

SURMODICS INC  
Form 10-K/A  
December 14, 2009

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**SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549**

**Form 10-K/A**

**Amendment No. 1**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended September 30, 2009**

**Commission file number 0-23837**

**SURMODICS, INC.**

*(Exact Name of Registrant as Specified in Its Charter)*

**Minnesota**

*(State or other jurisdiction of  
incorporation or organization)*

**41-1356149**

*(IRS Employer  
Identification No.)*

**9924 West 74<sup>th</sup> Street  
Eden Prairie, Minnesota**  
*(Address of Principal Executive Offices)*

**55344**  
*(Zip Code)*

**(Registrant's Telephone Number, Including Area Code)  
(952) 829-2700**

**Securities registered pursuant to Section 12(b) of the Act:**

<b>Title of Each Class</b>	<b>Name of Exchange on Which Registered</b>
<b>Common Stock, \$0.05 par value</b>	<b>NASDAQ Global Select Market</b>

**Securities registered pursuant to Section 12(g) of the Act:  
None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The aggregate market value of the Common Stock held by shareholders other than officers, directors or holders of more than 5% of the outstanding stock of the registrant as of March 31, 2009 was approximately \$197 million (based upon the closing sale price of the registrant's Common Stock on such date).

The number of shares of the registrant's Common Stock outstanding as of December 7, 2009 was 17,471,760.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

None

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**EXPLANATORY NOTE**

SurModics, Inc. (the Company ) filed a Form 10-K for the fiscal year ended September 30, 2009 (the Original Filing ) with the Securities and Exchange Commission on December 11, 2009. This Amendment No. 1 is being filed solely for the purpose of adding the signature of DELOITTE & TOUCHE LLP, the Company s Independent Registered Public Accounting Firm, to Deloitte & Touche LLP s Report of Independent Registered Public Accounting Firm ( Report ) on page F-1 included in this Amendment No. 1, which signature was inadvertently omitted from the Original Filing.

For purposes of this Amendment No. 1, and in accordance with Rule 12b-15 under the Securities Exchange Act of 1934, as amended, Item 8 of Part II and Item 15 of Part IV of the Original Filing are amended and restated in their entirety. Other than adding Deloitte & Touche LLP s signature to its Report on page F-1 of the financial statements, there are no other changes to Item 8 of Part II and Item 15 of Part IV of the Original Filing. Except as expressly set forth in this Amendment No. 1, the Original Filing has not been amended, updated or otherwise modified.

In addition, as required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended, new certifications by our principal executive officer and principal financial officer are being filed as exhibits to this Amendment No. 1.

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<u>EX-32.1</u>	
<u>EX-32.2</u>	

**Table of Contents****ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

The consolidated balance sheets as of September 30, 2009 and 2008 and the consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended September 30, 2009, together with Report of Independent Registered Public Accounting Firm and related footnotes (including selected unaudited quarterly financial data) begin on page F-1 of this Form 10-K/A.

**PART IV****ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.**(a) 1. *Financial Statements*

The following statements are included in this report on the pages indicated:

	<b>Page (s)</b>
Report of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets	F-2
Consolidated Statements of Income	F-3
Consolidated Statements of Stockholders' Equity	F-4
Consolidated Statements of Cash Flows	F-5
Notes to Consolidated Financial Statements	F-6 to F-27
2. <i>Financial Statement Schedules.</i> See Schedule II Valuation and Qualifying Accounts in this section of this Form 10-K/A. All other schedules are omitted because they are inapplicable, not required, or the information is in the consolidated financial statements or related notes.	
3. <i>Listing of Exhibits.</i> The exhibits which are filed with this report or which are incorporated herein by reference are set forth in the Exhibit Index following the signature page.	

SurModics, Inc.

Valuation and Qualifying Accounts

<b>Column A</b>	<b>Column B</b>	<b>Column C</b>	<b>Column D</b>	<b>Column E</b>
<b>Description</b>	<b>Balance at Beginning of Period</b>	<b>Additions Charged to Expenses</b>	<b>Deductions From Reserves</b>	<b>Balance at End of Period</b>
Year Ended September 30, 2007 Allowance for doubtful accounts	\$ 40	\$ 7	\$ 7(a)	\$ 40
Year Ended September 30, 2008 Allowance for doubtful accounts	\$ 40	\$ 228	\$ 133(a)	\$ 135
Year Ended September 30, 2009 Allowance for doubtful accounts	\$ 135	\$ (34)	\$ 19(a)	\$ 82
Restructuring accrual	\$	\$ 1,763	\$ 808(b)	\$ 955
(a) Uncollectible accounts written				

off and  
adjustments to  
the allowance.

- (b) Adjustments to  
the accrual  
account reflect  
payments or  
non-cash  
charges  
associated with  
the accrual.

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

SURMODICS, INC.

Dated: December 14, 2009

By: /s/ Bruce J Barclay  
 Bruce J Barclay  
 Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant, in the capacities, and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ Bruce J Barclay Bruce J Barclay	President and Chief Executive Officer (principal executive officer)	December 14, 2009
/s/ Philip D. Ankeny Philip D. Ankeny	Senior Vice President and Chief Financial Officer (principal financial officer)	December 14, 2009
/s/ Mark A. Lehman Mark A. Lehman	Corporate Controller (principal accounting officer)	December 14, 2009
* José H. Bedoya	Director	December 14, 2009
* John W. Benson	Director	December 14, 2009
* Mary K. Brainerd	Director	December 14, 2009
* Robert C. Buhrmaster	Director	December 14, 2009
* Gerald B. Fischer	Director	December 14, 2009
* Kenneth H. Keller	Director	December 14, 2009

*	Director	December 14, 2009
Susan E. Knight		
*	Director	December 14, 2009
John A. Meslow		

\* BY: /s/ Bruce J Barclay

Name: Bruce J Barclay  
Attorney-in-Fact



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**SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
EXHIBIT INDEX TO FORM 10-K/A  
For the Fiscal Year Ended September 30, 2009  
SURMODICS, INC.**

Exhibit

- 23 Consent of Deloitte & Touche LLP.\*
- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002.\*
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002.\*
- 32.1 Certification of Chief Executive Officer Pursuant to Section 906 of Sarbanes-Oxley Act of 2002.\*
- 32.2 Certification of Chief Financial Officer Pursuant to Section 906 of Sarbanes-Oxley Act of 2002.\*

\* Filed herewith

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors and Stockholders  
SurModics, Inc.  
Eden Prairie, Minnesota

We have audited the accompanying consolidated balance sheets of SurModics, Inc. and subsidiaries (the Company) as of September 30, 2009 and 2008, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended September 30, 2009. Our audits also include the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 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 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, such consolidated financial statements present fairly, in all material respects, the financial position of SurModics, Inc. and subsidiaries as of September 30, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2009, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of September 30, 2009, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated December 11, 2009 expressed an unqualified opinion on the Company's internal control over financial reporting.

As discussed in Note 8 to the consolidated financial statements, on October 1, 2007, the Company adopted new accounting guidance on the accounting for uncertainty in income taxes.

DELOITTE & TOUCHE LLP

Minneapolis, Minnesota  
December 11, 2009

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**Table of Contents****SurModics, Inc. and Subsidiaries****Consolidated Balance Sheets****As of September 30**

	<b>2009</b>	<b>2008</b>
	<b>(In thousands, except share data)</b>	
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 11,636	\$ 15,376
Short-term investments	8,932	9,251
Accounts receivable, net of allowance for doubtful accounts of \$82 and \$135 as of September 30, 2009 and 2008, respectively	11,320	14,589
Inventories	3,330	2,651
Deferred tax asset	353	1,058
Prepays and other	1,443	3,584
Total Current Assets	37,014	46,509
Property and equipment, net	66,915	41,897
Long-term investments	27,300	47,351
Deferred tax asset	2,548	11,099
Intangible assets, net	17,458	16,870
Goodwill	21,070	18,001
Other assets, net	13,257	9,301
Total Assets	\$ 185,562	\$ 191,028
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current Liabilities		
Accounts payable	\$ 3,468	\$ 3,466
Accrued liabilities:		
Compensation	926	3,015
Accrued income taxes payable	186	
Accrued other	1,637	1,407
Deferred revenue	905	4,335
Other current liabilities	862	303
Total Current Liabilities	7,984	12,526
Deferred revenue, less current portion	623	33,243
Other long-term liabilities	4,583	3,453
Total Liabilities	13,190	49,222
Commitments and Contingencies (Note 9)		

Stockholders' Equity		
Series A preferred stock \$ .05 par value, 450,000 shares authorized; no shares issued and outstanding		
Common stock \$ .05 par value, 45,000,000 shares authorized; 17,471,472 and 18,030,270 shares issued and outstanding	874	901
Additional paid-in capital	66,005	74,573
Accumulated other comprehensive income (loss)	1,504	(107)
Retained earnings	103,989	66,439
 Total Stockholders' Equity	 172,372	 141,806
 Total Liabilities and Stockholders' Equity	 \$ 185,562	 \$ 191,028

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****SurModics, Inc. and Subsidiaries****Consolidated Statements of Income  
For the Years Ended September 30**

	<b>2009</b>	<b>2008</b>	<b>2007</b>
	<b>(In thousands, except net income per share)</b>		
Revenue			
Royalties and license fees	\$ 75,464	\$ 51,788	\$ 52,679
Product sales	19,333	20,052	13,543
Research and development	26,737	25,211	6,942
Total revenue	121,534	97,051	73,164
Operating Costs and Expenses			
Product	7,508	8,476	5,584
Customer research and development	13,183	19,187	5,840
Other research and development	21,179	21,311	22,625
Selling, general and administrative	17,200	20,816	13,643
Purchased in-process research and development	3,200		15,573
Restructuring charges	1,763		
Total operating costs and expenses	64,033	69,790	63,265
Income from Operations	57,501	27,261	9,899
Other Income (Loss)			
Investment income, net	1,839	3,329	4,844
Impairment loss on investment		(4,314)	
Other income (loss), net	184	616	(75)
Other income (loss), net	2,023	(369)	4,769
Income Before Income Taxes	59,524	26,892	14,668
Income Tax Provision	(21,974)	(12,153)	(11,321)
Net Income	\$ 37,550	\$ 14,739	\$ 3,347
Basic net income per share	\$ 2.15	\$ 0.82	\$ 0.19
Diluted net income per share	\$ 2.15	\$ 0.80	\$ 0.18
Weighted Average Shares Outstanding			
Basic	17,435	18,026	18,033
Dilutive effect of outstanding stock options	34	304	184
Diluted	17,469	18,330	18,217

The accompanying notes are an integral part of these consolidated financial statements.

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**Table of Contents****SurModics, Inc. and Subsidiaries****Consolidated Statements of Stockholders Equity  
For the Years Ended September 30, 2009, 2008 and 2007**

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss) (In thousands)	Retained Earnings	Total Stockholders Equity
	Shares	Amount				
Balance September 30, 2006	18,830	\$ 942	\$ 96,281	\$ (293)	\$ 48,273	\$ 145,203
Components of comprehensive income, net of tax:						
Net income					3,347	3,347
Unrealized holding gains on available-for-sale securities arising during the period				1,999		1,999
Add reclassification for losses included in net income, net of tax benefit of \$10				17		17
Comprehensive income						5,363
Issuance of common stock	14	1	457			458
Common stock repurchased	(1,008)	(50)	(34,980)			(35,030)
Common stock options exercised, net	217	11	4,778			4,789
Purchase of common stock to pay employee taxes	112	5	(379)			(374)
Excess tax benefit from exercise of stock options			466			466
Stock-based compensation			10,312			10,312
Other			(265)			(265)
Balance September 30, 2007	18,165	909	76,670	1,723	51,620	130,922
Components of comprehensive income, net of tax:						
Net income					14,739	14,739
Unrealized holding losses on available-for-sale securities arising during the period				(5,882)		(5,882)
Add reclassification for losses included in net income, net of tax provision of \$167				4,052		4,052
Comprehensive income						12,909

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Issuance of common stock	16	1	516			517
Common stock repurchased	(342)	(17)	(13,954)			(13,971)
Common stock options exercised, net	114	4	2,514			2,518
Purchase of common stock to pay employee taxes	77	4	(1,678)			(1,674)
Excess tax benefit from exercise of stock options			1,081			1,081
Stock-based compensation			9,652			9,652
Other			(228)			(228)
Accounting change for income taxes					80	80
Balance September 30, 2008	18,030	901	74,573	(107)	66,439	141,806
Components of comprehensive income, net of tax:						
Net income					37,550	37,550
Unrealized holding gains on available-for-sale securities arising during the period				2,123		2,123
Add reclassification for gains included in net income, net of tax provision of \$299				(512)		(512)
Comprehensive income						39,161
Issuance of common stock	40	2	611			613
Common stock repurchased	(624)	(31)	(14,967)			(14,998)
Common stock options exercised, net	15	1	65			66
Purchase of common stock to pay employee taxes	10	1	(569)			(568)
Excess tax benefit from exercise of stock options			(366)			(366)
Stock-based compensation			6,853			6,853
Other			(195)			(195)
Balance September 30, 2009	17,471	\$ 874	\$ 66,005	\$ 1,504	\$ 103,989	\$ 172,372

The accompanying notes are an integral part of these consolidated financial statements.



**Table of Contents****SurModics, Inc. and Subsidiaries****Consolidated Statements of Cash Flows  
For the Years Ended September 30**

	<b>2009</b>	<b>2008</b>	<b>2007</b>
		<b>(In thousands)</b>	
Operating Activities			
Net income	\$ 37,550	\$ 14,739	\$ 3,347
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	5,912	6,071	4,214
(Gain) loss on equity method investments and sales of investments	(103)	415	75
Amortization of premium (discount) on investments	139	70	(1,388)
Impairment loss on investment		4,314	
Stock-based compensation	6,853	9,652	10,312
Purchased in-process research & development	3,200		15,573
Restructuring charges	1,763		
Deferred tax	8,229	(3,428)	(9,434)
Excess tax benefit from exercise of stock options	366	(1,081)	(466)
Loss on disposals of property and equipment	291	78	379
Other	(250)		
Change in operating assets and liabilities:			
Accounts receivable	3,269	1,548	1,940
Inventories	(679)	(154)	(850)
Accounts payable and accrued liabilities	(2,387)	(264)	2,594
Income taxes	2,656	(5,003)	5,501
Deferred revenue	(36,050)	11,452	19,166
Prepays and other	562	1,413	(248)
Net cash provided by operating activities	31,321	39,822	50,715
Investing Activities			
Purchases of property and equipment	(29,364)	(23,866)	(3,626)
Sales of property and equipment		32	37
Purchases of available-for-sale investments	(33,568)	(22,857)	(136,498)
Sales/maturities of available-for-sale investments	55,263	29,258	185,075
Purchases of held-to-maturity investments		(6,485)	
Investment in other strategic assets	(2,500)	(2,562)	(5,749)
Purchase of licenses and patents	(631)	(2,452)	(1,355)
Acquisitions, net of cash acquired	(8,585)	(3,219)	(49,112)
Repayment of notes receivable		5,870	530
Other investing activities	(187)	(228)	(265)
Net cash used in investing activities	(19,572)	(26,509)	(10,963)
Financing Activities			

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Excess tax benefit from exercise of stock options	(366)	1,081	466
Issuance of common stock	679	3,037	5,247
Repurchase of common stock	(14,998)	(13,971)	(35,030)
Purchase of common stock to pay employee taxes	(568)	(1,674)	(374)
Repayment of notes payable	(236)	(222)	
Net cash used in financing activities	(15,489)	(11,749)	(29,691)
Net change in cash and cash equivalents	(3,740)	1,564	10,061
Cash and Cash Equivalents			
Beginning of year	15,376	13,812	3,751
End of year	\$ 11,636	\$ 15,376	\$ 13,812
Supplemental Information			
Cash paid for income taxes	\$ 11,285	\$ 21,058	\$ 14,930
Noncash transaction acquisition of property, plant, and equipment on account	\$ 1,247	\$ 1,745	\$ 252
Noncash transaction acquisition of intangibles on account	\$ 210	\$	\$

The accompanying notes are an integral part of these consolidated financial statements.

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**SurModics, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements  
September 30, 2009 and 2008**

**1. Description**

SurModics, Inc. and subsidiaries (the Company) develops, manufactures and markets innovative drug delivery and surface modification technologies for the healthcare industry. The Company's revenue is derived from three primary sources: (1) royalties and license fees from licensing its patented drug delivery and surface modification technologies and *in vitro* diagnostic formats to customers; (2) the sale of polymers and reagent chemicals to licensees; substrates, antigens and stabilization products to the diagnostics industry; microarray slides to the diagnostic and biomedical research markets; and (3) research and development fees generated on projects for customers.

***Basis of Presentation***

The consolidated financial statements include all accounts and wholly owned subsidiaries, and have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). All significant inter-company transactions have been eliminated.

***Subsequent Events***

Subsequent events have been evaluated through December 11, 2009, the date the financial statements were issued.

On October 5, 2009, the Company entered into a license and development agreement with F. Hoffmann-La Roche, Ltd. (Roche) and Genentech, Inc., a wholly owned member of the Roche Group (Genentech), associated with the Company's proprietary biodegradable microparticles drug delivery system. SurModics received an up front licensing fee of \$3.5 million, could be eligible to receive up to approximately \$200 million in fees and milestone payments in the event of the successful development and commercialization of multiple products, and will be paid for development work done on these products. Roche and Genentech will have the right to obtain manufacturing services from SurModics. In the event a commercial product is developed, the Company will also receive royalties on sales of such products.

**2. Summary of Significant Accounting Policies**

***Cash and Cash Equivalents***

Cash and cash equivalents consist of financial instruments with original maturities of three months or less and are stated at cost which approximates fair value.

***Investments***

Investments consist principally of U.S. government and government agency obligations and mortgage-backed securities and are classified as available-for-sale or held-to-maturity at September 30, 2009 and 2008. Available-for-sale investments are reported at fair value with unrealized gains and losses net of tax excluded from operations and reported as a separate component of stockholders' equity, except for other-than-temporary impairments, which are reported as a charge to current operations. A loss would be recognized when there is an other-than-temporary impairment in the fair value of any individual security classified as available-for-sale, with the

associated net unrealized loss reclassified out of accumulated other comprehensive income with a corresponding adjustment to other income (loss). This adjustment results in a new cost basis for the investment. Investments that management has the intent and ability to hold to maturity are classified as held-to-maturity and reported at amortized cost. If there is an other-than-temporary impairment in the fair value of any individual security classified as held-to-maturity, the Company will write down the security to fair value with a corresponding adjustment to other income (loss). Interest on debt securities, including amortization of premiums and accretion of discounts, is

**Table of Contents****SurModics, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

included in other income (loss). Realized gains and losses from the sales of debt securities, which are included in other income (loss), are determined using the specific identification method.

The original cost, unrealized holding gains and losses, and fair value of available-for-sale investments as of September 30 were as follows (*in thousands*):

	<b>2009</b>			
	<b>Original Cost</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>
U.S. government obligations	\$ 10,837	\$ 253	\$	\$ 11,090
Mortgage-backed securities	7,938	177	(106)	8,009
Municipal bonds	7,210	232		7,442
Asset-backed securities	2,334	65	(143)	2,256
Corporate bonds	1,181	3		1,184
Total	\$ 29,500	\$ 730	\$ (249)	\$ 29,981

	<b>2008</b>			
	<b>Original Cost</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>
U.S. government obligations	\$ 18,440	\$ 91	\$ (87)	\$ 18,444
Mortgage-backed securities	10,147	46	(179)	10,014
Municipal bonds	11,022	153	(3)	11,172
Asset-backed securities	6,193	2	(171)	6,024
Corporate bonds	4,582	8	(33)	4,557