Battelle Memorial Institute and Subsidiaries

Consolidated Financial Statements as of and for the Years Ended September 30, 2009 and 2008, and Independent Auditors' Report

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance And Other Matters based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

BATTELLE MEMORIAL INSTITUTE AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Battelle Memorial Institute and subsidiaries
Columbus, Ohio

We have audited the accompanying consolidated balance sheets of Battelle Memorial Institute and its subsidiaries (the "Company") as of September 30, 2009 and 2008, and the related consolidated statements of income, changes in equity balances, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of September 30, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14 to the consolidated financial statements, effective October 1, 2008, the Company adopted Accounting Standards Codification 715-20-65 "FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans,*" to change the measurement dates of the pension and postretirement plans to September 30.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2009, on our consideration of the Company's internal control over financial reporting and our tests of its compliance and other matters. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Deloitte & Touche LLP

December 15, 2009

BATTELLE MEMORIAL INSTITUTE AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2009 AND 2008
(In thousands)

ASSETS	**2009**	**2008**
CURRENT ASSETS:		
Cash and cash equivalents	$ 96,222	$ 78,387
Securities available-for-sale — current portion	4,202	1,201
Restricted cash	20,335	19,679
Accounts receivable — net	266,615	278,115
Prepayments and other current assets	21,497	24,172
Total current assets	408,871	401,554
SECURITIES AVAILABLE-FOR-SALE	348,500	326,270
OTHER INVESTMENTS	79,348	57,725
PROPERTY AND EQUIPMENT:		
Property and equipment — at cost	688,775	646,963
Less accumulated depreciation	(351,278)	(336,799)
Property and equipment — net	337,497	310,164
PREPAID PENSION COSTS		182,415
GOODWILL	14,655	14,655
OTHER INTANGIBLES AND OTHER ASSETS — Net	6,800	6,313
TOTAL	$1,195,671	$1,299,096

(Continued)

BATTELLE MEMORIAL INSTITUTE AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2009 AND 2008
(In thousands)

	2009	2008
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Notes and debt payable	$ 4,122	$ 2,563
Accounts payable	80,234	89,308
Corporate taxes payable	5,715	4,310
Payroll and other current benefit related liabilities	66,533	66,342
Advance payments from clients	44,833	46,746
Accrued expenses and other liabilities	29,207	27,395
Total current liabilities	230,644	236,664
Long-term notes and debt payable	155,823	105,691
Long-term benefit related liabilities	5,322	6,445
Accrued pension and postretirement benefits	151,783	49,871
Other	21,301	17,555
Total liabilities	564,873	416,226
MINORITY INTERESTS IN SUBSIDIARIES	8,714	11,380
EQUITY:		
Retained for scientific and educational purposes of The Battelle Will	825,016	798,603
Capital contribution in subsidiary	14,375	14,375
Accumulated other comprehensive income:		
Net unrealized gains on available-for-sale securities	59,060	72,869
Net unrealized gains from foreign currency translation	4,864	4,692
Net unrealized loss on interest rate swap	(6,759)	(3,267)
Pension and postretirement benefits	(274,472)	(15,782)
Total equity	622,084	871,490
TOTAL	$1,195,671	$1,299,096

See notes to consolidated financial statements. (Concluded)

BATTELLE MEMORIAL INSTITUTE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008
(In thousands)

	2009	2008
REVENUES:		
Revenue from operations	$4,838,074	$4,598,877
Royalty, license, and patent income	34,702	14,822
Other revenue	6,039	4,237
Total revenues	4,878,815	4,617,936
COST OF OPERATIONS	4,816,582	4,559,140
EXCESS OF TOTAL REVENUES OVER COST OF OPERATIONS	62,233	58,796
NONOPERATING COSTS:		
Research and development expense	(31,323)	(36,969)
Distributions	(21,237)	(12,098)
Interest expense	(6,611)	(7,897)
Investment income — net	10,893	22,913
Gain on sale of subsidiary	26,112	
Other — net	(6,322)	(9,844)
Total nonoperating costs	(28,488)	(43,895)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	33,745	14,901
INCOME TAX (EXPENSE) BENEFIT	(1,211)	55
NET INCOME BEFORE MINORITY INTERESTS	32,534	14,956
MINORITY INTERESTS IN SUBSIDIARIES' NET INCOME	(850)	(2,092)
NET INCOME	$ 31,684	$ 12,864

See notes to consolidated financial statements.

BATTELLE MEMORIAL INSTITUTE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY BALANCES
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008
(In thousands)

	Comprehensive Income (Loss)	Retained for Scientific and Educational Purposes of The Battelle Will	Capital Contribution in Subsidiary	Accumulated Other Comprehensive Income (Loss)	Total
EQUITY BALANCE — September 30, 2007		$785,739	$14,375	$ 224,366	$1,024,480
Comprehensive income (loss):					
Net income	$ 12,864	12,864			12,864
Other comprehensive loss:					
Unrealized loss on available-for-sale securities	(98,720)				
Unrealized loss on foreign currency translation	(1,519)				
Change in fair value of interest rate swap	(2,664)				
Pension and postretirement benefits	(62,951)				
Other comprehensive loss	(165,854)			(165,854)	(165,854)
Comprehensive loss	$ (152,990)				
EQUITY BALANCE — September 30, 2008		798,603	14,375	58,512	871,490
Comprehensive income (loss):					
Net income	$ 31,684	31,684			31,684
Other comprehensive loss:					
Unrealized loss on available-for-sale securities	(13,809)				
Unrealized gain on foreign currency translation	172				
Change in fair value of interest rate swap	(3,492)				
Pension and postretirement benefits	(259,512)				
Other comprehensive loss	(276,641)			(276,641)	(276,641)
Comprehensive loss	$ (244,957)				
Adjustment to apply change in measurement dates of pension and postretirement plans		(5,271)		822	(4,449)
EQUITY BALANCE — September 30, 2009		$825,016	$14,375	$(217,307)	$ 622,084

See notes to consolidated financial statements.

BATTELLE MEMORIAL INSTITUTE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008
(In thousands)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 31,684	$ 12,864
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property and equipment	31,527	30,473
Amortization of intangible assets	1,801	2,079
Gain on sales of securities — net	(1,824)	(16,154)
Loss on other investments	13,216	16,332
Loss on sale of property and equipment	2,443	1,058
Gain on sale of subsidiary	(26,112)	
Minority interests in subsidiaries' net income	850	2,092
Pension and postretirement benefits expense	21,086	11,809
Effects of changes in operating assets and liabilities:		
Restricted cash	(656)	(6,402)
Accounts receivable	14,837	(11,063)
Accounts payable	(20,877)	(1,670)
Corporate taxes payable	1,356	463
Payroll and other benefit related liabilities	(1,710)	1,332
Advance payments from clients	(2,787)	1,965
Accrued expenses and other	(263)	(1,919)
Net cash provided by operating activities	64,571	43,259
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from disposal of property and equipment	9	515
Additions to property and equipment	(52,087)	(49,119)
Proceeds from sales and maturities of securities	239,109	301,871
Purchase of securities	(281,416)	(242,029)
Proceeds from sale of subsidiary	3,572	
Distributions from other investments	8,841	
Contributions to other investments and other	(12,996)	(25,173)
Net cash used in investing activities	(94,968)	(13,935)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds (repayments) of lines of credit	2,130	(1,246)
Payments on notes payable	(500)	(6,461)
Proceeds on notes payable	50,000	500
Capital (distributions) contributions from/to minority interests	(3,525)	958
Net cash provided by (used in) financing activities	48,105	(6,249)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	127	(811)
NET INCREASE IN CASH AND CASH EQUIVALENTS	17,835	22,264
CASH AND CASH EQUIVALENTS:		
Beginning of year	78,387	56,123
End of year	$ 96,222	$ 78,387
SUPPLEMENTAL DISCLOSURES:		
Income tax payments — net of refunds	$ 786	$ (32)
Interest paid — net of amounts capitalized	$ 5,974	$ 7,181
Capital additions in accounts payable	$ 10,333	$ -
SALE OF VELOCYS		
Assets disposed and liabilities assumed	$ (5,351)	
Liabilities transferred	8,405	
Gain on sale	26,112	
Other investments received from buyer	(25,594)	
CASH RECEIVED	$ 3,572	

See notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES

Description — Battelle Memorial Institute ("Battelle") is a nonprofit Ohio corporation headquartered in Columbus, Ohio with offices throughout the United States and in foreign countries. Battelle was formed in 1925 pursuant to the Will of Gordon Battelle for the purpose of using technology to deliver practical solutions to the problems of government and industry, and of making distributions to charitable causes. Battelle's major source of revenue is from providing technology-based research, management, commercialization, and educational services to government and industrial clients primarily in the United States, and also in more than 30 other countries. Although Battelle is organized as a nonprofit corporation, its business characteristics are such that it is considered to be a business enterprise for financial reporting under accounting principles generally accepted in the United States of America.

Principles of Consolidation — The accompanying consolidated financial statements include the accounts of Battelle and all significant subsidiaries. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements. In addition, Battelle evaluates its relationships with other entities to identify whether they are variable interest entities (VIEs) as defined by Accounting Standards Codification (ASC) 810-10-15-13 through 810-10-15-17, *Variable Interest Entities*, and to assess whether it is the primary beneficiary of such entities. If the determination is made that Battelle is the primary beneficiary, then that entity is included in the consolidated financial statements in accordance with ASC 810. Battelle has performed an evaluation of subsequent events through December 16, 2009, which is the date the consolidated financial statements were issued. There were no subsequent events noted.

Translation of Foreign Currency Financial Statements — Assets and liabilities of foreign operations have been translated into United States dollars at the applicable rates of exchange in effect at the end of the period. Revenues, expenses, and cash flows have been translated at the applicable weighted-average rates of exchange in effect during the period.

Cash and Cash Equivalents and Restricted Cash — Cash and cash equivalents of $96,222 and $78,387 as of September 30, 2009 and 2008, respectively, consisted primarily of money market funds or other short-term investments with an initial term of less than 90 days. Restricted cash of $20,335 and $19,679 as of September 30, 2009 and 2008, respectively, consisted primarily of money market funds or other short-term investments with an initial term of less than 90 days.

Brookhaven Science Associates, LLC (BSA) receives certain funds from government and commercial customers on behalf of the Department of Energy's (DOE) Brookhaven National Laboratory operations in the form of net patent income and grants, which may run for a period of one year or longer. The use of the funds is deferred until Brookhaven National Laboratory incurs qualified grant or research expenditures. Cash received over expenses incurred is reflected by BSA as cash and cash equivalents with a corresponding liability to advance payments from clients until utilized on the consolidated balance sheets. Brookhaven National Laboratory generally performs the work related to BSA grant funds and is reimbursed through BSA for the costs of such work. As of September 30, 2009 and 2008, there was $11,383 and $10,533, respectively, restricted for this purpose.

Under the UT-Battelle, LLC (UT-B) management and operations contract of the Oak Ridge National Laboratory (ORNL), UT-B is authorized to negotiate licensing agreements for intellectual property developed by ORNL employees, collect royalties, and make disbursements from royalty funds received for specific expenditures. UT-B has custodial responsibility to maintain the asset accounts holding royalty funds received and to disburse the funds as defined in the contract. As of September 30, 2009 and 2008, there was $4,399 and $4,461, respectively, restricted for this purpose with a corresponding liability recorded as advance payments from clients until utilized on the consolidated balance sheets.

Certain funds are received by Battelle for subsequent use in specified education initiatives. Any funds not eventually used in the specified education initiatives must be returned to the grantor. The funds received are invested in highly liquid investments until used and the earnings from such investments are subsequently used for the initiatives or returned to the grantor. As of September 30, 2009 and 2008, there was $4,528 and $4,660, respectively, restricted for this purpose with a corresponding liability recorded as advance payments from clients until utilized on the consolidated balance sheets.

As of September 30, 2009 and 2008, there was $25 cash that was restricted related to various other subsidiaries.

Accounts Receivable — Net — Battelle grants credit on open accounts to its customers, the majority of whom are government agencies. Due to the nature of its customer base, Battelle's historical credit risk has been low. Battelle generally requires payment within 30 days from delivery or at specific milestone dates as prescribed under the terms of its contract and has not provided payment terms greater than one year under any type of vendor financing arrangements. However, Battelle does establish a provision for doubtful accounts for potentially uncollectible accounts. Battelle estimates the necessary provision based on its analysis of funding appropriations versus performance under contract, customers' payment history, and other known factors concerning their current financial condition and ability to pay.

Securities Available-for-Sale — Battelle's debt and equity securities are classified as available-for-sale and are carried at fair value. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from net income and reported as other comprehensive income until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a specific identification basis. Other-than-temporary declines in value below cost are recognized in net income. Battelle analyzes other-than-temporary impairments using criteria including: amount of unrealized loss, length of holding period, and recent performance of the security. Dividend income is recognized on the ex-dividend date. Interest income is recognized as earned.

Property and Equipment — Property and equipment are recorded at cost, including capitalized interest on construction in progress. Interest capitalized was $670 and $239 for the years ended September 30, 2009 and 2008, respectively. Depreciation has been provided using the straight-line method based on the estimated useful lives of each major class of assets.

Goodwill and Other Intangible Assets — Goodwill represents the excess of costs over fair value of assets of businesses acquired. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually. Intangible assets with estimable useful lives are amortized over their respective estimated useful lives to estimated residual values, and reviewed for impairment as outlined below in Impairment or Disposal of Long-Lived Assets.

Impairment or Disposal of Long-Lived Assets — Battelle's long-lived assets and certain identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Derivatives — Derivatives are recorded at fair value. Derivatives that are not hedges are recorded at fair value through earnings. If a derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative are either offset against the change in fair value of underlying assets or liabilities through earnings or recognized in other comprehensive income until the underlying hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings.

Accounts Payable — Accounts payable includes $8,606 and $9,244 as of September 30, 2009 and 2008, respectively, attributable to book overdrafts.

Pension and Other Postretirement Plans — Battelle has defined benefit pension and postretirement plans covering all salaried and eligible hourly employees of its corporate operations. Benefits are based on annual compensation and credited service.

Battelle also maintains a defined contribution plan, adopted for the purpose of providing a savings plan for the benefit of salaried and hourly employees of Battelle Memorial Institute. Each employee may contribute between 1% and 50% of his or her salary in multiples of whole percentages. Employer contributions are made at 50% of each individual employee's contribution, up to a maximum of 4% of the employee's salary, subject to other limitations specified in the plan. Employer contribution expense related to the plan amounted to $21,177 in 2009 and $20,239 in 2008.

Revenue Recognition — Revenues for services performed are recognized using the percentage-of-completion method as the costs of performing the work are incurred. Periodic reviews are made as work progresses and a provision is made for any estimated unrecoverable amounts.

Battelle's revenues from operations result primarily from contract research and other services under a variety of contracts, some of which provide for reimbursement of cost, plus fees and others of which are fixed-price or time and materials type contracts. Battelle generally recognizes revenue when a contract has been executed, the contract price is fixed or determinable, the services have been rendered, and collectability of the contract price is considered probable.

Revenue on cost-plus contracts is recognized as costs are incurred and include a proportionate share of the fees earned. Under time and materials contracts, labor and related costs are reimbursed at negotiated, fixed hourly rates. Revenue on time and materials contracts is recognized as labor hours and direct expenses are incurred. The percentage-of-completion method is used to recognize revenue on fixed-price contracts based on various performance measures.

From time to time, facts develop that require Battelle to revise its estimated total costs or revenues expected. The cumulative effect of revised estimates on revenue recognized under the percentage-of-completion method is recorded in the period in which the facts requiring revisions become known. Anticipated losses on any type of contract are recognized in the period in which they become known.

Contracts or contract modifications with agencies of the federal government are subject to periodic funding by the contracting agency concerned. Funding for a contract may be appropriated in full at inception of the contract or throughout the term of the contract as services are provided. If funding is not assessed as probable, revenue is not recognized.

Contract costs on U.S. government contracts, including indirect costs, are subject to audit by the federal government and adjustment pursuant to negotiations between Battelle and government representatives. All of Battelle's federal contract indirect costs have been agreed upon through fiscal year 2006. Fiscal years 2008 and 2007 indirect costs audits are in process. Contract revenue on U.S. government contracts has been recorded in amounts that are expected to be realized upon final settlement. In the opinion of management, the outcome of these matters will not have a material effect on Battelle's financial position or results of operations.

Royalties, license, and patent income are recognized when earned and collectible.

Distributions — Commitments for unconditionally pledged charitable distributions are accrued when made.

Income Taxes — Battelle is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3), except for income arising from unrelated business activities. Certain Battelle subsidiaries file individually as taxable legal entities. Accordingly, the accompanying consolidated financial statements include tax provisions for consolidated subsidiaries and for certain federal, state, local, and foreign taxes. Other subsidiaries, including BSA, UT-B, and Battelle Ventures, L.P. are treated as partnerships for federal income tax purposes. Accordingly, profits and losses are passed directly to partners for inclusion in their income tax returns.

For Battelle's taxable subsidiaries or nonexempt state, local, and foreign jurisdictions, income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Use of Estimates — The preparation of the consolidated financial statements requires management of Battelle to make a number of estimates and assumptions relating to the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Recently Issued Accounting Pronouncements — In September 2006, the Financial Accounting Standards Board (FASB) issued new accounting guidance on fair value measurements. This guidance defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States of America (GAAP) and expands disclosures about fair value measurements. This guidance is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Refer to Note 5 for the disclosure regarding the Company's adoption of this new accounting guidance.

In September 2006, the FASB issued guidance that allowed entities to choose to measure many financial instruments and certain other items at fair value in fiscal years beginning after November 15, 2007. Battelle did not elect the fair value options promulgated by this standard. Therefore, there is no impact to the consolidated financial statements.

In September 2006, FASB issued new accounting guidance surrounding pension and other postretirement plans' assets and benefit obligations. The measurement date requirement was effective for this fiscal year. Refer to Note 14 for disclosure regarding the Company's adoption of the new measurement date requirement.

In December 2007, the FASB issued new accounting guidance on the accounting and reporting for business combinations and minority interests in consolidated financial statements. This guidance is effective for fiscal years beginning after December 15, 2008. Battelle is currently evaluating the impact on the Company's consolidated financial statements.

In December 2007, the FASB issued new accounting guidance to clarify that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. This changes the way the consolidated income statement is presented by requiring consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. The guidance also establishes a single method of accounting for changes in parent's ownership interest in a subsidiary that do not result in deconsolidation. The guidance is effective for fiscal years beginning after December 15, 2008. Battelle is currently assessing the impact on its consolidated financial statements.

In March 2008, the FASB issued guidance to enhance the disclosure requirements for derivative instruments and hedging activities. Affected entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedge items are accounted for, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. The guidance is effective for fiscal years beginning on or after November 15, 2008. Battelle is currently assessing the impact on its consolidated financial statements.

In May 2009, the FASB issued guidance to establish standards for accounting and disclosure of events that occur after the balance sheet date but before financial statements are issued. This guidance is effective for fiscal years ending after June 15, 2009. The adoption of the guidance did not have a material impact on Battelle's financial position or results of operations.

In June 2009, the FASB issued new accounting guidance regarding the consolidation of VIEs. This guidance improves the financial reporting by enterprises involved with variable interest entities. This guidance is effective for fiscal years beginning after November 15, 2009. Battelle is in the process of determining the impact of adopting this new accounting guidance.

In June 2009, The FASB issued the Accounting Standards Codification (the "Codification"), which became the source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities effective July 1, 2009. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. Effective July 1, 2009, the Codification superseded all then-existing non-SEC accounting and reporting standards.

2. ACCOUNTS RECEIVABLE

A summary of accounts receivable as of September 30, 2009 and 2008, was as follows:

	2009	2008
Government (primarily United States government):		
Billed	$ 78,259	$ 84,506
Unbilled	135,355	151,696
	213,614	236,202
Commercial:		
Billed	28,145	23,792
Unbilled	25,981	23,449
	54,126	47,241
Other	9,496	8,381
Total accounts receivable	277,236	291,824
Less provision for doubtful accounts	(10,621)	(13,709)
Accounts receivable — net	$ 266,615	$ 278,115

3. SECURITIES AVAILABLE-FOR-SALE

Securities available-for-sale as of September 30, 2009 and 2008, were as follows:

2009	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Equity securities	$ 160,405	$ 66,795	$ (1,585)	$ 225,615
U.S. corporate debt securities:				
Maturing within 1 year	2,495	69	(45)	2,519
Maturing between 1 and 5 years	7,892	504	(91)	8,305
Maturing between 5 and 10 years	6,928	539	(22)	7,445
Maturing beyond 10 years	1,519	189	(12)	1,696
U.S. government agency debt securities:				
Maturing within 1 year	1,377		(8)	1,369
Maturing between 1 and 5 years	846	75		921
Maturing between 5 and 10 years	11,329	1,074	(10)	12,393
Maturing beyond 10 years	660	55		715
Mortgage-backed securities:				
Maturing within 1 year	309	5		314
Maturing between 1 and 5 years	1,568	77		1,645
Maturing between 5 and 10 years	19,362	1,151	(384)	20,129
Maturing beyond 10 years	47,811	3,428	(1,901)	49,338
Other	20,298			20,298
Total securities available-for-sale	282,799	73,961	(4,058)	352,702
Less current portion	(4,181)	(74)	53	(4,202)
Total securities available-for-sale — less current portion	$ 278,618	$ 73,887	$ (4,005)	$ 348,500

2008	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Equity securities	$113,736	$ 93,742	$ (3,525)	$203,953
U.S. corporate debt securities:				
Maturing within 1 year	390	39	(1)	428
Maturing between 1 and 5 years	10,865	32	(827)	10,070
Maturing between 5 and 10 years	9,353	11	(964)	8,400
Maturing beyond 10 years	15,265	46	(1,301)	14,010
U.S. government agency debt securities:				
Maturing within 1 year	754	19		773
Maturing between 1 and 5 years	1,533	45	(7)	1,571
Maturing between 5 and 10 years	12,254	727		12,981
Maturing beyond 10 years	2,388	55		2,443
Mortgage-backed securities:				
Maturing between 1 and 5 years	281	4		285
Maturing between 5 and 10 years	15,225	289	(14)	15,500
Maturing beyond 10 years	36,409	869	(324)	36,954
Other	26,100		(5,997)	20,103
Total securities available-for-sale	244,553	95,878	(12,960)	327,471
Less current portion	(1,144)	(58)	1	(1,201)
Total securities available-for-sale — less current portion	$243,409	$ 95,820	$(12,959)	$326,270

Proceeds from the sale and maturities of securities available-for-sale were $239,109 and $301,871 in 2009 and 2008, respectively. The gross realized gains included in income were $36,456 and $38,422 in 2009 and 2008, respectively, and the gross realized losses included in income were $34,632 and $22,268 in 2009 and 2008, respectively. The gross realized losses, which are included in investment income — net, include the decline in the value of certain available-for-sale securities deemed to be other than temporary resulting in a write down of $6,806 and $587 in 2009 and 2008, respectively, to fair value.

Battelle received approval of tax exemption under Internal Revenue Code Section 501(c)(3) effective May 9, 2001. At that time, the unrealized gain on securities available-for-sale was recorded net of tax in accumulated other comprehensive income. Due to the change in tax status, Battelle eliminated the deferred taxes associated with the unrealized gain. The impact of deferred taxes included in accumulated other comprehensive income will be recognized as a component of investment income when the portfolio is sold.

The following table shows Battelle's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in continuous unrealized loss positions, as of September 30, 2009 and 2008:

	Less Than 12 Months		12 Months or Longer		Total	
2009	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Equity securities	$ 16,299	$ (769)	$ 10,334	$ (816)	$ 26,633	$ (1,585)
U.S. corporate debt securities:						
Maturing within 1 year			782	(45)	782	(45)
Maturing between 1 and 5 years			626	(91)	626	(91)
Maturing between 5 and 10 years	211	(1)	618	(21)	829	(22)
Maturing beyond 10 years			81	(12)	81	(12)
U.S. government agency debt securities:						
Maturing within 1 year			1,369	(8)	1,369	(8)
Maturing between 1 and 5 years						
Maturing between 5 and 10 years	306	(10)			306	(10)
Mortgage backed securities:						
Maturing between 1 and 5 years	15				15	
Maturing between 5 and 10 years	559	(341)	1,121	(43)	1,680	(384)
Maturing beyond 10 years	2,942	(494)	6,557	(1,407)	9,499	(1,901)
Other	20,298				20,298	
Total	$ 40,630	$ (1,615)	$ 21,488	$ (2,443)	$ 62,118	$ (4,058)

	Less Than 12 Months		12 Months or Longer		Total	
2008	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Equity securities	$ 6,225	$ (398)	$ 19,632	$ (3,127)	$ 25,857	$ (3,525)
U.S. corporate debt securities:						
Maturing within 1 year			28	(1)	28	(1)
Maturing between 1 and 5 years	5,022	(609)	2,237	(218)	7,259	(827)
Maturing between 5 and 10 years	4,806	(541)	3,630	(423)	8,436	(964)
Maturing beyond 10 years	8,338	(769)	3,803	(532)	12,141	(1,301)
U.S. government agency debt securities:						
Maturing between 1 and 5 years	616	(7)			616	(7)
Maturing between 5 and 10 years	452				452	-
Mortgage backed securities:						
Maturing between 1 and 5 years	28		3		31	-
Maturing between 5 and 10 years	1,003	(9)	583	(5)	1,586	(14)
Maturing beyond 10 years	3,243	(76)	2,309	(248)	5,552	(324)
Other	20,103	(5,997)			20,103	(5,997)
Total	$ 49,836	$ (8,406)	$ 32,225	$ (4,554)	$ 82,061	$ (12,960)

Unrealized losses related to equity securities, which consist of 142 and 136 investments, as of September 30, 2009 and 2008, respectively, are a result of fluctuations in the market value of equity securities and not symptomatic of a long-term decline in value of the equity securities. In accordance with the criteria established in Note 1 and reviews of analysts' market price projections, the securities are believed to only be temporarily impaired.

4. OTHER INVESTMENTS

Battelle holds investments in limited partnerships, private equity, and other investments. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material. The amount of gain or loss associated with these investments is reflected in the accompanying consolidated financial statements using the cost, equity, or consolidated method of accounting, whichever is applicable. The Board of Directors of Battelle have approved investment guidelines that provide for up to 7% of the total investment portfolio to be invested in commercial venture funds and/or private equity.

Privately Managed Equity Fund — As of September 30, 2009 and 2008, Battelle has committed $10,000 to a privately managed equity fund and the total capital called was $6,800 and $6,100, respectively.

Venture Funds — Through September 30, 2009 and 2008, Battelle has committed approximately $34,593 to 14 venture funds. The capital structures of these venture funds that Battelle has invested in are primarily limited liability entities. Investment in venture funds is consistent with Battelle's overall commercialization strategy. As of September 30, 2009 and 2008, total capital called by the various venture funds was $21,323 and $18,991, respectively.

Battelle Ventures — During 2003, Battelle formed Battelle Ventures, L.P. to further promote Battelle's strategy of establishing new technology commercialization ventures. Battelle has a 99.5% interest in the entity. Battelle has committed $220,000 through 2017. As of September 30, 2009 and 2008, total capital called by Battelle Ventures, L.P. is $134,593 and $108,435, respectively.

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

In September 2006, the FASB issued guidance which defined fair value, established a framework for measuring fair value, and expanded disclosures about fair value measurements. The fair value framework requires the categorization of assets and liabilities into three levels based upon the assumptions (inputs) used to price the assets or liabilities. The three levels are defined as follows:

Level 1 — Unadjusted quoted prices in active markets for identical assets and liabilities.

Level 2 — Observable inputs other than those included in Level 1. For example, quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in inactive markets.

Level 3 — Unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability.

As of September 30, 2009, the fair values of financial assets and liabilities measured on a recurring basis are categorized as follows:

	Total	Level 1	Level 2
Cash and cash equivalents (1)	$ 96,222	$ 96,222	$ -
Restricted cash (2)	20,335	20,335	
Securities available-for-sale	352,702	225,582	127,120
Total assets	$469,259	$342,139	$127,120
Interest rate swap contract	$ 6,759	$ -	$ 6,759
Total liabilities	$ 6,759	$ -	$ 6,759

(1) Cash and cash equivalents are either liquid or highly liquid investments with a maturity of three months or less. The carrying value of these cash equivalents approximates fair value due to their short-term maturities.

(2) Restricted cash is primarily money market funds or other short-term investments with a maturity of three months or less. The carrying value of these cash equivalents approximates fair value due to their short-term maturities.

The carrying amounts and the estimated fair values of financial instruments not carried at fair value on the consolidated balance sheets as of September 30, 2009 and 2008, were as follows:

	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Other investments	$ 79,348	$ 69,420	$ 57,725	$ 67,346
Notes and debt payable	159,945	167,192	108,254	111,951

The fair value of the other investments is based on management's analysis of Level 3 observations. The carrying value of notes and debt payable approximates fair value based on the current rates offered to Battelle for similar financing instruments of comparable remaining maturities.

During 2009, Battelle impaired to fair market value four investments classified as other investments based on Level 3 observations. As of September 30, 2009, the fair market value on the consolidated balance sheet of the four investments was $2,368, and an impairment of $6,657 was recorded in investment income.

6. PROPERTY AND EQUIPMENT AND LEASE COMMITMENTS

A summary of property and equipment as of September 30, 2009 and 2008, was as follows:

	2009		2008	
	Useful Life		Useful Life	
Land and improvements	-	$ 12,570	-	$ 12,044
Buildings and improvements	10–40 years	421,895	10–40 years	406,319
Furniture and equipment	3–15 years	203,297	3–15 years	204,085
Construction in progress	-	51,013	-	24,515
Total property and equipment		$688,775		$646,963

Battelle leases office space and equipment under various operating lease agreements. Lease expense was $26,353 and $27,529 in 2009 and 2008, respectively. As of September 30, 2009, minimum lease payments under these leases were as follows:

	Office Space	Equipment
2010	$ 29,665	$ 1,248
2011	23,074	1,092
2012	13,815	490
2013	12,524	187
2014	11,812	156
Thereafter	47,125	
Total	$ 138,015	$ 3,173

Battelle conducts a certain amount of radiological work as part of its ongoing operations. This activity is monitored and regulated by a number of regulatory authorities. Battelle has no intent at the current time to cease this activity. However, in the event that Battelle ceases this activity, Battelle may need to perform certain decontamination actions. Any costs involved in such decontamination would be allowable for contract reimbursement purposes in the period they are expended.

Battelle has entered into agreements to sell the majority of its equipment in its Richland, Washington based activities to the DOE, to lease to the DOE the majority of its owned Richland, Washington facilities, and to assign or sublet its Richland, Washington leased facilities. The equipment sale and the owned facility leases (with an initial term of 5 years) would become effective upon completion of the transition period to a new M&O contract. The net book value of the equipment expected to be sold to DOE is approximately $3,400. The net book value of the owned facilities expected to be leased to DOE is approximately $18,700. Certain of the Richland, Washington-based facilities are contaminated and, as noted above, would require decontamination if radiological work in the facilities were to cease. However, radiological work is expected to continue in the facilities indefinitely and the government is expected to fund the large majority of any required decontamination costs. Certain of the facilities also are assumed to contain amounts of asbestos. The fair value of any related asset retirement obligation cannot be reasonably estimated because of indeterminate settlement dates and indeterminate methods of settlement resulting from the expected leasing and the other decontamination efforts.

7. GOODWILL AND OTHER INTANGIBLE ASSETS

Battelle's goodwill was $14,655 as of September 30, 2009 and 2008. Gross other intangible assets, which consisted primarily of unpatented technology, were $10,313 as of September 30, 2009 and 2008. Related accumulated amortization was $8,862 and $7,061 for a net balance of $1,451 and $3,252 as of September 30, 2009 and 2008, respectively. Expense for amortization of intangible assets was $1,801 and $2,079 for the years ended September 30, 2009 and 2008, respectively. Estimated amortization expense for fiscal year 2010 is $1,058. The remaining balance of $393 will be amortized at a rate of $17 per year.

8. NOTES AND DEBT PAYABLE

A summary of notes and debt payable as of September 30, 2009 and 2008, was as follows:

	2009	2008
Line of credit up to $60,000, bearing a variable interest rate of 1.5% and 3.9%, based on LIBOR, at September 30, 2009 and 2008, respectively, due June 20, 2010	$ -	$ -
Line of credit up to $60,000, bearing a variable interest rate of 0.47% and 3.93%, based on LIBOR, at September 30, 2009 and 2008, respectively, due June 22, 2011	700	
Line of credit up to ¥420,000 bearing a variable interest rate per transaction of .88% and 1.04%, at September 30, 2009 and 2008, respectively, due December 28, 2009	4,122	2,163
Tax-exempt revenue bonds bearing a fixed interest rate of 5.25%, due April 1, 2034 — net of remaining premium of $338 and $406 at September 30, 2009 and 2008, respectively, which results in an effective rate of 4.77%	18,123	18,191
Term notes payable, bearing a fixed interest rate of 6.93%, due April 15, 2012, interest payable semiannually	40,000	40,000
Term note payable, bearing a fixed interest rate of 3%, principal and interest due March 31, 2009		400
Term note payable, bearing a variable interest rate of .54% and 2.76%, based on LIBOR, at September 30, 2009 and 2008, respectively, due April 16, 2012, interest payable monthly	45,000	45,000
Term note payable, noninterest bearing, at September 30, 2009 and 2008, principal due in two equal installments, on September 30, 2011 and June 30, 2012	2,000	2,000
Term note payable, bearing a variable interest rate of 6.25% at September 30, 2009, principal due March 5, 2011, interest payable monthly (note paid February 2009)		500
Term notes payable, bearing a fixed interest rate of 6.75%, due August 5, 2019, interest payable semiannually	50,000	
Total notes and debt payable	159,945	108,254
Less current notes and debt payable	(4,122)	(2,563)
Long-term notes and debt payable, excluding current installments	$155,823	$105,691

The installments of notes and debt payable maturing in each of the next five fiscal years are as follows: 2010 — $4,122; 2011 — $1,700; 2012 — $86,000; 2013 — $0; 2014 — $0; 2015 — $0, and thereafter $68,123.

On April 1, 2004, Battelle issued tax-exempt revenue bonds ("Bonds") in the aggregate principal amount of $17,785, receiving net proceeds of approximately $18,457 before expenses. Interest on the Bonds is paid semiannually at the annual rate of 5.25%. The Bonds mature on April 1, 2034. The Bonds do not have a required principal payment until 2030. The net proceeds of the Bonds were used to finance construction of the Battelle Eastern Science and Technology Center, a laboratory and engineering complex located in Maryland.

The notes payable agreements include various financial and other covenants, including cross defaults, none of which are expected to restrict future operations. As of September 30, 2009 and 2008, Battelle was in compliance with debt covenants.

9. DERIVATIVE FINANCIAL INSTRUMENTS

Battelle entered into a derivative instrument to manage fluctuations in future cash flows related to forecasted transactions on payments of notes payable. Battelle does not enter into derivative instruments for any purpose other than hedging and does not speculate using derivative instruments.

Battelle entered into an interest rate swap to manage fluctuations in cash flows resulting from changes in the benchmark interest rate of LIBOR. The swap has a $45,000 notional amount and expires on April 16, 2017. The interest rate swap changes the variable-rate cash flows on $45,000 of the term note, due April 16, 2012, payable to fixed-rate cash flows. Under the interest rate swap, Battelle receives LIBOR-based variable interest rate payments and makes fixed interest rate payments, thereby creating a fixed-rate term note payable. The interest rate swap is assessed as effective based on the fact there was no source of ineffectiveness. The effectiveness of the hedge relationship will be annually assessed during the life of the hedge. Changes in the fair value of the swap are reported in accumulated other comprehensive income. These amounts subsequently are reclassified into interest expense as a yield adjustment in the same period in which the related interest on the floating-rate notes payable affects earnings.

10. REVENUE FROM OPERATIONS

A summary of revenue from operations for the years ended September 30, 2009 and 2008, is as follows:

	2009	2008
Government clients	$4,673,321	$4,437,256
Commercial clients	164,753	161,621
Total	$4,838,074	$4,598,877

Battelle has contracts with the DOE to manage and operate certain DOE laboratories. In 2009 and 2008, Battelle operated and managed Pacific Northwest National Laboratory (PNNL) in Richland, Washington; Brookhaven National Laboratories (BNL) in Upton, New York; Oak Ridge National Laboratory (ORNL) in Oak Ridge, Tennessee; and Idaho National Laboratory (INL) in Idaho Falls, Idaho. Battelle's contract to manage and operate PNNL has been extended through September 2012. Battelle's contract to manage and operate BNL is through January 2010, ORNL through March 2010, and INL through January 2015. Revenues related to these laboratories for the years ended September 30, 2009 and 2008, are as follows:

	2009	2008
Pacific Northwest National Laboratory	$1,054,091	$ 873,491
Brookhaven National Laboratory	572,338	530,896
Oak Ridge National Laboratory	1,271,830	1,262,703
Idaho National Laboratory	871,780	809,136
Total	$3,770,039	$3,476,226

Battelle was awarded a contract effective December 2006 with Department of Homeland Security to manage and operate the National Biodefense Analysis Countermeasures Center through September 2011. The revenue for 2009 and 2008 was $38,664 and $25,550, respectively.

11. COST OF OPERATIONS

A summary of cost of operations for the years ended September 30, 2009 and 2008, is as follows:

	2009	2008
Salaries, wages, and benefit related costs	$2,366,314	$2,190,331
Subcontract and consultant costs	1,440,040	1,368,187
Purchased materials and services	843,933	838,328
Travel	101,780	101,338
Depreciation of property and equipment	31,527	30,473
Taxes other than income taxes	30,700	27,390
Other — net	2,288	3,093
Total	$4,816,582	$4,559,140

12. OTHER INCOME AND EXPENSES

Other — net for the years ended September 30, 2009 and 2008, consisted of the following:

	2009	2008
Equity loss in other investments	$ (4,346)	$ (8,760)
Loss on sale of property and equipment	(2,443)	(1,058)
Other	467	(26)
Total	$ (6,322)	$ (9,844)

13. INCOME TAXES

Income tax expense (benefit) for the years ended September 30, 2009 and 2008, consisted of the following:

	2009	2008
Current:		
U.S. federal	$ 207	$ (22)
Foreign	996	(24)
State and local	7	30
	1,210	(16)
Deferred:		
U.S. federal		(40)
Foreign	1	1
	1	(39)
Total	$ 1,211	$ (55)

The tax effects of temporary differences that give rise to the deferred tax assets and deferred tax liabilities at September 30, 2009 and 2008, were as follows:

	2009	2008
Deferred tax assets:		
Accounts receivable	$ -	$ 27
Other investments	330	330
Property and equipment	31	22
Compensated absences and other payroll related liabilities	646	587
Accrued expenses and other liabilities	35	1,759
Net operating loss carry forwards	28,073	29,181
General business credit carryforwards and other	1,651	1,956
Total deferred tax assets before valuation allowance	30,766	33,862
Valuation allowance	(29,907)	(33,485)
Net deferred tax assets after valuation allowance	$ 859	$ 377

At September 30, 2009 and 2008, Battelle had tax net operating loss carryforwards of $6,641 and $6,035, respectively, and its taxable subsidiaries had tax net operating loss carryforwards of $21,432 and $23,146, respectively, which are available to offset future taxable income of the respective subsidiaries, if any, through 2028. The ultimate realization of the net operating loss carryforwards is dependent upon the generation of future taxable income. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making an assessment of the realization of deferred tax assets. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not Battelle will not realize the benefits of these deductible differences; therefore, a valuation allowance of $29,907 and $33,485 against the net deferred tax assets has been recorded at September 30, 2009 and 2008, respectively.

14. PENSION AND OTHER POSTRETIREMENT BENEFITS

Battelle has noncontributory defined benefit pension plans that cover all salaried and eligible hourly employees of its corporate operations. The plans provide defined benefits based on years of service and average salary of the highest five consecutive years.

Battelle also has a postretirement plan covering the employees of its corporate operations. The plan is contributory with participants' contributions adjusted annually. The accounting for the plan is consistent with Battelle's expressed intent to limit increases to the employer subsidy for the retiree medical plan to no more than 5% per year.

In 2005, Battelle changed its postretirement medical benefits coverage for employees hired on or after July 1, 2005. Those employees will not be entitled to any Battelle subsidy for postretirement medical/drug costs and will only be granted access to Battelle's medical plans. Those employees will pay the full cost of coverage during the period of their retirement.

The plans' benefit obligations and fair value of plan assets as of the measurement date September 30, 2009 and June 30, 2008, are as follows:

	Pension	Postretirement
Change in Projected Benefit Obligation		
Projected obligation — July 1, 2007	$689,406	$71,167
Service cost	31,238	2,681
Interest cost	43,766	4,537
Actuarial loss	(64,762)	(8,816)
Plan amendments	1,481	
Benefit payments	(31,448)	(2,850)
Projected obligation — June 30, 2008	669,681	66,719
Adjustments due to adoption of ASC 715-20-65 provisions	10,752	647
Service cost	28,903	2,313
Interest cost	47,348	4,742
Actuarial gain	89,930	5,662
Plan amendments	(1,429)	
Benefit payments	(32,409)	(4,220)
Projected obligation — September 30, 2009	$812,776	$75,863
Change in Fair Value of Plan Assets		
Fair value of plan assets — July 1, 2007	$948,261	$20,359
Actual return on plan assets	(63,346)	(1,110)
Employee contributions		1,585
Employer contributions	234	
Section 420 transfer	(1,958)	2,893
Benefit paid and expected expenses	(31,448)	(4,764)
Medicare reimbursement		330
Fair value of plan assets — June 30, 2008	851,743	19,293
Adjustments due to adoption of ASC 715-20-65 provisions	(8,311)	(1,117)
Actual return on plan assets	(85,676)	(1,074)
Employee contributions		
Employer contributions	(1,966)	
Section 420 transfer		
Benefit paid and expected expenses	(32,409)	(4,219)
Medicare reimbursement		593
Fair value of plan assets — September 30, 2009	$723,381	$13,476

Amounts recognized in the statements of financial position consisted of the following:

2009	**Pension**	**Postretirement**
Noncurrent liabilities — net amount recognized	$ (89,395)	$ (62,387)

2008	**Pension**	**Postretirement**
Noncurrent assets	$ 182,415	$ -
Noncurrent liabilities	(2,545)	(47,326)
Net amount recognized	$ 179,870	$ (47,326)

Amounts recognized in accumulated other comprehensive income consisted of the following:

2009	**Pension**	**Postretirement**
Accumulated loss	$ (253,919)	$ (6,057)
Accumulated prior service credit	(9,922)	(231)
Transition obligation		(4,342)
Total accumulated other comprehensive loss	$ (263,841)	$ (10,630)

2008	**Pension**	**Postretirement**
Accumulated gain	$ 1,720	$ 2,548
Accumulated prior service credit	(13,634)	(266)
Transition obligation		(6,150)
Total accumulated other comprehensive loss	$ (11,914)	$ (3,868)

The accumulated benefit obligations for all defined benefit pension plans as of September 30, 2009 and June 30, 2008, were $701,600 and $574,382, respectively.

2009	Pension	Postretirement
Funded status at year-end		
Projected benefit obligation	$ (812,776)	$ (75,863)
Fair value of plan assets	723,381	13,476
Funded status — deficit	(89,395)	(62,387)
Net amount recognized	$ (89,395)	$ (62,387)

2008	Pension	Postretirement
Funded status at year-end		
Projected benefit obligation	$ (669,681)	$ (66,719)
Fair value of plan assets	851,743	19,293
Funded status — surplus (deficit)	182,062	(47,426)
Contributions from June 30 to September 30	(2,192)	100
Net amount recognized	$ 179,870	$ (47,326)

2009	Pension	Postretirement
Service cost	$ 28,903	$ 2,313
Interest cost	47,349	4,742
Expected return on plan assets	(64,016)	(1,495)
Amortization of transition obligation		1,446
Amortization of prior service cost	1,826	28
Amortization of net actuarial loss	(10)	
Net periodic benefit cost	$ 14,052	$ 7,034

2008	Pension	Postretirement
Service cost	$ 31,238	$ 2,681
Interest cost	43,766	4,537
Expected return on plan assets	(71,995)	(1,578)
Amortization of transition obligation		1,446
Amortization of prior service cost	1,686	28
Amortization of net actuarial loss		
Net periodic benefit cost	$ 4,695	$ 7,114

The estimated net loss and prior service cost for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are $16,334 and $1,395, respectively. The prior service cost and transition obligation for the defined benefit postretirement plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are $28 and $1,446, respectively.

Assumptions:

Weighted-average assumptions used to determine benefit obligations at September 30, 2009 and June 30, 2008, were as follows:

2009	**Pension**	**Postretirement**
Discount rate	6.26 %	6.26 %
Rate of compensation increase	6.04 %	NA

2008	**Pension**	**Postretirement**
Discount rate	7.32 %	7.32 %
Rate of compensation increase	6.04 %	NA

Weighted-average assumptions used to determine net periodic benefit cost for the years ended September 30, 2009 and June 30, 2008, were as follows:

2009	**Pension**	**Postretirement**
Discount rate	7.32 %	7.32 %
Expected return on plan assets	7.75 %	7.75 %
Rate of compensation increase	6.04 %	NA

2008	**Pension**	**Postretirement**
Discount rate	6.51 %	6.51 %
Expected return on plan assets	7.75 %	7.75 %
Rate of compensation increase	6.04 %	NA

The expected long-term rate of return was developed by considering the target asset allocation, long-term historical market returns, and long-term projected market return.

The health care cost trend rates represent the rate of increase in employer claim payments. Battelle's postretirement benefit costs are capped at a 5% annual increase. Future medical cost trend increases are assumed to be above the 5% cap and, therefore, will have no material effect on plan liabilities.

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") became law in the United States. The Act introduces a prescription drug benefit under Medicare, as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to the Medicare benefit. The postretirement benefit values contained above do not reflect any amount associated with any subsidy provided by the Act. Any drug benefit resulting from this Act will be used to decrease retiree contributions, and not the employer subsidy, thereby causing the net effect of the Act on the plan to be $0.

Plan Assets — Battelle's pension plans and postretirement plan weighted-average asset allocations at September 30, 2009 and June 30, 2008, by asset category were as follows:

2009	Pension		Postretirement	
Asset Category	**Target**	**Actual**	**Target**	**Actual**
Equity securities	65 %	66 %	67 %	68 %
Private equity	5	5	0	0
Debt securities	25	24	33	32
Real estate	5	1	0	0
Other	0	4	0	0
	100 %	100 %	100 %	100 %

2008	Pension		Postretirement	
Asset Category	**Target**	**Actual**	**Target**	**Actual**
Equity securities	70 %	68 %	67 %	63 %
Debt securities	25	25	29	31
Real estate	5	5	0	0
Other	0	2	4	6
	100 %	100 %	100 %	100 %

The investment plan strives to optimize the availability of funds in relation to the long-term liabilities on the pension and postretirement plans. A long-term investment horizon enables the funds to tolerate the risk of somewhat volatile investment returns in the short run with the expectation of higher returns in the long run. The funds are diversified across several asset classes and many securities to reduce risk. Current income is not a key goal of the plans, although current cash requirements related to benefit responsiveness are considered in the investment process. Derivatives are permitted only for hedging and transactional efficiency.

Cash Flows:

Contributions — Battelle expects to contribute $236 to its pension plans and $3,179 to its postretirement benefit plan in 2010. In 1999, the plans were amended to pay certain retiree medical claims from pension plan assets through a 401(h) account as permitted by Section 420 of the Internal Revenue Code.

Estimated Future Benefit Payments — The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension	Postretirement	Total
2010	$ 36,621	$ 3,179	$ 39,800
2011	39,021	3,364	42,385
2012	41,620	3,570	45,190
2013	44,419	3,786	48,205
2014	47,417	4,013	51,430
2015–2019	285,058	24,139	309,197

Implementations — As required by ASC 715-20-65 "FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, Battelle eliminated the alternative of a non-fiscal year measurement date for its defined benefit pension plans and postretirement plan. Starting from fiscal year 2009, all plans are on a fiscal year-end measurement date. ASC 715-20-65 gives employers two methods for changing their measurement dates, the "remeasurement method" and the "15-month method." In transitioning the measurement date for its plans to a fiscal year-end measurement date as of September 30, 2009, Battelle selected the second approach as provided in ASC 715-20-65. Adjustments to retained earnings from applying the measurement date revision are as follows:

Adjustment to Retained Earnings	Pension	Postretirement	Total
Service cost	$ (7,226)	$ (578)	$ (7,804)
Interest cost	(11,837)	(1,186)	(13,023)
Expected return on plan assets	16,004	374	16,378
Amortization of prior service cost	(454)	(7)	(461)
Amortization of actuarial loss		(361)	(361)
Total adjustment to retained earnings	$ (3,513)	$ (1,758)	$ (5,271)

15. COMMITMENTS AND CONTINGENCIES

Service Agreement — Battelle has a personal computer service contract agreement with a technology vendor and a multifunctional devices contract agreement with another vendor. The first program provides personal computers, installation, hardware service, and software application help desk support. The second program provides for copiers, services, and related supplies. Commitments under these agreements were as follows:

2010	$ 4,710
2011	2,853
2012	992

Financial Guarantees — Battelle has letters of credit aggregating approximately $746 and $1,002 as of September 30, 2009 and 2008, respectively, that reduce availability on the line of credit due June 22, 2011. The letters of credit generally provide guarantees on contract and other activities to be performed relating to advance payments from clients and other advance proceeds. Battelle fully expects to meet all contract requirements.

Legal Proceedings — Battelle has been named as a defendant in various actions. While it is impossible to ascertain the ultimate legal and financial liability with respect to contingent liabilities, including lawsuits, Battelle believes that the aggregate amount of such liabilities, if any, in excess of amounts provided or covered by insurance, will not have a material adverse effect on the consolidated financial position or results of operations.

Battelle Energy Alliance, LLC (BEA) — BEA was awarded a contract in 2005 to manage and operate INL for DOE. As part of the 10-year contract, BEA committed to providing $20,000 of upgrades to DOE's advanced test reactor. BEA also made various other commitments over the term of the contract to provide education and other support for the mission of the laboratory. These commitments will be expensed as incurred.

Obligation Under the Will of Gordon Battelle — Battelle Memorial Institute was formed in 1925 pursuant to the Will of Gordon Battelle ("Will"). That Will, as interpreted by agreement with the Ohio Attorney General, requires, among other things, that Battelle annually distribute to qualified recipients a portion of its net income. On June 17, 1997, Battelle entered into an agreement (vacating a May 7, 1975, consent decree) with the Ohio Attorney General requiring distribution of the greater of 20% of Battelle's annual net income or $1,000 to qualified charitable causes. Battelle's obligation as determined under the above formula for distribution to qualified recipients approximated $6,337 and $2,573 for the years ended September 30, 2009 and 2008, respectively.

Obligations determined under the formula that are in excess of distributions made during the current year may be fulfilled by distributions paid within 12 months following the end of the year. As of September 30, 2009 and 2008, Battelle has an accrual for unconditionally pledged charitable distributions of $1,215 and $2,370, respectively, recorded in accrued expenses and other liabilities, and $2,000 and $3,230, respectively, recorded in other long-term liabilities.

Battelle distributed $22,357 and $11,932 in cash and property to qualified recipients for the years ended September 30, 2009 and 2008, respectively.

In August 2005, Battelle established a donor-advised fund, The Battelle Foundation Fund (the "Fund"), under The Columbus Foundation, a 501(c)(3) public charity community foundation that is legally and financially separate from Battelle. The initial funding was $6,000, and the majority of Battelle's future charitable distributions are expected to be made to the Fund. Battelle recommends distributions from the Fund to qualifying recipients; however, The Columbus Foundation makes final decisions on the actual distributions. The funds transferred from Battelle to the Fund have no possibility of reversion to Battelle. Distributions to the Fund fulfill the obligations under the Will of Gordon Battelle.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
Battelle Memorial Institute and subsidiaries
Columbus, Ohio

We have audited the financial statements of Battelle Memorial Institute and subsidiaries (the "Company") as of and for the year ended September 30, 2009, and have issued our report thereon dated December 15, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Company's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Company's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the Company's financial statements that is more than inconsequential will not be prevented or detected by the Company's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Company's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Company's management, the Battelle Board of Directors, others within the Company, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

Deloitte & Touche LLP

December 15, 2009