SURMODICS INC
Form 10-Q
February 14, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2011

or

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

For the transition period from to

Commission File Number: 0-23837

SurModics, Inc.

(Exact name of registrant as specified in its charter)

MINNESOTA	**41-1356149**
(State of incorporation)	**(I.R.S. Employer Identification No.)**

9924 West 74th Street

Eden Prairie, Minnesota 55344

(Address of principal executive offices) (Zip Code)

Registrant s telephone number, including area code: (952) 500-7000

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 x No ¨

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	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 x

The number of shares of the registrant s Common Stock, $.05 par value per share, outstanding as of February 1, 2012 was 17,535,661.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SurModics, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(in thousands, except share data)	**December 31, 2011**	**September 30, 2011**
	(Unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 49,359	$ 23,217
Available-for-sale securities	10,555	12,196
Held-to-maturity securities	3,010	3,030
Accounts receivable, net of allowance for doubtful accounts of $46 and $32 as of December 31, 2011 and September 30, 2011, respectively	4,767	4,385
Inventories	2,972	3,181
Deferred tax assets	103	142
Prepaids and other	7,342	2,268
Current assets of discontinued operations	3,117	5,983
Total Current Assets	81,225	54,402
Property and equipment, net	14,042	14,586
Available-for-sale securities	31,500	29,754
Deferred tax assets	9,225	9,017
Intangible assets, net	4,987	5,199
Goodwill	8,010	8,010
Other assets, net	2,998	3,303
Non-current assets of discontinued operations		32,511
Total Assets	$ 151,987	$ 156,782
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	$ 879	$ 1,572
Accrued liabilities:		
Compensation	823	1,952
Accrued other	1,801	1,241
Deferred revenue	51	53
Other current liabilities	930	873
Current liabilities of discontinued operations	1,984	5,349
Total Current Liabilities	6,468	11,040
Deferred revenue, less current portion	210	222
Other long-term liabilities	2,368	2,421
Non-current liabilities of discontinued operations		3,491
Total Liabilities	9,046	17,174
Commitments and Contingencies (Note 17)		
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; 17,527,914 and 17,531,408 shares issued and outstanding	876	877
Additional paid-in capital	75,298	74,490
Accumulated other comprehensive loss	(333)	(153)
Retained earnings	67,100	64,394
Total Stockholders Equity	142,941	139,608
Total Liabilities and Stockholders Equity	$ 151,987	$ 156,782

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

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SurModics, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations

(In thousands, except income (loss) per share)	Three Months Ended December 31, 2011	2010
	(Unaudited)	
Revenue:		
Royalties and license fees	$ 6,610	$ 7,517
Product sales	4,634	4,449
Research and development	672	556
Total revenue	11,916	12,522
Operating costs and expenses:		
Product costs	1,590	1,563
Research and development	3,638	2,505
Selling, general and administrative	3,466	3,724
Restructuring charges		609
Total operating costs and expenses	8,694	8,401
Operating income from continuing operations	3,222	4,121
Other income:		
Investment income, net	138	184
Other income, net	8	
Other income	146	184
Income from continuing operations before income taxes	3,368	4,305
Income tax provision	(1,213)	(1,445)
Income from continuing operations	2,155	2,860
Discontinued operations:		
Income (loss) from discontinued operations, net of income taxes	1,605	(9,031)
Loss on sale of discontinued operations, net of income taxes	(1,054)	
Income (loss) from discontinued operations	551	(9,031)
Net income (loss)	$ 2,706	$ (6,171)
Basic income (loss) per share:		
Continuing operations	$ 0.12	$ 0.16
Discontinued operations	0.03	(0.52)
Net income (loss)	$ 0.15	$ (0.36)
Diluted income (loss) per share:		
Continuing operations	$ 0.12	$ 0.16
Discontinued operations	0.03	(0.52)
Net income (loss)	$ 0.15	$ (0.35)
Weighted average number of shares outstanding:		

Basic	17,476	17,383
Diluted	17,528	17,397

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

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SurModics, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(in thousands)	Three Months Ended December 31, 2011	2010
	(Unaudited)	
Operating Activities:		
Net income (loss)	$ 2,706	$ (6,171)
Adjustments to reconcile net income (loss) to net cash provided by operating activities from continuing operations:		
(Income) loss from discontinued operations	(1,605)	9,031
Loss on sale of discontinued operations	1,054	
Depreciation and amortization	749	797
Amortization of premium on held-to-maturity securities	20	27
Stock-based compensation	893	840
Deferred tax	(57)	(2,529)
Reduction of tax benefit from stock-based compensation plans	16	2
Other	(4)	11
Change in operating assets and liabilities:		
Accounts receivable	(383)	428
Inventories	209	(43)
Accounts payable and accrued liabilities	(2,872)	695
Income taxes	1,263	3,051
Deferred revenue	(14)	518
Prepaids and other	(34)	65
Net cash provided by operating activities from continuing operations	1,941	6,722
Investing Activities:		
Purchases of property and equipment	(157)	(832)
Purchases of available-for-sale securities	(2,724)	(1,412)
Sales and maturities of available-for-sale securities	2,641	1,200
Payment related to a prior business acquisition		(750)
Cash received from (transferred to) discontinued operations	24,684	(2,020)
Net cash provided by (used in) investing activities from continuing operations	24,444	(3,814)
Financing Activities:		
Reduction of tax benefit from stock-based compensation plans	(16)	(2)
Issuance of common stock	79	
Purchase of common stock to pay employee taxes	(170)	
Net cash used in financing activities from continuing operations	(107)	(2)
Net cash provided by continuing operations	26,278	2,906
Discontinued Operations:		
Net cash used in operating activities	(2,344)	(1,447)
Net cash provided by (used in) investing activities	26,892	(561)
Net cash (used in) provided by financing activities	(24,684)	2,020
Net cash (used in) provided by discontinued operations	(136)	12

Net change in cash and cash equivalents	26,142	2,918
Cash and Cash Equivalents:		
Beginning of period	23,217	11,391
End of period	$ 49,359	$ 14,309
Supplemental Information:		
Cash paid (received) for income taxes	$ 23	$ (36)
Noncash transaction acquisition of property and equipment on account	$ 8	$ 348
Noncash transaction milestone payment obligation	$	$ 4,900

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

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SurModics, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

Period Ended December 31, 2011

(Unaudited)

1. Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S.) (GAAP) and, in the opinion of management, reflect all adjustments, consisting solely of normal recurring adjustments, needed to fairly present the financial results of SurModics, Inc. and subsidiaries (SurModics or the Company) for the periods presented. These financial statements include some amounts that are based on management s best estimates and judgments. These estimates may be adjusted as more information becomes available, and any adjustment could be significant. The impact of any change in estimates is included in the determination of earnings in the period in which the change in estimate is identified. The results of operations for the three months ended December 31, 2011 are not necessarily indicative of the results that may be expected for the entire 2012 fiscal year.

In accordance with the rules and regulations of the U.S. Securities and Exchange Commission (SEC), the Company has omitted footnote disclosures that would substantially duplicate the disclosures contained in the audited financial statements of the Company. These unaudited condensed consolidated financial statements should be read together with the audited consolidated financial statements for the fiscal year ended September 30, 2011, and footnotes thereto included in the Company s Form 10-K/A as filed with the SEC on February 14, 2012.

Certain items in the condensed consolidated financial statements for the first quarter of fiscal 2011, and assets and liabilities as of September 30, 2011, have been reclassified to conform to the current period presentation. As discussed in Note 3, the results of operations, assets and liabilities of SurModics Pharmaceuticals, Inc. (SurModics Pharmaceuticals) have been accounted for as discontinued operations for all periods presented. Accordingly, the results of operations, cash flows, assets and liabilities of SurModics Pharmaceuticals for prior periods have been reclassified to discontinued operations.

Changes to Condensed Consolidated Statements of Operations

Beginning with this Form 10-Q for the first quarter of fiscal 2012, the Company has changed the format of the condensed consolidated statements of operations for reporting cost of revenue associated with research and development revenue. The change in format combines customer research and development expenses with other research and development expenses into the research and development expense category. Previously the research and development revenue exceeded ten percent of total revenue and as such Regulation S-X Rule 5-03 required presentation of an associated cost of revenue. With the presentation of the Pharmaceuticals segment as discontinued operations, the research and development revenue no longer exceeds ten percent of total revenue and as such there is no requirement to disclose a corresponding cost. All prior periods have been reclassified to present results following this new format.

2. Key Accounting Policies

Revenue recognition

The Company recognizes revenue when all of the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) shipment has occurred or delivery has occurred if the terms specify destination; (3) the sales price is fixed or determinable; and (4) collectability is reasonably assured. When there are additional performance requirements, revenue is recognized when all such requirements have been satisfied. Under revenue arrangements with multiple deliverables, the Company recognizes each separable deliverable as it is earned.

The Company s revenue is derived from three primary sources: (1) royalties and license fees from licensing its proprietary drug delivery and surface modification technologies to customers; (2) the sale of polymers and reagent chemicals, stabilization products, antigens, substrates and microarray slides to the diagnostics and biomedical research industries; and (3) research and development fees generated on customer projects.

Royalties and license fees. The Company licenses technology to third parties and collects royalties. Royalty revenue is generated when a customer sells products incorporating the Company s licensed technologies. Royalty revenue is recognized as licensees report it to the Company, and payment is typically submitted concurrently with the report. For stand-alone license agreements, up-front license fees are recognized over the term of the related licensing agreement. Minimum royalty fees are recognized in the period earned.

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Revenue related to a performance milestone is recognized upon the achievement of the milestone, as defined in the respective agreements and provided the following conditions have been met:

The milestone payment is non-refundable;

The milestone involved a significant degree of risk, and was not reasonably assured at the inception of the arrangement;

Accomplishment of the milestone involved substantial effort;

The amount of the milestone payment is commensurate with the related effort and risk; and

A reasonable amount of time passed between the initial license payment and the first and subsequent milestone payments.

If these conditions have not been met, the milestone payment is deferred and recognized over the term of the agreement.

Product sales. Product sales to third parties are recognized at the time of shipment, provided that an order has been received, the price is fixed or determinable, collectability of the resulting receivable is reasonably assured and returns can be reasonably estimated. The Company s sales terms provide no right of return outside of the standard warranty policy. Payment terms are generally set at 30-45 days.

Research and development. The Company performs third party research and development activities, which are typically provided on a time and materials basis. Generally, revenue for research and development is recorded as performance progresses under the applicable contract.

New Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued changes to the presentation of comprehensive income. These changes give an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements; the option to present components of other comprehensive income as part of the statement of changes in stockholders equity was eliminated. The items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income were not changed. Additionally, no changes were made to the calculation and presentation of earnings per share. These changes become effective for the Company on October 1, 2012 (fiscal 2013). Management is currently evaluating these changes to determine which option will be chosen for the presentation of comprehensive income. Other than the change in presentation, management has determined these changes will not have an impact on the consolidated financial statements.

In May 2011, the FASB issued changes to conform existing guidance regarding fair value measurement and disclosure between GAAP and International Financial Reporting Standards. These changes both clarify the FASB s intent about the application of existing fair value measurement and disclosure requirements and amend certain principles or requirements for measuring fair value or for disclosing information about fair value measurements. The clarifying changes relate to the application of the highest and best use and valuation premise concepts, measuring the fair value of an instrument classified in a reporting entity s shareholders equity, and disclosure of quantitative information about unobservable inputs used for Level 3 fair value measurements. The amendments relate to measuring the fair value of financial instruments that are managed within a portfolio; application of premiums and discounts in a fair value measurement; and additional disclosures concerning the valuation processes used and sensitivity of the fair value measurement to changes in unobservable inputs for those items categorized as Level 3, a reporting entity s use of a nonfinancial asset in a way that differs from the asset s highest and best use, and the categorization by level in the fair value hierarchy for items required to be measured at fair value for disclosure purposes only. These changes become effective for the Company on January 1, 2012 (fiscal 2012). Management is currently evaluating the potential impact of these changes on the consolidated financial statements.

No other new accounting pronouncement issued or effective has had, or is expected to have, a material impact on the Company s consolidated financial statements.

3. Discontinued Operations

On November 1, 2011, the Company entered into a definitive agreement (the Purchase Agreement) to sell substantially all of the assets of its wholly-owned subsidiary, SurModics Pharmaceuticals to Evonik Degussa Corporation (Evonik). Under the terms of the Purchase Agreement, the entire portfolio of products and services of SurModics Pharmaceuticals, including the Company s Current Good Manufacturing Practices (cGMP) development and manufacturing facility located in Birmingham, Alabama, were sold. The Company retained all accounts receivable and the vast majority of liabilities associated with the SurModics Pharmaceuticals business incurred prior to closing. The sale (the Pharma Sale) closed on November 17, 2011. The total consideration received from the Pharma Sale was $30.0 million in cash. Of the total consideration, $3.275 million was placed in an escrow account at closing for any inventory shortfall and the payment of certain contingent consideration obligations

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related to the Company s acquisition of SurModics Pharmaceuticals in July 2007. The Company did not have any inventory shortfall and received $350,000 of the escrow funds in December 2011, leaving an escrow balance of $2.9 million which is included in prepaid and other assets on the condensed consolidated balance sheet as of December 31, 2011. As explained in Note 17, the contingent consideration obligations related to the Company s acquisition of SurModics Pharmaceuticals lapsed in the first quarter of fiscal 2012. As a result, the remaining $2.9 million of escrow funds were received in January 2012.

As part of the Pharma Sale, the Company recorded a loss on the sale in the first quarter of fiscal 2012 of $1.7 million ($1.1 million net of income tax benefits), including transaction costs of $1.8 million. The loss is included in Loss on sale of discontinued operations in the condensed consolidated statements of operations.

In the fourth quarter of fiscal 2011, the Company recognized asset impairment charges totaling $28.1 million. The Company wrote down long-lived assets (fixed assets of $23.3 million and intangibles of $4.8 million), associated with its Pharmaceuticals segment, based on the valuation of the assets relative to their carrying value. The Company had been exploring strategic alternatives for the Pharmaceuticals segment, including a potential sale. The assets of the Pharmaceuticals segment did not qualify as held-for-sale as of September 30, 2011, because the Company had not committed to a plan to sell at that time.

As part of the Pharma Sale, SurModics agreed not to compete in the restricted business (as defined in the Purchase Agreement) for a period of five years and to indemnify Evonik against specified losses in connection with the SurModics Pharmaceuticals business, including, for a period of five years, certain contingent consideration obligations related to the acquisition by SurModics Pharmaceuticals of the portfolio of intellectual property and drug delivery projects from PR Pharmaceuticals, Inc. SurModics also retained responsibility for certain obligations of the SurModics Pharmaceuticals business, including contingent consideration obligations of $2.9 million related to its acquisition of SurModics Pharmaceuticals (which obligations lapsed in the first quarter of fiscal 2012) and repayment obligations related to an agreement with various governmental authorities associated with creation of jobs in Alabama. The foregoing summary of the Purchase Agreement is qualified in its entirety by reference to the full text of the Purchase Agreement, which is attached as Exhibit 2.1 to the Company s Current Report on Form 8-K filed on November 7, 2011. Refer to the Purchase Agreement for more details on the Pharma Sale.

All results of operations, cash flows, assets and liabilities of SurModics Pharmaceuticals for all periods presented are classified as discontinued operations, and the condensed consolidated financial statements, including the notes, have been reclassified to reflect such segregation for all periods presented. Prior to reclassification, the discontinued operations were reported in the Pharmaceuticals segment as a separate operating segment. The summary of operating results from discontinued operations is as follows (*in thousands*):

	Three Months Ended December 31,	
	2011	**2010**
Total revenue	$ 5,311	$ 2,673
Income (loss) from discontinued operations	$ 2,530	$ (9,704)
Income tax (provision) benefit	(925)	673
Income (loss) from discontinued operations, net of income taxes	$ 1,605	$ (9,031)
Loss on sale of discontinued operations	$ (1,661)	$
Income tax benefit	607	
Loss on sale of discontinued operations, net of income taxes	$ (1,054)	$

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The major classes of assets and liabilities of discontinued operations as of December 31, 2011 and September 30, 2011 were as follows (*in thousands*):

	December 31, 2011	September 30, 2011
Accounts receivable, net	$ 1,863	$ 3,309
Inventories		969
Other current assets	1,254	1,705
Current assets of discontinued operations	3,117	5,983
Property and equipment, net		24,911
Intangible assets , net		3,683
Other assets, net		3,917
Total assets of discontinued operations	$ 3,117	$ 38,494
Accounts payable	$ 25	$ 849
Accrued liabilities compensation	225	1,522
Deferred revenue		550
Other current liabilities	1,734	2,428
Current liabilities of discontinued operations	1,984	5,349
Deferred revenue, less current portion		3,371
Other long-term liabilities		120
Total liabilities of discontinued operations	$ 1,984	$ 8,840

The assets and liabilities of discontinued operations as of December 31, 2011 are mainly associated with accounts receivable not purchased by Evonik, deferred tax assets and a retained liability of $1.7 million associated with financial incentives SurModics Pharmaceuticals received from various Alabama governmental authorities related to creation of jobs in Alabama. See also Note 17 for further discussion of the Alabama jobs commitment liability.

4. Fair Value Measurements

The accounting guidance on fair value measurements defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. The guidance is applicable for all financial assets and financial liabilities and for all nonfinancial assets and nonfinancial liabilities recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Fair value is defined as the exchange price that would be received from selling an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and also considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions and risk of nonperformance.

Fair Value Hierarchy

Accounting guidance on fair value measurements requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1 Quoted (unadjusted) prices in active markets for identical assets or liabilities.

The Company s Level 1 asset consists of its investment in OctoPlus, N.V. (OctoPlus) (see Note 7 for further information). The fair market value of this investment is based on the quoted price of OctoPlus shares as traded on the Euronext Amsterdam Stock Exchange.

Level 2 Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

The Company s Level 2 assets consist of money market funds, U.S. Treasury securities, corporate bonds, municipal bonds, U.S. government agency securities, government agency and municipal securities and certain asset-backed and mortgage-backed securities. Fair market values for these assets are based on quoted vendor prices and broker pricing where all significant inputs are observable.

Level 3 Unobservable inputs to the valuation methodology that are supported by little or no market activity and that are significant to the measurement of the fair value of the assets or liabilities. Level 3 assets and liabilities include those whose fair value measurements are determined using pricing models, discounted cash flow methodologies or similar valuation techniques, as well as significant management judgment or estimation.

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Level 3 assets can include asset-backed and mortgage-backed securities. When applicable, the fair market values of these investments are determined by broker pricing where not all significant inputs are observable. There were no Level 3 assets at December 31, 2011.

In valuing assets and liabilities, the Company is required to maximize the use of quoted market prices and minimize the use of unobservable inputs. The Company did not significantly change its valuation techniques from prior periods.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

In instances where the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company s assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability. The following table presents information about the Company s assets and liabilities measured at fair value on a recurring basis as of December 31, 2011 *(in thousands)*:

	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value as of December 31, 2011
Assets:				
Cash equivalents	$	$ 9,719	$	$ 9,719
Available-for-sale debt securities:				
U.S. government and government agency obligations		31,226		31,226
Mortgage-backed securities		3,728		3,728
Municipal bonds		3,512		3,512
Asset-backed securities		1,100		1,100
Corporate bonds		2,488		2,488
Other assets	883			883
Total assets measured at fair value	$ 883	$ 51,773	$	$ 52,656

The following table presents information about the Company s assets and liabilities measured at fair value on a recurring basis as of September 30, 2011 *(in thousands)*:

	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value as of September 30, 2011
Assets:				
Cash equivalents	$	$ 8,419	$	$ 8,419
Available-for-sale debt securities:				
U.S. government and government agency obligations		30,604		30,604
Mortgage-backed securities		3,933	15	3,948
Municipal bonds		3,614		3,614
Asset-backed securities		1,278	9	1,287
Corporate bonds		2,497		2,497
Other assets	1,190			1,190
Total assets measured at fair value	$ 1,190	$ 50,345	$ 24	$ 51,559

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Changes in Level 3 Instruments Measured at Fair Value on a Recurring Basis

The following tables provide a reconciliation of financial assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) *(in thousands)*. Transfers of instruments into and out of Level 3 are based on beginning of period values.

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Three Months Ended December 31, 2011 Available-for-Sale Debt Securities		
	Mortgage-Backed Securities	**Asset-Backed Securities**	**Total**
Balance at September 30, 2011	$ 15	$ 9	$ 24
Transfers into Level 3			
Transfers out of Level 3	(15)	(9)	(24)
Total realized and unrealized gains (losses):			
Included in other comprehensive (loss) income			
Purchases, issuances, sales and settlements, net			
Balance at December 31, 2011	$	$	$

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Three Months Ended December 31, 2010 Available-for-Sale Debt Securities		
	U.S. Government Obligations	**Mortgage-Backed Securities**	**Total**
Balance at September 30, 2010	$ 704	$ 69	$ 773
Transfers into Level 3			
Transfers out of Level 3			
Total realized and unrealized gains (losses):			
Included in other comprehensive (loss) income	19	(4)	15
Purchases, issuances, sales and settlements, net	(28)	620	592
Balance at December 31, 2010	$ 695	$ 685	