONLY WHEN SIGNED DETACH AND RETURN THIS PORTION ONLY AND DATED.**

**SURMODICS,  
INC.**

**For All**   **Withhold All**   **For All Except**

To withhold authority to vote for any individual nominee(s), mark **For All Except** and write the number(s) of the nominee(s) on the line below.

**The Board of Directors recommends you vote FOR the following:**

1. Election of Class III Directors

**Nominees**

- 01) José H. Bedoya
- 02) Susan E. Knight

**The Board of Directors recommends you vote FOR the following proposals:**

**For   Against   Abstain**

2. Set the number of directors at six (6);
3. Ratify the appointment of Deloitte & Touche LLP as SurModics independent registered public accounting firm for fiscal year 2017;
4. To approve, in a non-binding advisory vote, the Company's executive compensation; and

**The Board of Directors recommends you vote 1 year on the following proposal:   1 Years   2 Years   3 Years   Abstain**

5. Approve, in a non-binding advisory vote, the frequency of the non-binding advisory vote on executive compensation.

Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Jointly owned shares will be voted as directed unless another owner instructs to the contrary, in which case, the shares will not be voted. If a corporation or partnership, please sign in full corporate or

partnership name by authorized officer.

Signature [PLEASE      Date  
SIGN WITHIN BOX]

Signature (Joint Owners)

Date

V.1.2



**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:**

The Notice and Proxy Statement/10K is available at [www.proxyvote.com](http://www.proxyvote.com).

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**SURMODICS, INC.**

**Annual Meeting of Shareholders**

**February 14, 2017 4:00 PM**

**This proxy is solicited by the Board of Directors**

**The shareholder(s) hereby appoint(s) Gary R. Maharaj and Andrew D.C. LaFrence, or either of them, as proxies, each with the power to appoint his substitute, and hereby authorize(s) them to represent and to vote, as designated on the reverse side of this proxy, all of the shares of common stock of SURMODICS, INC. that the shareholder(s) is/are entitled to vote at the Annual Meeting of Shareholders to be held at 4:00 PM, CST on February 14, 2017 as a virtual meeting at [www.virtualshareholdermeeting.com/SRDX17](http://www.virtualshareholdermeeting.com/SRDX17), and any adjournment or postponement thereof.**

**This proxy, when properly executed, will be voted in the manner directed herein. If no such direction is made, this proxy will be voted in accordance with the Board of Directors' recommendations.**

**Continued and to be signed on reverse side**

V.1.2