Battelle Memorial Institute and Subsidiaries

Consolidated Financial Statements as of and for the Years Ended September 30, 2010 and 2009, 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

TABLE OF CONTENTS

Deloitte.

Deloitte & Touche LLP
Suite 1400
180 East Broad Street
Columbus, OH 43215-3611
USA

Tel: +1 614 221 1000
Fax: +1 614 229 4647
www.deloitte.com

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, 2010 and 2009, and the related consolidated statements of income, changes in equity balances, and cash flows for the years then ended. These 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. An audit also includes assessing the accounting principles used and the 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, 2010 and 2009, 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 1 to the financial statements effective October 1, 2009, the Company changed its method of accounting for noncontrolling interests with the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 810, *Consolidation* (formerly FASB Statement No. 160, *Noncontrolling Interest in Consolidated Financial Statements — an amendment of ARB No. 51*). As discussed in Note 14 to the financial statements, effective October 1, 2008, the Company adopted ASC 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 17, 2010, 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 and compliance and the results of that testing, and not provide an opinion on 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 17, 2010

BATTELLE MEMORIAL INSTITUTE AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2010 AND 2009
(In thousands)

	2010	2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 68,473	$ 96,222
Securities available for sale — current portion	2,054	4,202
Restricted cash	18,411	20,335
Accounts receivable — net	263,963	266,615
Prepayments and other current assets	22,377	21,497
Total current assets	375,278	408,871
SECURITIES AVAILABLE FOR SALE	359,553	348,500
OTHER INVESTMENTS	75,986	79,348
PROPERTY AND EQUIPMENT:		
Property and equipment — at cost	765,889	688,775
Less accumulated depreciation	(368,877)	(351,278)
Property and equipment — net	397,012	337,497
GOODWILL	14,655	14,655
OTHER INTANGIBLES AND OTHER ASSETS — Net	5,134	6,800
TOTAL	$1,227,618	$1,195,671

(Continued)

BATTELLE MEMORIAL INSTITUTE AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2010 AND 2009
(In thousands)

	2010	2009
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Notes and debt payable	$ 13,400	$ 4,122
Accounts payable	61,526	80,234
Corporate taxes payable	5,322	5,715
Payroll and other current benefit-related liabilities	68,655	66,533
Advance payments from clients	30,312	44,833
Accrued expenses and other liabilities	34,349	29,207
Total current liabilities	213,564	230,644
LONG-TERM NOTES AND DEBT PAYABLE	154,053	155,823
LONG-TERM BENEFIT-RELATED LIABILITIES	5,976	5,322
ACCRUED PENSION AND POSTRETIREMENT BENEFITS	241,570	151,783
OTHER	22,654	21,301
Total liabilities	637,817	564,873
EQUITY:		
Battelle Memorial Institute equity:		
Retained for scientific and educational purposes of The Battelle Will	836,894	839,391
Accumulated other comprehensive income (loss):		
Net unrealized gains on available-for-sale securities	70,502	59,060
Net unrealized (losses) gains from foreign currency translation	(430)	4,864
Net unrealized loss on interest rate swap	(9,697)	(6,759)
Pension and postretirement benefits	(317,574)	(274,472)
Total Battelle Memorial Institute equity	579,695	622,084
Noncontrolling interests	10,106	8,714
Total equity	589,801	630,798
TOTAL	$1,227,618	$1,195,671

See notes to consolidated financial statements.

(Concluded)

BATTELLE MEMORIAL INSTITUTE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009
(In thousands)

	2010	2009
REVENUES:		
Revenue from operations	$ 5,531,408	$ 4,838,074
Royalty, license, and patent income	9,781	34,702
Other revenue	6,033	6,039
Total revenues	5,547,222	4,878,815
COST OF OPERATIONS	(5,511,215)	(4,816,582)
EXCESS OF TOTAL REVENUES OVER COST OF OPERATIONS	36,007	62,233
NONOPERATING COSTS:		
Research and development expense	(25,268)	(31,323)
Distributions	(10,657)	(21,237)
Interest expense	(7,310)	(6,611)
Investment income — net	12,832	10,893
Gain on sale of subsidiary		26,112
Other — net	(4,388)	(6,322)
Total nonoperating costs	(34,791)	(28,488)
INCOME BEFORE INCOME TAXES AND NONCONTROLLING INTERESTS	1,216	33,745
INCOME TAX EXPENSE	(1,214)	(1,211)
NET INCOME	2	32,534
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(2,499)	(850)
NET (LOSS) INCOME ATTRIBUTABLE TO BATTELLE MEMORIAL INSTITUTE	$ (2,497)	$ 31,684

See notes to consolidated financial statements.

BATTELLE MEMORIAL INSTITUTE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY BALANCES
FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009
(In thousands)

		Battelle Memorial Institute			
	Comprehensive Income (Loss)	Retained for Scientific and Educational Purposes of The Battelle Will	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
EQUITY BALANCE — September 30, 2008		$812,978	$ 58,512	$11,380	$ 882,870
Capital distributions from noncontrolling interests — net				(3,516)	(3,516)
Comprehensive income (loss):					
Net income	$ 32,534	31,684		850	32,534
Other comprehensive loss:					
Unrealized loss on available-for-sale securities	(13,809)				
Unrealized gain on foreign currency translation	172				
Unrealized loss on 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	$(244,107)				
Adjustment to apply change in measurement dates of pension and postretirement plans		(5,271)	822		(4,449)
EQUITY BALANCE — September 30, 2009		839,391	(217,307)	8,714	630,798
Capital distributions from noncontrolling interests — net				(1,107)	(1,107)
Comprehensive income (loss):					
Net income	$ 2	(2,497)		2,499	2
Other comprehensive loss:					
Unrealized gain on available-for-sale securities	11,442				
Unrealized loss on foreign currency translation	(5,294)				
Unrealized loss on value of interest rate swap	(2,938)				
Pension and postretirement benefits	(43,102)				
Other comprehensive loss	(39,892)		(39,892)		(39,892)
Comprehensive loss	$ (39,890)				
EQUITY BALANCE — September 30, 2010		$836,894	$(257,199)	$10,106	$ 589,801

See notes to consolidated financial statements.

BATTELLE MEMORIAL INSTITUTE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009
(In thousands)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income including noncontrolling interests	$ 2	$ 32,534
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property and equipment	32,267	31,527
Amortization of intangible assets	1,057	1,801
Gain on sales of securities — net	(17,891)	(1,824)
Loss on other investments	24,613	13,216
Loss on sale of property and equipment	1,901	2,443
Gain on currency conversion	(3,881)	
Gain on sale of subsidiary		(26,112)
Pension and postretirement benefits expense	46,904	21,086
Effects of changes in operating assets and liabilities:		
Restricted cash	1,925	(656)
Accounts receivable	756	14,837
Accounts payable	(7,217)	(20,877)
Corporate taxes payable	(500)	1,356
Payroll and other benefit-related liabilities	2,103	(1,710)
Advance payments from clients	(14,467)	(2,787)
Accrued expenses and other	2,110	(263)
Net cash provided by operating activities	69,682	64,571
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from disposal of property and equipment	1,270	9
Additions to property and equipment	(104,889)	(52,087)
Proceeds from sales and maturities of securities	134,202	239,109
Purchase of securities	(114,169)	(281,416)
Proceeds from sale of subsidiary		3,572
Distributions from other investments	3,629	8,841
Contributions to other investments and other	(24,418)	(12,996)
Net cash used in investing activities	(104,375)	(94,968)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds of lines of credit — net	7,587	2,130
Payments on notes payable		(500)
Proceeds on notes payable		50,000
Capital contributions from noncontrolling interests	(5,844)	(3,525)
Capital distributions from noncontrolling interests	4,737	
Net cash provided by financing activities	6,480	48,105
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	464	127
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(27,749)	17,835
CASH AND CASH EQUIVALENTS:		
Beginning of year	$ 96,222	$ 78,387
End of year	$ 68,473	$ 96,222
SUPPLEMENTAL DISCLOSURES:		
Income tax payments — net of refunds	$ 926	$ 786
Interest paid — net of amounts capitalized	$ 7,219	$ 5,974
Capital additions in accounts payable	$ 283	$ 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, *Variable Interest Entities*,. Battelle has performed an evaluation of subsequent events through December 17, 2010, which is the date the consolidated financial statements were issued. See Note 16 for disclosure of subsequent events.

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 were $68,473 and $96,222 as of September 30, 2010 and 2009, respectively. Cash equivalents consisted primarily of money market funds or other short-term investments with an initial term of less than 90 days. Restricted cash of $18,411 and $20,335 as of September 30, 2010 and 2009, 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 related to 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 restricted cash 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, 2010 and 2009, there were $10,472 and $11,383, respectively, restricted for these purposes.

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, 2010 and 2009, there were $5,030 and $4,399, respectively, restricted for this purpose with a corresponding liability recorded as advance payments from clients until utilized in 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, 2010 and 2009, there were $2,874 and $4,528, respectively, restricted for this purpose with a corresponding liability recorded as advance payments from clients until utilized in the consolidated balance sheets.

As of September 30, 2010 and 2009, there were $35 and $25, respectively, that were 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 $2,673 and $670 for the years ended September 30, 2010 and 2009, 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 $14,319 and $8,606 as of September 30, 2010 and 2009, 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 $23,137 in 2010 and $21,177 in 2009.

Revenue Recognition — Revenues for services performed are recognized using the percentage-of-completion method as the costs of performing the work are incurred as outlined in FASB Codification Subtopic 605-35 (American Institute of Certified Public Accountants (AICPA) Statement of Position 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*). 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. The revenue is primarily derived from contracts with U.S. federal government agencies. 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 2007. Fiscal years 2009 and 2008 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 consolidated financial position or consolidated 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 December 2007, the Financial Accounting Standards Board (FASB) issued new guidance on noncontrolling interest in consolidated financial statements in ASC 810 (FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51*). The guidance changed the accounting and reporting for minority interests, which must be recharacterized as noncontrolling interest and classified as a component of equity. This consolidation method significantly changed the treatment of transactions with minority interest holders. The guidance was effective for fiscal years beginning after December 15, 2008. Battelle adopted the guidance on October 1, 2009, and applied its provisions prospectively, except for the presentation and disclosure requirements, which were applied retrospectively. The adoption of the guidance did not have a material impact on the consolidated financial statements other than the following reporting and disclosure changes, which were applied retrospectively to all periods presented:

a. Recharacterized minority interest previously reporting on consolidated balance sheets as noncontrolling interest and classified as a component of equity;

b. Adjusted certain captions previously utilized on our consolidated statements of income to specifically identify net income attributable to noncontrolling interest and net income attributable to Battelle; and

c. In order to reconcile net income to the cash flows from operating activities, Battelle changed the starting point on the consolidated statements of cash flows from net income to net income including noncontrolling interest, with net income from the noncontrolling interest (previously minority interest) no longer a reconciling item in arriving at net cash flows from operating activities.

In September 2009, FASB issued Accounting Standards Updates (ASU) No. 2009-12, *Investments in Certain Entities that Calculate Net Asset Value per Share (or its equivalent)*. The amendments in this update permit, as a practical expedient, a reporting entity to measure the fair value of an investment that is within the scope of the amendments in this update on the basis of the net asset value per share of the investment (or its equivalent) if the net asset value of the investment (or its equivalent) is calculated in a manner consistent with the measurement principles of ASC Topic 946, *Financial Services – Investment Companies*, as of the reporting entity's measurement date, including measurement of all or substantially all of the underlying investments of the investee in accordance with Topic 820. The amendments in this update also require disclosures by major category of investment about the attributes of investments within the scope of the amendments in this update, such as the nature of any restrictions on the investor's ability to redeem its investments at the measurement date, any unfunded commitments (for example, a contractual commitment by the investor to invest a specified amount of additional capital at a future date to fund investments that will be made by the investee), and the investment strategies of the investees. The major category of investment is required to be determined on the basis of the nature and risks of the investment in a manner consistent with the guidance for major security types on investments in debt and equity securities in paragraph 320-10-50-1B. The disclosures are required for all investments within the scope of the amendments in this update regardless of whether the fair value of the investment is measured using the practical expedient. This guidance is effective for fiscal years beginning after November 15, 2009. Battelle is in the process of determining the impact of this update.

In December 2009, the FASB issued ASU No. 2009-17, *Improvements to Financial Reporting by Enterprises Involved With Variable Interest Entities*. The amendments in this ASU replace the quantitative-based risks and rewards calculation for determining which reporting entity, if any, has a controlling financial interest in a VIE with an approach focused on identifying which reporting entity has the power to direct the activities of a VIE that most significantly impact the entity's economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. An approach that is expected to be primarily qualitative will be more effective for identifying which reporting entity has a controlling financial interest in a VIE. The amendments in this update also require additional disclosures about a reporting entity's involvement in VIE s, which will enhance the information provided to users of financial statements. This portion of ASU No. 2009-17 is effective for reporting periods beginning after November 15, 2009. Battelle is in the process of determining the impact of this update.

In January 2010, FASB issued ASU No. 2010-06, *Improving Disclosures About Fair Value Measurements*. This ASU provides amendments to ASC Topic 820 that will provide more robust disclosures about (1) the different classes of assets and liabilities measured at fair value; (2) the valuation techniques and inputs used; (3) the activity in Level 3 fair value measurements; and (4) the transfers between Levels 1, 2, and 3. It is effective for reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements. Those disclosures are effective for fiscal years beginning after December 15, 2010. Battelle is in the process of determining the impact of this update.

In February 2010, FASB issued ASU No. 2010-10, *Amendments for Certain Investment Funds*. The objective of this ASU is to defer the effective date of the amendments to the consolidation requirements made by FASB Statement No. 167, *Amendments to FASB Interpretation No. 46(R)*, to a reporting entity's interest in certain types of entities and clarify other aspects of the FASB Statement No. 167 amendments. As a result of the deferral, a reporting entity will not be required to apply the FASB Statement No. 167 amendments to the Subtopic 810-10 consolidation requirements to its interest in an entity that meets the criteria to qualify for the deferral. This ASU also clarifies how a related party's interests in an entity should be considered when evaluating the criteria for determining whether a decision maker or service provider fee represents a variable interest. In addition, the ASU also clarifies that a quantitative calculation should not be the sole basis for evaluating whether a decision maker's or service provider's fee is a variable interest. It is effective for fiscal years beginning November 15, 2009. Battelle is in the process of determining the impact of this update.

2. ACCOUNTS RECEIVABLE

A summary of accounts receivable as of September 30, 2010 and 2009, was as follows:

	2010	2009
Government (primarily U.S. government):		
Billed	$ 78,226	$ 78,259
Unbilled	143,340	135,355
	221,566	213,614
Commercial:		
Billed	21,436	28,145
Unbilled	19,345	25,981
	40,781	54,126
Other	12,362	9,496
Total accounts receivable	274,709	277,236
Less provision for doubtful accounts	(10,746)	(10,621)
Accounts receivable — net	$263,963	$266,615

3. SECURITIES AVAILABLE FOR SALE

Securities available for sale as of September 30, 2010 and 2009, were as follows:

2010	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Equity securities	$180,725	$74,339	$ (2,650)	$252,414
U.S. corporate debt securities:				
Maturing within 1 year	1,210	52		1,262
Maturing between 1 and 5 years	8,902	883	(1)	9,784
Maturing between 5 and 10 years	6,697	949	(13)	7,633
Maturing beyond 10 years	1,738	306	(39)	2,005
U.S. government agency debt securities:				
Maturing within 1 year	763		(10)	753
Maturing between 1 and 5 years	1,813	176		1,989
Maturing between 5 and 10 years	19,059	2,501		21,560
Maturing beyond 10 years	718	139		857
Mortgage-backed securities:				
Maturing within 1 year	39			39
Maturing between 1 and 5 years	1,351	61		1,412
Maturing between 5 and 10 years	15,682	1,155	(428)	16,409
Maturing beyond 10 years	41,564	4,363	(437)	45,490
Other				
Total securities available for sale	280,261	84,924	(3,578)	361,607
Less current portion	(2,012)	(52)	10	(2,054)
Total securities available for sale — less current portion	$278,249	$84,872	$ (3,568)	$359,553

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

Proceeds from the sale and maturities of securities available for sale were $134,202 and $239,109 in 2010 and 2009, respectively. The gross realized gains included in income were $24,459 and $36,456 in 2010 and 2009, respectively, and the gross realized losses included in income were $6,568 and $34,632 in 2010 and 2009, 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 $147 and $6,806 in 2010 and 2009, 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 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, 2010 and 2009, are as follows:

	Less Than 12 Months		12 Months or Longer		Total	
2010	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Equity securities	$ 22,718	$ (2,650)	$ 30,259	$ -	$ 52,977	$ (2,650)
U.S. corporate debt securities:						
Maturing within 1 year			131		131	
Maturing between 1 and 5 years	113	(1)	85		198	(1)
Maturing between 5 and 10 years	29		30	(13)	59	(13)
Maturing beyond 10 years			65	(39)	65	(39)
U.S. government agency debt securities —						
Maturing within 1 year	753	(10)			753	(10)
Mortgage-backed securities:						
Maturing between 1 and 5 years	3		39		42	
Maturing between 5 and 10 years			583	(428)	583	(428)
Maturing beyond 10 years	1,379	(34)	4,737	(403)	6,116	(437)
Total	$ 24,995	$ (2,695)	$ 35,929	$(883)	$ 60,924	$ (3,578)

	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)

Unrealized losses related to equity securities, which consist of 166 and 142 investments, as of September 30, 2010 and 2009, 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 Funds — As of September 30, 2010 and 2009, Battelle has committed $30,000 to two privately managed equity funds and the total capital called was $7,678 and $6,800, respectively.

Venture Funds — Through September 30, 2010 and 2009, 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, 2010 and 2009, total capital called by the various venture funds was $23,893 and $21,323, 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 2016. As of September 30, 2010 and 2009, total capital called by Battelle Ventures, L.P., is $156,056 and $134,593, respectively.

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

ASC 820, *Fair Value Measurements and Disclosures,* defines fair value and establishes a framework for measuring fair value. 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, 2010, the fair values of financial assets and liabilities measured on a recurring basis are categorized as follows:

2010	Level 1	Level 2	Total
Cash and cash equivalents (1)	$ 68,473	$ -	$ 68,473
Restricted cash (2)	18,411		18,411
Securities available for sale:			
U.S. government securities:			
Government bonds		24,655	24,655
Government mortgage-backed securities		46,162	46,162
Index-linked government bonds		444	444
Total U.S. government securities	-	71,261	71,261
Corporate stock:			
Consumer discretionary	4,890		4,890
Consumer staples	75,386		75,386
Energy	22,363		22,363
Financials	38,902		38,902
Industrials	17,389		17,389
Technology	46,924		46,924
Capital goods	10,942		10,942
Utilities	7,468		7,468
Total corporate stock	224,264		224,264
Common/collective trust		21,315	21,315
Corporate debt instruments — other			
Asset-backed securities		1,478	1,478
Commercial mortgage-backed securities		3,922	3,922
Corporate bonds		20,634	20,634
Non-government-backed CMOs		12,518	12,518
Total corporate debt instruments — other	-	38,552	38,552
Other	6,215		6,215
Total securities available for sale	230,479	131,128	361,607
Total assets	$317,363	$131,128	$448,491
Interest rate swap contract	$ -	$ 9,697	$ 9,697
Total liabilities	$ -	$ 9,697	$ 9,697

2009	Level 1	Level 2	Total
Cash and cash equivalents (1)	$ 96,222	$ -	$ 96,222
Restricted cash (2)	20,335		20,335
Securities available for sale	225,582	127,120	352,702
Total assets	$342,139	$127,120	$469,259
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 in the consolidated balance sheets as of September 30, 2010 and 2009, were as follows:

	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Other investments	$ 75,986	$ 85,133	$ 79,348	$ 69,420
Notes and debt payable	167,453	179,811	159,945	167,192

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 2010, Battelle impaired to fair market value three investments classified as other investments based on Level 3 observations. As of September 30, 2010, the fair market value in the consolidated balance sheet of the three investments was $11,212, and an impairment of $13,614 was recorded in investment income.

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 in 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, 2010 and 2009, was as follows:

	2010		2009	
	Useful Life		Useful Life	
Land and improvements		$ 13,063		$ 12,570
Buildings and improvements	10–40 years	442,750	10–40 years	421,895
Furniture and equipment	2–39 years	199,179	3–15 years	203,297
Construction in progress		110,897		51,013
Total property and equipment		$765,889		$688,775

Battelle leases office space and equipment under various operating lease agreements. Lease expense was $32,934 and $26,353 in 2010 and 2009, respectively. As of September 30, 2010, minimum lease payments under these leases were as follows:

Years Ending September 30	Office Space	Equipment
2011	$ 31,075	$ 1,420
2012	16,860	848
2013	15,547	450
2014	14,712	226
2015	14,207	
Thereafter	38,693	
Total	$ 131,094	$ 2,944

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 $2,100. The net book value of the owned facilities expected to be leased to DOE is approximately $22,400. 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, 2010 and 2009. Gross other intangible assets, which consisted primarily of unpatented technology, were $10,313 as of September 30, 2010 and 2009. Related accumulated amortization was $9,919 and $8,862 for a net balance of $394 and $1,451 as of September 30, 2010 and 2009, respectively. Expense for amortization of intangible assets was $1,057 and $1,801 for the years ended September 30, 2010 and 2009, respectively. Estimated amortization expense for fiscal year 2011 is $17. The remaining net balance consists of debt financing costs of $377 will be amortized at a rate of $17 per year, over the life of the applicable debt.

8. NOTES AND DEBT PAYABLE

A summary of notes and debt payable as of September 30, 2010 and 2009, was as follows:

	2010	2009
Notes and debt payable:		
Line of credit up to $60,000, bearing a variable interest rate of 1.0% and 1.5%, based on LIBOR, at September 30, 2010 and 2009, respectively, due June 20, 2011	$ -	$ -
Line of credit up to $60,000, bearing a variable interest rate of 0.48% and 0.47%, based on LIBOR, at September 30, 2010 and 2009, respectively, due June 22, 2011	12,400	700
Line of credit up to ¥420,000 bearing a variable interest rate per transaction of 0.88%, at September 30, 2009, due December 28, 2009		4,122
Tax-exempt revenue bonds bearing a fixed interest rate of 5.25%, due April 1, 2034 — net of remaining premium of $268 and $338 at September 30, 2010 and 2009, respectively, which results in an effective rate of 4.77%	18,053	18,123
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 variable interest rate of 0.53% and 0.54%, based on LIBOR, at September 30, 2010 and 2009, respectively, due April 16, 2012, interest payable monthly	45,000	45,000
Term note payable, noninterest bearing, at September 30, 2010 and 2009, principal due in two equal installments, on September 30, 2011 and June 30, 2012	2,000	2,000
Term notes payable, bearing a fixed interest rate of 6.75%, due August 5, 2019, interest payable semiannually	50,000	50,000
Total notes and debt payable	167,453	159,945
Less current notes and debt payable	(13,400)	(4,122)
Long-term notes and debt payable, excluding current installments	$154,053	$ 155,823

The total availability on the line of credits as of September 30, 2010, is $106,638.

The installments of notes and debt payable maturing in each of the next five fiscal years are as follows: 2011 — $13,400; 2012 — $86,000; 2013 — $0; 2014 — $0; 2015 — $0, and thereafter $68,053.

On April 1, 2004, Battelle issued tax-exempt revenue bonds (the "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, 2010 and 2009, 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 London InterBank Offered Rate (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.

The fair value of the interest rate swap was approximately $9,697 and $6,759 as of September 30, 2010 and 2009, respectively, classified in "Other" in the consolidated balance sheets. In determining fair value, Battelle uses a market analysis approach, which consists primarily of Level 2 inputs. The analysis is based on a number of factors, including the mark-to-market price of the swap and the bond yields of companies with similar debt ratings.

Battelle recognized $5,202 and $5,331 of this loss in "Accumulated other comprehensive income" for the years ended September 30, 2010 and 2009, respectively. Additionally, Battelle reclassified $2,264 and $1,839 of loss from "Accumulated other comprehensive income" to "Interest expense" for the years ended September 30, 2010 and 2009, respectively.

10. REVENUE FROM OPERATIONS

A summary of revenue from operations for the years ended September 30, 2010 and 2009, is as follows:

	2010	2009
Government clients	$5,406,966	$4,673,321
Commercial clients	124,442	164,753
Total	$5,531,408	$4,838,074

Battelle has contracts with the DOE to manage and operate certain DOE laboratories. In 2010 and 2009, 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 2015, ORNL through March 2015, and INL through January 2015. Revenues related to these laboratories for the years ended September 30, 2010 and 2009, are as follows:

	2010	2009
Pacific Northwest National Laboratory	$1,098,011	$1,054,091
Brookhaven National Laboratory	724,335	572,338
Oak Ridge National Laboratory	1,596,435	1,271,830
Idaho National Laboratory	1,063,218	871,780
Total	$4,481,999	$3,770,039

Battelle was awarded a contract effective December 2006 with Department of Homeland Security to manage and operate the National Biodefense Analysis Countermeasures Center through December 2011. The revenue for 2010 and 2009 was $53,597 and $38,664, respectively.

11. COST OF OPERATIONS

A summary of cost of operations for the years ended September 30, 2010 and 2009, is as follows:

	2010	2009
Salaries, wages, and benefit-related costs	$2,530,432	$2,366,314
Subcontract and consultant costs	1,762,170	1,440,040
Purchased materials and services	1,038,833	843,933
Travel	108,940	101,780
Depreciation of property and equipment	32,267	31,527
Taxes other than income taxes	35,466	30,700
Other — net	3,107	2,288
Total	$5,511,215	$4,816,582

12. OTHER INCOME AND EXPENSES

Other — net for the years ended September 30, 2010 and 2009, consisted of the following:

	2010	2009
Equity loss in other investments	$(6,240)	$(4,346)
Loss on sale of property and equipment	(1,901)	(2,443)
Other	3,753	467
Total	$(4,388)	$(6,322)

13. INCOME TAXES

Income tax expense for the years ended September 30, 2010 and 2009, consisted of the following:

	2010	2009
Current:		
U.S. federal	$ 197	$ 207
Foreign	1,002	996
State and local	15	7
Current income tax expense	1,214	1,210
Deferred — foreign		1
Total	$ 1,214	$ 1,211

The tax effects of temporary differences that give rise to the deferred tax assets and deferred tax liabilities as of September 30, 2010 and 2009, were as follows:

	2010	2009
Deferred tax assets:		
Other investments	$ 330	$ 330
Property and equipment		31
Compensated absences and other payroll-related liabilities	731	646
Accrued expenses and other liabilities	139	35
Net operating loss carryforwards	32,514	28,073
General business credit carryforwards and other	1,657	1,651
Total deferred tax assets	35,371	30,766
Deferred tax liabilities — property and equipment	(119)	
Total deferred tax assets before valuation allowance	35,252	30,766
Valuation allowance	(34,171)	(29,907)
Net deferred tax assets after valuation allowance	$ 1,081	$ 859

At September 30, 2010 and 2009, Battelle had tax net operating loss carryforwards of $6,697 and $6,641, respectively, and its taxable subsidiaries had tax net operating loss carryforwards of $25,817 and $21,432, respectively, which are available to offset future taxable income of the respective subsidiaries, if any, through 2029. 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 that Battelle will not realize the benefits of these deductible differences; therefore, a valuation allowance of $34,171 and $29,907 and against the net deferred tax assets has been recorded at September 30, 2010 and 2009, 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 of September 30, 2010 and 2009, are as follows:

	Pension	Postretirement
Change in Projected Benefit Obligation		
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 loss	89,930	5,662
Plan amendments	(1,429)	
Benefit payments	(32,409)	(4,220)
Projected obligation — September 30, 2009	812,776	75,863
Service cost	28,859	2,564
Interest cost	49,647	4,650
Actuarial loss (gain)	87,331	(573)
Plan amendments	1,293	
Benefit payments	(39,180)	(3,886)
Projected obligation — September 30, 2010	$940,726	$78,618
Change in Fair Value of Plan Assets		
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
Actual return on plan assets	79,085	2,179
Employer contributions	219	2,500
Benefit paid and expected expenses	(39,180)	(3,886)
Medicare reimbursement		
Fair value of plan assets — September 30, 2010	$763,505	$14,269

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

	2010		2009	
	Pension	Postretirement	Pension	Postretirement
Noncurrent liabilities — net amount recognized	$(177,221)	$(64,349)	$(89,395)	$(62,387)

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

	2010		2009	
	Pension	Postretirement	Pension	Postretirement
Accumulated loss	$ (300,304)	$ (4,350)	$ (253,919)	$ (6,057)
Accumulated prior service credit	(9,820)	(203)	(9,922)	(231)
Transition obligation		(2,896)		(4,342)
Total accumulated other comprehensive loss	$ (310,124)	$ (7,449)	$ (263,841)	$ (10,630)

The accumulated benefit obligations for all defined benefit pension plans as of September 30, 2010 and 2009, were $805,290 and $701,600, respectively. The funded status and net periodic cost consisted of the following:

	2010		2009	
	Pension	Postretirement	Pension	Postretirement
Funded status at year-end				
Projected benefit obligation	$ (940,726)	$ (78,618)	$ (812,776)	$ (75,863)
Fair value of plan assets	763,505	14,269	723,381	13,476
Funded status — deficit	(177,221)	(64,349)	(89,395)	(62,387)
Net amount recognized	$ (177,221)	$ (64,349)	$ (89,395)	$ (62,387)

	2010		2009	
	Pension	Postretirement	Pension	Postretirement
Service cost	$ 28,859	$ 2,564	$ 28,903	$ 2,313
Interest cost	49,647	4,650	47,349	4,742
Expected return on plan assets	(54,461)	(1,044)	(64,016)	(1,495)
Amortization of transition obligation		1,446		1,446
Amortization of prior service cost	1,395	28	1,826	28
Amortization of net actuarial loss	16,321		(10)	
Net periodic benefit cost	$ 41,761	$ 7,644	$ 14,052	$ 7,034

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 $20,450 and $1,523, 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 as of September 30, 2010 and 2009, were as follows:

	2010		2009	
	Pension	Postretirement	Pension	Postretirement
Discount rate	5.71 %	5.71 %	6.26 %	6.26 %
Rate of compensation increase	6.61	NA	6.04	NA

Weighted-average assumptions used to determine net periodic benefit cost for the years ended September 30, 2010 and 2009, were as follows:

	2010		2009	
	Pension	Postretirement	Pension	Postretirement
Discount rate	6.26 %	6.26 %	7.32 %	7.32 %
Expected return on plan assets	7.75	7.75	7.75	7.75
Rate of compensation increase	6.04	NA	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 as of September 30, 2010 and 2009, by asset category were as follows:

2010	**Pension**		**Postretirement**	
Asset Category	**Target**	**Actual**	**Target**	**Actual**
Equity securities	65 %	65 %	67 %	68 %
Private equity	5	6		
Debt securities	25	27	33	32
Real estate	5	2		
	100 %	100 %	100 %	100 %

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

Battelle has adopted the Employers' Disclosures about Postretirement Benefit Plan Assets (FSP FAS 132(R)-1), which is now part of ASC Topic 715, *Compensation-Retirement Benefits*. FSP FAS 132(R)-1 provides guidance on disclosures about the plan assets in our defined benefit pension and postretirement plans. FSP FAS 132(R)-1 requires categorization of plan assets within the three-level fair value hierarchy as outlined in Note 5. As required by ASC Topic 820, financial assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Management's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and their placement within the fair value hierarchy levels.

The pension plan assets are part of a master trust. As of September 30, 2010, the plan assets associated with the consolidated financials consisted of approximately 49% or $763,505 of the master trust. The table set forth by level within the fair value hierarchy the pension's assets as of September 30, 2010, is as follows:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 2,816	$ 5,802	$ -	$ 8,618
U.S. government securities:				
Government agencies		13,875		13,875
Government bonds		45,605		45,605
Government mortgage-backed securities		4,335		4,335
Government issued commercial mortgage-backed securities		13		13
Index-linked government bonds		682		682
Short-term bills and notes		127		127
Total U.S. government securities	-	64,637	-	64,637
Corporate stock:				
Consumer discretionary	32,087			32,087
Consumer staples	38,368			38,368
Energy	39,610			39,610
Financials	55,044			55,044
Health care	40,544			40,544
Industrials	44,960	110		45,070
Information technology	69,788			69,788
Materials	21,424			21,424
Telecommunication services	5,550			5,550
Utilities	13,891			13,891
Convertible equity		31		31
Preferred stock		12		12
Other				-
Total corporate stock	361,266	153	-	361,419
Common/collective trust		137,106		137,106
Common/collective trust — short term		25,781		25,781
Limited partnerships			42,552	42,552
103-12 investments			4,358	4,358
Corporate debt instruments — preferred:				
Asset-backed securities		804		804
Commercial mortgage-backed securities		1,081		1,081
Corporate bonds		26,086		26,086
Non-government-backed CMOs		1,886		1,886
Total corporate debt instruments — preferred	-	29,857	-	29,857
Corporate debt instruments — other:				
Asset-backed securities		712		712
Commercial mortgage-backed securities		334		334
Corporate bonds		19,423		19,423
Non-government-backed CMOs		3,222		3,222
Total corporate debt instruments — other	-	23,691	-	23,691
Real estate			5,724	5,724
Other	2,534	57,754		60,288
Dividends and interest receivable	350	1,174		1,524
Other — including payables from pending transactions	(1,201)	(849)		(2,050)
Total investments	$365,765	$345,106	$52,634	$763,505

A reconciliation of the beginning and ending balances of the fair value measurements using significant unobservable inputs (Level 3) as of September 30, 2010, is as follows:

Beginning balance — October 1, 2009	$39,457
Realized and unrealized losses — net	3,154
Contributions and transfers in	15,955
Withdrawals and transfers out	(5,932)
Ending balance — September 30, 2010	$52,634
The amount of total gains or losses for the year ended September 30, 2010, included in changes in net assets attributable to the change in unrealized gains or losses related to assets still held at the reporting date	$ (397)

The following table sets forth by level within the fair value hierarchy the postretirement plan's assets as of September 30, 2010:

	Level 1	Level 2	Total
Mutual funds			
International stock fund	$ 9,755	$ -	$ 9,755
Bond fund	4,264		4,264
Total mutual funds	14,019	-	14,019
Money market funds		262	262
Payable from pending transactions	(12)		(12)
Total investments	$ 14,007	$ 262	$ 14,269

Cash Flows

Contributions — Battelle expects to contribute $222 to its pension plans and $3,512 to its postretirement benefit plan in 2011. 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
2011	$ 38,020	$ 3,512	$ 41,532
2012	39,720	3,655	43,375
2013	42,018	3,809	45,827
2014	44,217	3,960	48,177
2015	46,315	4,161	50,476
2016–2020	259,335	24,071	283,406

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 nonfiscal year measurement date for its defined benefit pension plans and postretirement plan. Starting from fiscal year 2009, all plans were 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 for Scientific and Educational Purposes of the Battelle Will from applying the measurement date revision were as follows:

Adjustment to Retained for Scientific and Educational Purposes of the Battelle Will:	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:

Years Ending September 30	
2011	$4,981
2012	3,083
2013	839

Financial Guarantees — Battelle has letters of credit aggregating approximately $2,354 and $746 as of September 30, 2010 and 2009, 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, results of operations, or cashflows.

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 $1,000 and $6,337 for the years ended September 30, 2010 and 2009, 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, 2010 and 2009, Battelle has an accrual for unconditionally pledged charitable distributions of $1,000 and $1,215, respectively, recorded in accrued expenses and other liabilities, and $1,000 and $2,000, respectively, recorded in other long-term liabilities.

Battelle distributed $10,708 and $22,357 in cash and property to qualified recipients for the years ended September 30, 2010 and 2009, 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.

16. SUBSEQUENT EVENTS

Sale of Intellectual Property — On November 18, 2010, Vitex Systems Inc., a Battelle subsidiary which develops thin-film ultra-barrier technology, sold its intellectual property assets for $27,000 in cash. Vitex retains royalty rights from some licenses, including chemical suppliers, equipment manufacturers, and other prior licensees. The gain to be recognized by Battelle in fiscal year 2011 on this transaction is $25,600.

* * * * * *

Deloitte.

Deloitte & Touche LLP
Suite 1400
180 East Broad Street
Columbus, OH 43215-3611
USA

Tel: +1 614 221 1000
Fax: +1 614 229 4647
www.deloitte.com

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, 2010, and have issued our report thereon dated December 17, 2010. 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 *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of control deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to indentify all deficiencies, 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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Company in a separate letter dated December 17, 2010.

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 17, 2010