Battelle Memorial Institute and Subsidiaries

Consolidated Financial Statements as of and for the Years Ended September 30, 2008 and 2007, and Independent Auditors' Report

BATTELLE MEMORIAL INSTITUTE AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Battelle Memorial Institute and its subsidiaries (the "Company") as of June 30, 2008 and 2007, and the related consolidated statements of income, 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 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 June 30, 2008 and 2007, 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, in 2007 the Company changed its method of accounting for pension and postretirement benefits.

As discussed in Note 14 to the consolidated financial statements, the Company initially adopted Financial Accounting Standards Board Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statement No. 87, 88, 106 and 132(R)*, effective September 30, 2007.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2008, 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 18, 2008

BATTELLE MEMORIAL INSTITUTE AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2008 AND 2007
(In thousands)

	2008	2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 78,387	$ 56,123
Securities available-for-sale — current portion	1,201	3,377
Restricted cash	19,679	13,277
Accounts receivable — net	278,115	267,143
Prepayments and other current assets	24,172	25,817
Total current assets	401,554	365,737
SECURITIES AVAILABLE-FOR-SALE	326,270	468,718
OTHER INVESTMENTS	57,725	46,667
PROPERTY AND EQUIPMENT:		
Property and equipment — at cost	646,963	605,868
Less accumulated depreciation	(336,799)	(312,266)
Property and equipment — net	310,164	293,602
PREPAID PENSION COSTS	182,415	259,730
GOODWILL	14,655	14,655
OTHER INTANGIBLES AND OTHER ASSETS — NET	6,313	9,294
TOTAL	$1,299,096	$1,458,403

(Continued)

BATTELLE MEMORIAL INSTITUTE AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2008 AND 2007
(In thousands)

	2008	2007
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Notes and debt payable	$ 2,563	$ 9,744
Accounts payable	89,308	90,701
Corporate taxes payable	4,310	3,877
Payroll and other current benefit related liabilities	66,342	65,039
Advance payments from clients	46,746	45,135
Accrued expenses and other liabilities	27,395	27,299
Total current liabilities	236,664	241,795
Long-term notes and debt payable	105,691	105,655
Long-term benefit related liabilities	6,445	8,072
Accrued postretirement benefits	49,871	53,169
Other	17,555	16,919
Total liabilities	416,226	425,610
MINORITY INTERESTS IN SUBSIDIARIES	11,380	8,313
EQUITY:		
Retained for scientific and educational purposes of The Battelle Will	798,603	785,739
Capital contribution in subsidiary	14,375	14,375
Accumulated other comprehensive income:		
Net unrealized gains on available-for-sale securities	72,869	171,589
Equity adjustments from foreign currency translation	4,692	6,211
Net loss on interest rate swap	(3,267)	(603)
Pension and postretirement benefits	(15,782)	47,169
Total equity	871,490	1,024,480
TOTAL	$ 1,299,096	$ 1,458,403

See notes to consolidated financial statements. (Concluded)

BATTELLE MEMORIAL INSTITUTE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007
(In thousands)

	2008	2007
REVENUES:		
Revenue from operations	$4,598,877	$4,166,946
Royalty, license, and patent income	14,822	12,066
Other revenue	4,237	1,648
Total revenues	4,617,936	4,180,660
COST OF OPERATIONS	4,559,140	4,144,158
EXCESS OF TOTAL REVENUES OVER COST OF OPERATIONS	58,796	36,502
NONOPERATING COSTS:		
Research and development expense	(36,969)	(26,928)
Distributions	(12,098)	(20,226)
Interest expense	(7,897)	(9,135)
Investment income — net	22,913	32,975
Other — net	(9,844)	(4,774)
Total nonoperating costs	(43,895)	(28,088)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	14,901	8,414
INCOME TAX BENEFIT	55	157
NET INCOME BEFORE MINORITY INTERESTS	14,956	8,571
MINORITY INTERESTS IN SUBSIDIARIES' NET INCOME	(2,092)	(215)
NET INCOME	$ 12,864	$ 8,356

See notes to consolidated financial statements.

BATTELLE MEMORIAL INSTITUTE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY BALANCES
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007
(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 — October 1, 2006		$602,309	$14,375	$141,402	$ 758,086
Implementation of preferred method of pension and postretirement accounting		175,074			175,074
Comprehensive income:					
Net income	$ 8,356	8,356			8,356
Other comprehensive income:					
Unrealized gain on available-for-sale securities	34,719				
Foreign currency translation adjustment	1,679				
Change in fair value of interest rate swap	(603)				
Other comprehensive income	35,795			35,795	35,795
Comprehensive income	$ 44,151				
Adjustment to initially apply FASB No. 158				47,169	47,169
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)				
Foreign currency translation adjustment	(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

See notes to consolidated financial statements.

BATTELLE MEMORIAL INSTITUTE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007
(In thousands)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 12,864	$ 8,356
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property and equipment	30,473	29,458
Amortization of intangible assets	2,079	6,456
Gain on sales of securities — net	(16,154)	(16,404)
Loss on other investments	16,332	
Loss on sale of property and equipment	1,058	443
Minority interests	2,092	215
Deferred income taxes	(299)	517
Pension and postretirement benefits expense	11,809	13,232
Other	(742)	2,449
Effects of changes in operating assets and liabilities:		
Restricted cash	(6,402)	431
Accounts receivable	(11,063)	(33,787)
Accounts payable	(1,670)	29,269
Corporate taxes payable	463	(402)
Payroll and other benefit related liabilities	1,332	6,741
Advance payments from clients	1,965	(3,148)
Accrued expenses and other	(878)	3,210
Net cash provided by operating activities	43,259	47,036
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from disposal of property and equipment	515	1,960
Additions to property and equipment	(49,119)	(29,410)
Proceeds from sales and maturities of securities	301,871	235,365
Purchase of securities	(242,029)	(216,742)
Other	(25,173)	(17,112)
Net cash provided by (used in) investing activities	(13,935)	(25,939)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net repayments of lines of credit	(1,246)	(26,854)
Payments on notes payable	(6,461)	(35,000)
Proceeds on notes payable	500	47,000
Capital contributions (distributions) to minority interests	958	(3,358)
Net cash used in financing activities	(6,249)	(18,212)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(811)	426
NET INCREASE IN CASH AND CASH EQUIVALENTS	22,264	3,311
CASH AND CASH EQUIVALENTS:		
Beginning of year	56,123	52,812
End of year	$ 78,387	$ 56,123
SUPPLEMENTAL DISCLOSURES:		
Income tax payments — net of (payments) refunds	$ (32)	$ 650
Interest paid — net of amounts capitalized	$ 7,181	$ 8,866

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, but 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 Financial Accounting Standards Board (FASB) Financial Interpretation No. 46(R) (FIN 46(R)), *Consolidation of 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 financials statements in accordance with FIN 46(R).

Battelle has determined that Ventaira Pharmaceuticals, Inc. (Ventaira) is a VIE and Battelle is the primary beneficiary of Ventaira. Therefore, Battelle included the net assets of Ventaira in its consolidated financial statements.

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 $78,387 and $56,123 as of September 30, 2008 and 2007, 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, 2008 and 2007, there was $10,533 and $9,254, 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, 2008 and 2007, there was $4,461 and $3,983, 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, 2008, there was $4,660 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, 2008 and 2007, there was $25 and $40, respectively, 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 thirty 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 $239 and $99 for the years ended September 30, 2008 and 2007, 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 in accordance with the provisions of FASB Statement No. 142, *Goodwill and Other Intangible Assets*. Intangible assets with estimable useful lives are amortized over their respective estimated useful lives to estimated residual values, and reviewed for impairment in accordance with FASB Statement No. 144, *Accounting for 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 $9,244 and $14,305 as of September 30, 2008 and 2007, 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 $20,239 in 2008 and $19,653 in 2007.

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 2005. Fiscal years 2007 and 2006 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 and 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 and 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 FASB issued FASB Statement No. 157, *Fair Value Measurements (FASB 157)*, which defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. The intent of this standard is to ensure consistency and comparability in fair value measurements and enhanced disclosures regarding the measurements. In February 2008, the FASB issued FASB Staff Position (FSP) No. 157-2, *Effective Date of FASB Statement No. 157* (FSP No. 157-2). FSP 157-2 deferred the effective date of FASB 157 to fiscal years beginning after November 15, 2008. Battelle is currently evaluating the impact of adopting FASB 157 on its consolidated financial statements.

In September 2006, the FASB issued FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (FASB 158). FASB 158 requires the measurement of the pension and other postretirement plans' assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position. The measurement date requirement is effective for Battelle's fiscal year 2009.

In September 2006, the FASB issued FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment for statement No. 115* (FASB 159). FASB 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The standard also establishes presentation and disclosure requirements designed to facilitate comparison between entities that choose different measurement attributes for similar types of assets and liabilities. FASB 159 is effective for annual periods in fiscal years beginning after November 15, 2007. If the fair value option is elected, the effect of the first remeasurement to fair value is reported as a cumulative effect adjustment to the opening balance of retained earnings. In the event Battelle elects the fair value options promulgated by this standard, the valuation of certain assets and liabilities may be impacted. The statement is applied prospectively upon adoption. Battelle is currently evaluating the impact FASB 159 on its consolidated financial statements.

In December 2007, the FASB issued FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51* (FASB 160). FASB 160 clarifies 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 standard 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 standard also establishes a single method of accounting for changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation. FASB 160 is effective for annual periods in fiscal years beginning on or after December 15, 2008. Battelle is currently assessing the impact of FASB 160 on its consolidated financial statements.

In March 2008, the FASB issued FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (FASB 161). FASB 161 enhances 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 hedged items are accounted for under FASB 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. FASB 161 requires that objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation. This standard is intended to improve upon the existing disclosure framework in FASB 133. FASB 161 is effective for fiscal years beginning after November 15, 2008. It encourages retrospective application to comparative disclosure for earlier periods presented. Battelle is currently evaluating the impact of FASB 161 on its consolidated financial statements.

2. ACCOUNTS RECEIVABLE

A summary of accounts receivable as of September 30, 2008 and 2007, was as follows:

	2008	2007
Government (primarily United States government):		
Billed	$ 84,506	$ 88,956
Unbilled	151,696	146,197
	236,202	235,153
Commercial:		
Billed	23,792	21,033
Unbilled	23,449	15,932
	47,241	36,965
Other	8,381	7,420
Total accounts receivable	291,824	279,538
Less provision for doubtful accounts	(13,709)	(12,395)
Accounts receivable — net	$278,115	$267,143

3. SECURITIES AVAILABLE-FOR-SALE

Securities available-for-sale as of September 30, 2008 and 2007, was as follows:

2008	Amortized Cost	Gross Unrealized Gains	Gross Unrealized LossesV	Fair alue
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
Foreign corporate debt securities:				
Maturing between 1 and 5 years				
Maturing between 5 and 10 years				
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 within 1 year				
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

2007	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Equity securities	$182,323	$182,353	$ (171)	$364,505
U.S. corporate debt securities:				
Maturing within 1 year	1,465	6	(91)	1,380
Maturing between 1 and 5 years	7,414	88	(27)	7,475
Maturing between 5 and 10 years	7,600	57	(88)	7,569
Maturing beyond 10 years	5,621	52	(1,101)	4,572
Foreign corporate debt securities:				
Maturing between 1 and 5 years	257	2	(1)	258
Maturing between 5 and 10 years	413	11		424
U.S. government agency debt securities:				
Maturing within 1 year	1,992	8	(9)	1,991
Maturing between 1 and 5 years	4,228	49		4,277
Maturing between 5 and 10 years	8,806	101	(34)	8,873
Maturing beyond 10 years	6,354	18	(106)	6,266
Mortgage backed securities:				
Maturing within 1 year	6			6
Maturing between 1 and 5 years	382	4		386
Maturing between 5 and 10 years	9,230	99	(2)	9,327
Maturing beyond 10 years	50,466	617	(173)	50,910
Other	3,900		(24)	3,876
Total securities available-for-sale	290,457	183,465	(1,827)	472,095
Less current portion	(3,463)	(14)	100	(3,377)
Total securities available-for-sale less current portion	$286,994	$183,451	$(1,727)	$468,718

Proceeds from the sale and maturities of securities available-for-sale were $301,871 and $235,365 in 2008 and 2007, respectively. The gross realized gains included in income were $38,422 and $21,743 in 2008 and 2007, respectively, and the gross realized losses included in income were $22,268 and $5,339 in 2008 and 2007, respectively. The gross realized losses in 2008 include the decline in the value of certain available-for-sale securities deemed to be other than temporary resulting in a write down of $587 to fair value, which is included in investment income — net in the consolidated statement of income.

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, 2008 and 2007:

	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)

	Less Than 12 Months		12 Months or Longer		Total	
2007	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Equity securities	$ 5,538	$ (111)	$ 1,769	$ (60)	$ 7,307	$ (171)
U.S. corporate debt securities:						
Maturing within 1 year	75	(1)	1,058	(90)	1,133	(91)
Maturing between 1 and 5 years	2,170	(21)	526	(6)	2,696	(27)
Maturing between 5 and 10 years	3,562	(86)	587	(2)	4,149	(88)
Maturing beyond 10 years	1,381	(1,101)	190		1,571	(1,101)
Foreign corporate debt securities:						
Maturing between 1 and 5 years	54	(1)			54	(1)
Maturing between 5 and 10 years	42				42	
U.S. government agency debt securities:						
Maturing within 1 year			994	(9)	994	(9)
Maturing between 1 and 5 years	200				200	
Maturing between 5 and 10 years	2,322	(34)			2,322	(34)
Maturing beyond 10 years	4,254	(106)			4,254	(106)
Mortgage backed securities:						
Maturing within 1 year	5				5	
Maturing between 1 and 5 years	27				27	
Maturing between 5 and 10 years	822	(2)			822	(2)
Maturing beyond 10 years	12,698	(167)	521	(6)	13,219	(173)
Other	3,876	(24)			3,876	(24)
Total	$ 37,026	$ (1,654)	$ 5,645	$(173)	$ 42,671	$ (1,827)

Unrealized losses related to equity securities, which consist of 136 and 88 investments, as of September 30, 2008 and 2007, 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.

Included in other is a privately managed equity fund. As of September 30, 2008 and 2007, Battelle has committed $10,000 and total capital called was $6,100 and $3,900, respectively.

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 Memorial Institute ("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.

Venture Funds — Through September 30, 2008 and 2007, Battelle has committed approximately $34,593 and $32,881, respectively, to fourteen 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, 2008 and 2007, total capital called by the various venture funds was $18,991 and $18,421, respectively.

Battelle Venture Partners — 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, 2008 and 2007, total capital called by Battelle Ventures is $108,435 and $72,017, respectively.

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts and the estimated fair values of financial instruments as of September 30, 2008 and 2007, were as follows:

	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 78,387	$ 78,387	$ 56,123	$ 56,123
Restricted cash	19,679	19,679	13,277	13,277
Securities, available-for-sale	327,471	327,471	472,095	472,095
Other investments	57,725	67,346	46,667	46,667
Notes and debt payable	108,254	111,951	115,399	116,111
Interest rate swap contract	(3,267)	(3,267)	(603)	(603)

The carrying amount approximates fair value for cash and short-term investments due to their liquidity and short-term maturities. The fair value for securities available-for-sale is based upon published quotations. 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. The fair value of the other investments is based on management's analysis. The fair value of the interest rate swap contract is estimated based on the net present value of the future cash flows using interest rates in effect at year-end.

6. PROPERTY AND EQUIPMENT AND LEASE COMMITMENTS

A summary of property and equipment as of September 30, 2008 and 2007, was as follows:

	2008		2007	
	Useful life		Useful life	
Land and improvements	-	$ 12,044	-	$ 12,809
Buildings and improvements	10–40 years	406,319	10–40 years	383,475
Furniture and equipment	3–15 years	204,085	3–15 years	188,928
Construction in progress	-	24,515	-	20,656
Total property and equipment		$ 646,963		$ 605,868

Battelle leases office space and equipment under various operating lease agreements. Lease expense was $27,529 and $30,488 in 2008 and 2007, respectively. As of September 30, 2008, minimum lease payments under these leases were as follows:

	Office Space	Equipment
2009	$ 22,698	$ 1,117
2010	19,278	629
2011	15,671	526
2012	12,522	176
2013	11,331	
Thereafter	54,438	
Total	$ 135,938	$ 2,448

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 $3,600. The net book value of the owned facilities expected to be leased to DOE is approximately $19,200. 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, 2008 and 2007. Gross other intangible assets, which consisted primarily of unpatented technology, were \$10,313 and \$11,955 as of September 30, 2008 and 2007, respectively. Related accumulated amortization was \$7,061 and \$6,623, for a net balance of \$3,252 and \$5,332 as of September 30, 2008 and 2007, respectively. Expense for amortization of intangible assets was \$2,079 and \$6,456 for the years ended September 30, 2008 and 2007, respectively. Estimated amortization expense for the next two fiscal years is: 2009 – \$1,801 and 2010 – \$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, 2008 and 2007, was as follows:

	2008	2007
Line of credit up to \$60,000, bearing a variable interest rate of 3.90% and 5.33%, based on LIBOR, at September 30, 2008 and 2007, respectively, due June 22, 2009	\$ -	\$ 2,400
Line of credit up to \$60,000, bearing a variable interest rate of 3.93% and 5.35%, based on LIBOR, at September 30, 2008 and 2007, respectively, due June 22, 2011		
Line of credit up to ¥540,000 bearing a variable interest rate per transaction of 1.04% and 1.02%, at September 30, 2008 and 2007, respectively, due March 31, 2009	2,163	871
Tax exempt revenue bonds bearing a fixed interest rate of 5.25%, due April 1, 2034 — net of remaining premium of \$406 and \$470, at September 30, 2008 and 2007, respectively, which results in an effective rate of 4.77%	18,191	18,255
Term notes payable, bearing a fixed interest rate of 6.93%, due April 15, 2012, interest payable semi-annually	40,000	40,000
Term note payable, bearing a fixed interest rate of 3.0%, principal and interest due March 31, 2009	400	400
Term note payable, bearing a variable interest rate of 6.82%, based on LIBOR, at September 30, 2007, due November 30, 2009, interest payable quarterly (note paid December 2007)		6,473
Term note payable, bearing a variable interest rate of 2.76% and 5.40%, based on LIBOR, at September 30, 2008 and 2007, respectively, due April 16, 2012, interest payable monthly	45,000	45,000
Term note payable, noninterest bearing, at September 30, 2008 and 2007, 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, 2008, principal due March 5, 2011, interest payable monthly	500	
Total notes and debt payable	108,254	115,399
Less current notes and debt payable	(2,563)	(9,744)
Long-term notes and debt payable, excluding current installments	\$105,691	\$105,655

The installments of notes payable maturing in each of the next five fiscal years are: 2009 – \$2,563, 2010 – \$0, 2011 – \$1,500, 2012 – \$86,000, 2013 – \$0, and thereafter \$18,191.

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 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, 2008 and 2007, 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. Since the terms of the swap and the LIBOR debt coincide (notional amount, interest rate reset dates, and underlying index), there are no other basis differences and the likelihood of swap counterparty default is not probable. Therefore, the hedge is expected to exactly offset changes in expected cash flows due to fluctuations in the LIBOR rate over the term of the forecasted debt and there is no source of ineffectiveness. The effectiveness of the hedge relationship will be periodically assessed during the life of the hedge by comparing the current terms of the swap and the debt to assure they continue to coincide and through an evaluation of the continued ability of the counterparty to the swap to honor its obligations under the swap. 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, 2008 and 2007, is as follows:

	2008	2007
Government clients	$4,437,256	$4,021,598
Commercial clients	161,621	145,348
Total	$4,598,877	$4,166,946

Battelle has contracts with the DOE to manage and operate certain DOE laboratories. In 2008 and 2007, 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 September 2014. Revenues related to these laboratories for the years ended September 30, 2008 and 2007, follow:

	2008	2007
Pacific Northwest National Laboratory	$ 873,491	$ 757,378
Brookhaven National Laboratory	530,896	495,612
Oak Ridge National Laboratory	1,262,703	1,101,269
Idaho National Laboratory	809,136	715,935
Total	$3,476,226	$3,070,194

Battelle was awarded a contract effective December 2006 with Department of Homeland Security (DHS) to manage and operate the National Biodefense Analysis Countermeasures Center through 2011. The revenue for 2008 and 2007 was $25,550 and $14,439, respectively.

11. COST OF OPERATIONS

A summary of cost of operations for the years ended September 30, 2008 and 2007, is as follows:

	2008	2007
Salaries, wages, and benefit related costs	$2,190,331	$2,087,618
Subcontract and consultant costs	1,368,187	1,137,446
Purchased materials and services	838,328	772,167
Travel	101,338	88,944
Depreciation of property and equipment	30,473	29,458
Taxes other than income taxes	27,390	24,812
Other — net	3,093	3,713
Total	$4,559,140	$4,144,158

12. OTHER INCOME AND EXPENSES

Other — net for the years ended September 30, 2008 and 2007, consisted of the following:

	2008	2007
Equity loss in other investments	$ (8,760)	$ (5,452)
Loss on sale of property and equipment	(1,058)	(107)
Other	(26)	785
Total	$ (9,844)	$ (4,774)

13. INCOME TAXES

Income tax expense (benefit) for the years ended September 30, 2008 and 2007, consisted of the following:

	2008	2007
Current:		
U.S. Federal	$ (22)	$ 8
Foreign	(24)	32
State and local	30	32
	(16)	72
Deferred:		
U.S. Federal	(40)	(217)
Foreign	1	
State and local		(12)
	(39)	(229)
Total	$ (55)	$ (157)

The tax effects of temporary differences that give rise to the deferred tax assets and deferred tax liabilities at September 30, 2008 and 2007, were as follows:

	2008	2007
Deferred tax assets:		
Accounts receivable	$ 27	$ 204
Other investments	330	1,761
Property and equipment	22	
Compensated absences and other payroll related liabilities	587	338
Accrued expenses and other liabilities	1,759	257
Net operating loss carry forwards	29,181	49,656
General business credit carryforwards and other	1,956	4,436
Total deferred tax assets	33,862	56,652
Deferred tax liabilities — property and equipment		(115)
Net deferred tax asset before valuation allowance	33,862	56,537
Valuation allowance	(33,485)	(56,308)
Net deferred tax asset after valuation allowance	$ 377	$ 229

At September 30, 2008 and 2007, Battelle had tax net operating loss carryforwards of $6,035 and $0, respectively, and its taxable subsidiaries had tax net operating loss carryforwards of $23,146 and $49,656, 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 $33,485 and $56,308 against the net deferred tax assets has been recorded at September 30, 2008 and 2007, respectively.

In July 2006, the Financial Accounting Standards Board (FASB) issued Financial Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109*, which is a change in accounting for income taxes. FIN 48 specifies how tax benefits for uncertain tax positions are to be recognized, measured, and derecognized in financial statements; requires certain disclosures of uncertain tax matters; specifies how reserves for uncertain tax positions should be classified in the balance sheet; and provides transition guidance, among other provisions. FIN 48 is effective for fiscal years beginning after December 15, 2007. Battelle implemented FIN 48 in 2008. The impact to the consolidated financial statements was immaterial.

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 following table sets forth the plans' benefit obligations and fair value of plan assets as of the measurement date June 30, 2008 and 2007:

	Pension	Postretirement
Change in Projected Benefit Obligation		
Projected obligation — July 1, 2006	$620,594	$66,491
Service cost	27,509	2,513
Interest cost	40,437	4,351
Actuarial loss	27,566	393
Plan amendments	1,949	
Benefit payments	(28,649)	(2,581)
Projected obligation — June 30, 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
Change in Fair Value of Plan Assets		
Fair value of plan assets — July 1, 2006	$839,904	$17,909
Actual return on plan assets	139,037	3,020
Employee contributions		1,461
Employer contributions		
Section 420 transfer	(2,270)	2,011
Benefit paid and expected expenses	(28,410)	(4,861)
Medicare reimbursement		819
Fair value of plan assets — June 30, 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

Amounts recognized in the statements of financial position consisted of:

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

2007	Pension	Postretirement
Noncurrent assets	$ 259,730	$ -
Noncurrent liabilities	(2,774)	(50,395)
Net amount recognized	$ 256,956	$ (50,395)

Amounts recognized in accumulated other comprehensive income consisted of:

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)

2007	Pension	Postretirement
Accumulated gain (loss)	$ 72,480	$ (3,581)
Accumulated prior service credit	(13,840)	(294)
Transition obligation		(7,596)
Total accumulated other comprehensive income (loss)	$ 58,640	$ (11,471)

The accumulated benefit obligations for all defined benefit pension plans as of September 30, 2008 and 2007, respectively, were $574,382 and $583,644.

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)

2007	Pension	Postretirement
Funded status at year end		
Projected benefit obligation	$ (689,406)	$ (71,167)
Fair value of plan assets	948,261	20,359
Funded status — surplus (deficit)	258,855	(50,808)
Contributions from June 30 to September 30	(1,899)	413
Net amount recognized	$ 256,956	$ (50,395)

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

2007	Pension	Postretirement
Service cost	$ 27,509	$2,513
Interest cost	40,437	4,351
Expected return on plan assets	(63,660)	(895)
Amortization of transition obligation		1,446
Amortization of prior service cost	1,503	28
Amortization of net actuarial loss		
Net periodic benefit cost	$ 5,789	$7,443

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 $10 and $1,826, respectively. The estimated net loss, 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 $0, $28, and $1,446, respectively.

Assumptions:

Weighted-average assumptions used to determine benefit obligations at June 30, 2008 and 2007, were as follows:

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

2007	Pension	Postretirement
Discount rate	6.51 %	6.51 %
Rate of compensation increase	6.04 %	NA

Weighted-average assumptions used to determine net periodic benefit cost for the years ended June 30, 2008 and 2007, were as follows:

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

2007	Pension	Postretirement
Discount rate	6.69%	6.69%
Expected return on plan assets	7.75%	5.00%
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 June 30, 2008 and 2007, by asset category were as follows:

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 %

2007 Asset Category	Pension		Postretirement	
	Target	Actual	Target	Actual
Equity securities	70 %	67 %	67 %	68 %
Debt securities	25 %	27 %	29 %	28 %
Real estate	5 %	4 %	0 %	0 %
Other	0 %	2 %	4 %	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.

Cash Flows:

Contributions — Battelle expects to contribute $232 to its pension plans and $3,200 to its postretirement benefit plan in 2009. 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
2009	$ 33,936	$ 3,200	$ 37,136
2010	36,136	3,500	39,636
2011	38,435	3,700	42,135
2012	40,634	4,000	44,634
2013	42,933	4,200	47,133
2014–2018	247,641	24,000	271,641

Implementations — Effective October 1, 2006, Battelle changed its methodology for recording pension and postretirement benefit balances. Previously, Battelle's pension expense for its plans as reflected in the consolidated financial statements was the amount actually funded during the year. The amount funded during the year is billable to government contracts. In prior years, Battelle concluded that any pension expense over the amount billable during the year was contractually recoverable from the federal government in future periods, and any pension expense below the amount billable during the year was contractually recoverable by the federal government. As a result, Battelle had previously deferred income statement recognition of the difference between the computed pension costs (credits) as determined pursuant to Statement 87 and 106, and the actual pension funding during the year. Battelle has changed to a preferable accounting principle, and now recognizes in the income statement each year the pension expense or benefit as determined pursuant to Statement 87 and 106 without any deferral to future periods. The prepaid benefit (accrued) pension costs for the pension and postretirement plans are reported in full on the consolidated financial statements. Battelle concluded that this change in accounting for pension and postretirement plans was preferable, after giving consideration to numerous factors including the reporting performed by other federal government contractors, the full recognition of costs in the year the related employee service is received and the focus on the actual funded status of pension and postretirement benefit plans upon issuance of FASB 158.

2007	Before Change in Accounting	Adjustments	After Change in Accounting
Prepaid pension costs	$ -	$208,898	$ 208,898
Total assets	1,130,187	208,898	1,339,085
Accrued postretirement benefits	2,891	33,824	36,715
Total liabilities	360,643	33,824	394,467
Retained Earnings	602,380	175,074	777,454
Total equity	758,085	175,074	933,159

As of September 30, 2007, Battelle adopted FASB 158, which requires an employer to recognize the overfunded or underfunded status of a defined benefit pension or post retirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income.

2007	Before Application of FASB 158	Adjustments	After Application of FASB 158
Prepaid pension costs	$ 201,336	$58,394	$ 259,730
Total assets	1,400,009	58,394	1,458,403
Accrued postretirement benefits	41,943	11,226	53,169
Total liabilities	414,384	11,226	425,610
Accumulated other comprehensive income		47,169	47,169
Total equity	977,311	47,169	1,024,480

15. COMMITMENTS AND CONTINGENCIES

Service Agreement — Battelle has a personal computer service contract agreement with a technology vendor and a multi-functional 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:

2009	$4,938
2010	2,821
2011	1,019

Financial Guarantees — Battelle has letters of credit aggregating approximately $1,002 and $478 as of September 30, 2008 and 2007, 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 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. 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 $2,573 and $1,671 for the years ended September 30, 2008 and 2007, 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, 2008 and 2007, Battelle has an accrual for unconditionally pledged charitable distributions of $2,370 and $1,964, respectively, recorded in accrued expenses and other liabilities, and $3,230 and $4,740, respectively, recorded in other long-term liabilities.

Battelle distributed $11,932 and $16,376 in cash and property to qualified recipients for the years ended September 30, 2008 and 2007, 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 Subsidiary — On November 21, 2008, Battelle sold Velocys, Inc., a subsidiary which develops microchannel technology for the chemical processing industry, to Oxford Catalysts Group (OCG), for $5,000 in cash and OCG stock valued at $25,600. OCG develops and commercializes catalysts for use primarily in production (including microchannel processing) of clean fuels from both fossil fuels and various renewable sources. After the sale, Battelle held approximately 17% of OCG outstanding shares.

At September 30, 2008, Velocys had assets of $5,100 (cash and receivables $3,900, equipment $1,000, and other assets $200) and liabilities of $6,400 (accounts payable $500, advance payments from clients $2,000, payroll related liabilities $1,200, deferred revenue $2,400, and other liabilities $300). Velocys' revenue for fiscal year 2008 was $13,100. The gain to be recognized by Battelle in fiscal year 2009 on the sale of Velocys is $29,400.

Market Declines — Battelle's securities available for sale and the plan assets, for pension and postretirement plans, include publicly traded securities. As a result, a significant downturn in the securities markets could adversely affect the market value of Battelle's assets. Subsequent to the measurement date, conditions in the worldwide debt and equity markets have deteriorated significantly. These conditions have had a negative effect on the fair value of Battelle's investments. Battelle continues to monitor its investment portfolio as conditions evolve.

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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:

We have audited the financial statements of Battelle Memorial Institute and subsidiaries (the "Company") as of and for the year ended June 30, 2008, and have issued our report thereon dated December 18, 2008. 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 18, 2008