

2010

ANNUAL REPORT

10K
PROXY STATEMENT



Board of Directors

Larry S. Boulet*
Consultant
Former Partner in PricewaterhouseCoopers

Anthony S. Chilton, Ph.D.
Chief Executive Officer

David W. Crabb, M.D.*
Chairman
Indiana University Department of Medicine

John B. Landis, Ph.D.
Adjunct Professor of Chemistry
Purdue University

David L. Omachinski*
Executive Management Consultant

A. Charlene Sullivan, Ph. D.*
Associate Professor of Management
Purdue University

**Audit Committee Member*

Annual Meeting of Shareholders

March 17, 2011
BASi Corporate Center
West Lafayette, Indiana

Auditors

Crowe Horwath, LLP
Indianapolis, Indiana

Transfer Agent

First Class, Registered or Certified Mail:
Computershare Trust Company, N.A.
PO Box 43078
Providence, RI 02940-3078

Overnight Delivery or Courier Services:
Computershare Trust Company, N.A.
250 Royall Street
Canton, MA 02021

Shareholder Services Toll Free: 1-877-581-5548
Shareholder Services Outside of the US and Canada: 781-575-2879
Investor Centre™ portal: www.computershare.com/investor

Common Shares

Bioanalytical Systems, Inc. common shares are traded on the NASDAQ Capital Market under the symbol, BASi.

The following table sets forth by fiscal quarter the high and low sales prices of the common shares on the NASDAQ Capital Market.

Fiscal	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
2010				
High	2.42	1.42	1.50	1.22
Low	0.81	0.65	0.74	0.77
2009				
High	5.13	1.82	1.81	1.15
Low	1.00	0.60	0.70	0.60

The Company has not paid any cash dividends on its common shares for the four most recent fiscal years. The Company has no intention to pay cash dividends in the foreseeable future.

Inquiries

A copy of the company's 2010 Form 10-K Annual Report filed with the Securities and Exchange Commission is included in this report. Additional copies are available without charge upon written request, and by visiting www.BASInc.com/invest/annual.html. Media inquiries and request for the 10-K and investor's kits should be directed to:

Corporate Communications Director, Corporate Center
2701 Kent Avenue, West Lafayette, IN 47906 USA

Inquiries from shareholders, security analysts, portfolio managers, registered representatives and other interested parties should be directed to:

BASi Investor Relations, NASDAQ: BASI
phone 765-463-4527, fax 765-497-1102,
basi@BASInc.com, www.BASInc.com



PROXY STATEMENT

January 28, 2011

Dear BASi Shareholders:

You are invited to attend the Annual Meeting of Shareholders of Bioanalytical Systems, Inc. ("BASi") to be held Thursday, March 17, 2011 at 10:00 a.m. (EST) at BASi headquarters located at 2701 Kent Avenue, West Lafayette, Indiana, 47906 for the following purposes:

- (1) to elect one director of BASi to serve for a term expiring at the Annual Meeting of Shareholders to be held in 2014 and until his successor is duly elected and qualified; and
- (2) to consider and act on a proposal to ratify the appointment of Crowe Horwath LLP as the Company's independent registered public accountants for fiscal 2011.

Details can be found in the accompanying Notice of Annual Meeting and Proxy Statement.

We hope you are able to attend the Annual Meeting personally, and we look forward to meeting with you. Whether or not you currently plan to attend, please complete, date and return the proxy card in the enclosed envelope or you can vote via telephone or the Internet with the instructions provided on the proxy card. The vote of each shareholder is very important. You may revoke your proxy at any time before it is voted by giving written notice to the Corporate Secretary of BASi, by filing a properly executed proxy bearing a later date or by attending the Annual Meeting and voting in person.

On behalf of the Board of Directors and management of BASi, I sincerely thank you for your continued support.

Sincerely,

A handwritten signature in black ink, appearing to read 'A. Chilton', with a long horizontal flourish extending to the right.

Anthony S. Chilton, Ph.D.
Chief Executive Officer

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

DATE: March 17, 2011

TIME: 10:00 a.m.

PLACE: Bioanalytical Systems, Inc. Headquarters
2701 Kent Avenue
West Lafayette, IN 47906

MATTERS TO BE VOTED UPON:

1. The election of one class II director of BASi to serve until the annual meeting of shareholders in 2014 and until his successor is elected and qualified.
2. The ratification of the appointment of Crowe Horwath LLP as the Company's independent registered public accountants for fiscal 2011.
3. Such other business as may properly be brought before the meeting.

OUR BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE **FOR** THE ELECTION OF THE NOMINEE NAMED IN THE PROXY STATEMENT AND **FOR** THE RATIFICATION OF CROWE HORWATH LLP AS THE COMPANY'S INDEPENDENT ACCOUNTANTS FOR FISCAL 2011.

Holders of BASi common shares of record at the close of business on January 31, 2011 are entitled to notice of, and to vote at, the Annual Meeting.

By Order of the Board of Directors,



Anthony S. Chilton, Ph.D.
Chief Executive Officer

YOUR VOTE IS IMPORTANT. IF YOU DO NOT EXPECT TO ATTEND THE ANNUAL MEETING, OR IF YOU PLAN TO ATTEND BUT WISH TO VOTE BY PROXY, PLEASE DATE, SIGN AND PROMPTLY MAIL THE ENCLOSED PROXY. A POSTAGE-PAID RETURN ENVELOPE IS PROVIDED FOR THIS PURPOSE. YOU MAY ALSO VOTE VIA TELEPHONE OR THE INTERNET WITH THE INSTRUCTIONS PROVIDED ON THE PROXY CARD.

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BIOANALYTICAL SYSTEMS, INC.
PROXY STATEMENT
ANNUAL MEETING OF SHAREHOLDERS
MARCH 17, 2011

GENERAL

This proxy statement is furnished by Bioanalytical Systems, Inc. (“BASi” or the “Company”) in connection with the solicitation by the Board of Directors of BASi of proxies to be voted at the Annual Meeting of Shareholders to be held at 10:00 a.m. (EST) on Thursday, March 17, 2011, and at any adjournment thereof. The meeting will be held at the principal executive offices of BASi, 2701 Kent Avenue, West Lafayette, Indiana 47906. This proxy statement and the accompanying form of proxy will be first mailed to shareholders on or about February 4, 2011.

A shareholder signing and returning the enclosed proxy may revoke it at any time before it is exercised by delivering written notice to the Assistant Secretary of BASi, by filing a properly executed proxy bearing a later date or by attending the Annual Meeting and voting in person. The signing of a proxy does not preclude a shareholder from attending the Annual Meeting in person. All proxies returned prior to the Annual Meeting, and not revoked, will be voted in accordance with the instructions contained therein. Any proxy not specifying to the contrary will be voted FOR the election of the nominee for director named below, FOR the ratification of Crowe Horwath LLP as the Company’s independent registered public accountants for fiscal 2011, and in accordance with the recommendation of the Board of Directors on any other matter that is properly brought before the meeting. Abstentions and broker non-votes are not counted for purposes of determining whether a proposal has been approved, but will be counted for purposes of determining whether a quorum is present.

As of the close of business on January 31, 2011, the record date for the Annual Meeting, there were 4,915,318 common shares of BASi outstanding. Each outstanding common share owned as of January 31, 2011 is entitled to one vote. BASi has no other voting securities outstanding. Shareholders do not have cumulative voting rights.

A quorum will be present if a majority of the outstanding common shares are present, in person or by proxy, at the Annual Meeting. If a quorum is present, directors will be elected by a plurality of the votes cast and the appointment of Crowe Horwath LLP as independent registered public accountants for fiscal 2011 will be ratified. Accordingly, abstentions and broker non-votes will have no effect on the outcome of the vote on any of the proposals to be considered at the Annual Meeting.

A copy of the BASi Annual Report and Form 10-K, including audited financial statements and a description of operations for the fiscal year ended September 30, 2010, accompanies this proxy statement. The financial statements contained in the Annual Report and Form 10-K are not incorporated by reference in this proxy statement. The solicitation of proxies is being made by BASi, and all expenses in connection with the solicitation of proxies will be borne by BASi. BASi expects to solicit proxies primarily by mail, but directors, officers and other employees of BASi may also solicit proxies in person or by telephone. BASi will pay any costs so incurred, but the directors, officers and other employees involved in such solicitations will not receive any additional compensation for such actions.

HOW TO VOTE YOUR SHARES

We are pleased to offer you four options for voting your shares:

- (1) You can vote via the Internet with the instructions provided on the proxy card; or
- (2) You can vote via telephone by following the instructions provided on the proxy card; or
- (3) You can attend the Annual Meeting and cast your vote in person; or
- (4) You may complete, sign, date and return the proxy card by mail or hand delivery.

We encourage you to register your vote via the Internet. If you attend the meeting, you may also submit your vote in person and any votes that you previously submitted—whether via the Internet, by phone, by mail or by hand delivery—will be superseded by the vote that you cast at the meeting. Whether your proxy is submitted by the Internet, by phone, by mail or by

hand delivery, if it is properly completed and submitted and if you do not revoke it prior to the meeting, your shares will be voted at the meeting in the manner set forth in the proxy. To vote at the meeting, beneficial owners will need to contact the broker, trustee or nominee that holds their shares to obtain a "legal proxy" to bring to the meeting.

COMMONLY ASKED QUESTIONS AND ANSWERS

Why am I receiving this proxy statement and proxy card?

This proxy statement describes the proposals on which you, as a shareholder of BASi, are being asked to vote. It also gives you information on the proposals to be voted on at the Annual Meeting, as well as other information so that you can make an informed decision. You are invited to attend the Annual Meeting to vote on the proposals, but you do not need to attend in person in order to vote. You may, instead, follow the instructions above to vote by mail using the enclosed proxy card or you may vote via the Internet or by telephone using instructions included on the proxy card. Even if you currently plan to attend the meeting, it is a good idea to complete and return your proxy card before the meeting date just in case your plans change.

Who can vote at the Annual Meeting?

Shareholders who owned common stock on January 31, 2011, the record date for the Annual Meeting, may attend and vote at the Annual Meeting. Each common share is entitled to one vote. There were 4,915,318 common shares outstanding on January 31, 2011.

What am I voting on?

We are asking you to elect one Class II director to the Board of Directors of the Company and to ratify the appointment of Crowe Horwath LLP as the Company's independent registered public accountants for fiscal 2011

What if I change my mind after I give my proxy?

You may revoke your proxy and change your vote at any time before the polls close at the meeting. You may do this by:

- Sending a signed statement to the Company that the proxy is revoked (you may send such a statement to the Company's Assistant Secretary at our corporate headquarters address listed on the Notice of Meeting);
- Signing another proxy with a later date; or
- Voting in person at the meeting.

Your proxy will not be revoked if you attend the meeting but do not vote.

How many shares must be present to hold the meeting?

To hold the meeting and conduct business, a majority of BASi's outstanding voting shares as of January 31, 2011 must be present in person or represented by proxies at the meeting. On January 31, 2011, a total of 4,915,318 common shares were outstanding and entitled to vote. Shares representing a majority number of these votes, or 2,457,660 shares, must be present at the Annual Meeting or in person or by proxy, to hold the meeting and conduct business. This is called a quorum.

Shares are counted as present at the meeting if:

- They are voted via the Internet; or
- They are voted via the telephone by following the instructions on the proxy card; or
- They are voted in person at the meeting; or
- They are voted by a properly executed proxy card delivered to the Company via mail or by hand delivery.

Abstentions and broker non-votes are not counted for purposes of determining whether a proposal has been approved, but will be counted for purposes of determining whether a quorum is present.

Will my shares be voted if I do not sign and return my proxy card?

If your shares are registered in your name, they will not be voted unless you vote by the internet, telephone, submitting your proxy card via mail or hand delivery, or voting in person at the meeting.

How will my shares be voted if they are held in "street name"?

If your shares are held in "street name," you should have received voting instructions with these materials from your broker or other nominee. We urge you to instruct your broker or other nominee how to vote your shares by following those instructions. If you do not give your broker or nominee instructions as to how to vote your shares, they may be voted only on matters for which the broker or nominee has discretionary authority under applicable rules. These "broker non-votes" will be counted for purposes of determining whether a quorum is present but will not be counted for any other purpose with respect to Proposals 1 or 2.

How many votes must the nominee have to be elected as Class II director?

The Class II director nominated for election will be elected by a plurality of the votes cast, meaning that the person receiving the highest number of "for" votes will be elected. We expect that the election to be held at the 2011 Annual Meeting will be an uncontested election.

Shares represented by your proxy will be voted by BASi's management "for" the election of the nominee recommended by BASi's Board of Directors unless you withhold authority for such nominee.

How many votes are required to approve the proposals to be voted on at the Annual Meeting other than the election of directors?

The proposal to ratify Crowe Horwath LLP as our independent registered public accountants will be approved if the number of votes for approval of the proposal exceeds the number of votes against the proposal at the Annual Meeting.

Who will pay for this proxy solicitation?

We will bear the costs of soliciting proxies from our shareholders. These costs include preparing, assembling, printing, mailing and distributing the proxy statements, proxy cards and annual reports. We will also reimburse brokerage houses and other custodians for their reasonable out-of-pocket expenses for forwarding proxy and solicitation materials to the beneficial owners of common shares.

PROPOSALS TO BE VOTED UPON

PROPOSAL 1 - ELECTION OF DIRECTOR

Required Vote and Board of Directors' Recommendation

Under the Company's Amended and Restated Bylaws, the number of directors of the Company is to be fixed by resolution of the Board of Directors. The Board of Directors has set the number of directors at seven. In accordance with Indiana law and the Company's Amended and Restated Bylaws, the Company's Board of Directors is divided into three classes: Class I, Class II and Class III, each class having a staggered term of three years. Each year the term of office of one Class expires. The term of office of the Class II directors expires at the 2011 Annual Meeting.

Class II of the Board of Directors consists of two directors. The terms of office of the Board of Directors has nominated David W. Crabb, M.D. (the "Nominated Director") to be elected by the holders of the Company's common shares, to serve as a Class II Director of the Company for a term expiring at the 2014 annual meeting of shareholders and until his successor is elected and qualified. The other director's seat in Class II was occupied by Leslie B. Daniels until his resignation in October 2010. The Nominating Committee and the Board of Directors have not nominated anyone for election to the other director's seat in Class II. That director's seat will remain vacant after the Annual Meeting and can be filled by the remaining members of the Board of Directors.

If elected, the Nominated Director will serve for a term expiring at the Annual Meeting of Shareholders to be held in 2014 and until his successor is duly elected and qualified. If elected, the Nominated Director has consented to serve as a director of the Company.

The Board of Directors unanimously recommends that shareholders vote FOR the election of the Nominated Director.

Unless authority to vote for the Nominated Director is withheld, the accompanying proxy will be voted FOR the election of the

Nominated Director. However, the persons designated as proxies reserve the right to cast votes for another person designated by the Board of Directors in the event the Nominated Director becomes unable to serve or for good cause will not serve. Proxies will not be voted for more than one nominee. If a quorum is present, the nominee receiving a plurality of the votes cast will be elected to the Board of Directors.

Nominated Director

The following table shows certain information about the Nominated Director. The address for the Nominated Director is 2701 Kent Avenue, West Lafayette, IN 47906.

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Served as Director Since</u>
David W. Crabb, M.D.	57	Director	2004

Business Experience of the Nominated Director

David W. Crabb, M.D. has served as a director of the Company since February 2004. He has been Chairman of the Indiana University Department of Medicine since 2001. He has been a member of the faculty of the Indiana University Departments of Medicine and Biochemistry and Molecular Biology since 1983. He served as Vice Chairman for Research for the department and as an Assistant Dean for Research from 1993 to 2000. Dr. Crabb is the Director of the Indiana Alcohol Research Center, serves on several editorial boards and is a member of the Boards of Directors of Polymer Technology Systems, Inc., The Regenstrief Institute, and the Health and Hospital Corporation of Marion County. He was a recipient of a NIH Merit award and numerous other research and teaching awards.

Remaining Members of the Board

The following table sets forth certain information regarding each of the remaining directors. The address for each of the remaining directors is 2701 Kent Avenue, West Lafayette, Indiana 47906:

Name	Age	Position	Director Since
<i>Class III Director serving until the 2012 Annual Meeting of Shareholders:</i>			
John Landis	57	Chairman, Director	2009
David Omachinski	58	Director	2009
Anthony S. Chilton	54	Director, President and Chief Executive Officer	2010
<i>Class I Director serving until the 2013 Annual Meeting of Shareholders:</i>			
Larry S. Boulet	64	Director	2007
A. Charlene Sullivan	61	Director	2010

Business Experience of Remaining Members of the Board

John B. Landis, Ph.D. joined the BASi Board of Directors in November 2009 and was elected Chairman of the Board on February 11, 2010. Dr. Landis previously served as Senior Vice President, Pharmaceutical Sciences of Schering-Plough Corporation, a pharmaceutical company, from September 2003 until his retirement in October 2008. In that role, Dr. Landis led the global pharmaceutical sciences function of pharmacy, analytical chemistry, process chemistry, biotechnology, quality assurance, clinical supplies and devices. Prior to that, Dr. Landis served as Senior Vice President, Preclinical Development at Pharmacia Corporation from 1997 until 2003 and led the global preclinical functions of toxicology, drug metabolism and pharmacokinetics, pharmaceutical sciences, analytical chemistry and laboratory animal care. Dr. Landis also served as Vice President, Central Nervous System (CNS) Psychiatry, Critical Care and Inflammation Development for Pharmacia & Upjohn from 1995 through 1997. Prior to that, Dr. Landis was employed by The Upjohn Company, where he held positions of increasing responsibility in the areas of analytical research, quality assurance and quality control. He is a current member of Purdue University’s Chemistry Leadership Council and Dean’s Leadership Council for the School of Science and serves on the Advisory Board of South West Michigan Life Science Venture Capital and NanoMed Scientific and on the board of directors

of Metabolic Solutions Development Company. Over his career, Dr. Landis served on several other boards of directors, academic advisory panels and professional boards. Dr. Landis earned Ph.D. and M.S. degrees in Analytical Chemistry from Purdue University and a B.S. degree in Chemistry from Kent State University.

Mr. Omachinski joined the BASi Board of Directors in October 2009. Mr. Omachinski is currently an executive management consultant. From 1993 to 2005, he served in various executive management positions with Oshkosh B'Gosh, Inc., including President, Chief Operating Officer, Chief Financial Officer, Vice President of Finance and Treasurer. Mr. Omachinski also previously held various executive roles with Schumaker, Romenesko & Associates, S.C., a Wisconsin-based, full service, regional accounting firm. Mr. Omachinski has served on the board of Anchor Bancorp Wisconsin, Inc. since 1999, the University of Wisconsin-Oshkosh Foundation since 2003, and Chamco, Inc. since 2002. Mr. Omachinski received his Bachelor of Business Administration from the University of Wisconsin-Oshkosh and is a certified public accountant.

Larry S. Boulet has served as a director of the Company since May 2007. Mr. Boulet was a Senior Audit Partner with PriceWaterhouseCoopers (PWC) and a National Financial Services Industry Specialist, retiring in July 2002. For the last five years of his career with PWC, Mr. Boulet served as Partner-in-charge of the Indianapolis office's Private Client Group. Prior to serving on our Board, he served on the Board of Directors of Century Realty Trust, an Indiana based, real estate investment trust. He also served as Audit Committee Chairman until the Trust's sale and liquidation in 2007. Currently, Mr. Boulet also serves on the Indiana State University Foundation Board of Directors, where he is a former Chairman of the Board. He holds a B.S. degree in Accounting from Indiana State University.

A. Charlene Sullivan, Ph.D. has served as a director of the Company since January 2010. Dr. Sullivan is an Associate Professor of Management at the School of Management and the Krannert Graduate School of Management at Purdue University since 1984 and has been a faculty member at Purdue since 1978. Throughout her career at Purdue, Dr. Sullivan has taught undergraduate and graduate classes on corporate finance, financial institutions and markets and financial and managerial accounting and has received numerous awards and honors from the university. Since 2000, Dr. Sullivan also has served as the Management Faculty Advisor for the Technical Assistance Program at Purdue, which consults with small businesses in Indiana. In addition, Dr. Sullivan has served as a financial analyst for the Indiana Gaming Commission since 1995 and as a risk management consultant for Edgar Dunn & Company (a strategy and consulting firm) since 1994. Dr. Sullivan has served on the boards of directors of several private financial institutions and not-for-profit organizations, including the Federal Reserve Bank of Chicago from 1990 until 1996 and the Purdue Employees Federal Credit Union from 1997 until April 2009. She currently serves on the board of directors of the Greater Lafayette Community Foundation and on the Asset-Liability Committee for the Purdue Employees Federal Credit Union. Dr. Sullivan earned a B.S. degree in Home Economics from the University of Kentucky and a M.S. and Ph.D. in Management from Purdue University.

Board Independence

The Board of Directors has determined that Larry S. Boulet, Dr. David W. Crabb, David Omachinski, Dr. John B. Landis and Dr. A. Charlene Sullivan have no relationship with the Company that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director and that such individuals meet the current independence requirements of the NASDAQ Marketplace Rules, as well as the independence requirements of the Securities and Exchange Commission ("SEC").

Board Leadership Structure

The roles of Chairman and Chief Executive Officer are split into two positions. The Board of Directors believes that separating these roles aligns the Company with emerging trends in best practices for corporate governance of public companies and accountability to shareholders. The Board also believes that this provides a leadership model that clearly distinguishes the roles of the Board of Directors and management. The separation of the Chairman and Chief Executive Officer positions allows our Chief Executive Officer to direct his energy towards operational and strategic issues while the non-executive Chairman focuses on governance and shareholders. The Company believes that separating the Chairman and Chief Executive Officer positions enhances the independence of the Board of Directors, provides independent business counsel for our Chief Executive Officer, and facilitates improved communications between Company management and members of the Board of Directors.

Oversight of Risk Management

It is management's responsibility to manage our enterprise risks on a day-to-day basis. The Board of Directors is responsible for risk oversight by focusing on our overall risk management strategy and the steps management is taking to manage our risk. While the Board of Directors as a whole maintains the ultimate oversight responsibility, the Board of Directors has delegated certain risk management oversight responsibilities to its various committees. The Audit Committee oversees management of market and operational risks that could have a financial impact, such as those relating to internal controls, liquidity or raw materials. The Compensation Committee is responsible for overseeing risks related to our compensation programs, including

structuring and reviewing our executive compensation programs, considering whether such programs are in line with our strategic objectives and incentivizing appropriate risk-taking. The Corporate Governance and Nominating Committee manages the risks associated with governance issues, such as the independence of the Board of Directors and key executive succession.

In addition to the formal compliance program, the Board of Directors encourages management to promote a corporate culture that understands risk management and incorporates it into the overall corporate strategy and day-to-day business operations of the Company. The Company's risk management structure also includes an ongoing effort to assess and analyze the most likely areas of future risk for the Company and to address them in its long-term planning process.

Committees and Meetings of the Board of Directors

The Board of Directors has established Compensation, Audit and Nominating Committees, each of which has a written charter. Copies of these charters are available on our website: www.basinc.com. Scheduled meetings are supplemented by frequent informal exchange of information and actions taken by unanimous written consents without meetings.

No member of the Board of Directors attended fewer than 75% of the meetings of the Board of Directors and meetings of any committee of the Board of Directors of which he or she was a member. One out of the six members of the Board of Directors attended the 2010 Annual Meeting of shareholders. All of the members of the Board of Directors are encouraged, but not required, to attend BASi's annual meetings. The following chart shows the number of meetings of each of the committees of the Board of Directors and meetings of the Board of Directors at which a quorum was present:

<u>Committee</u>	<u>Members</u>	<u>Meetings in fiscal 2010</u>
Compensation	Leslie B. Daniels (Chair)* David W. Crabb John B. Landis	4
Audit	Larry S. Boulet (Chair) David W. Crabb Leslie B. Daniels* David L. Omachinski A. Charlene Sullivan	4
Nominating	David W. Crabb (Chair) Leslie B. Daniels* John B. Landis	3
Board of Directors		5

* Mr. Daniels resigned from the Board and each committee on October 5, 2010.

The Compensation Committee makes recommendations to the Board of Directors with respect to:

- compensation arrangements for the executive officers of BASi,
- policies relating to salaries and job descriptions,
- insurance programs,
- benefit programs, including retirement plans, and
- administration of the 2008 Stock Option Plan.

The Audit Committee is responsible for:

- reviewing with the auditors the scope of the audit work performed,
- establishing audit practices,
- overseeing internal accounting controls,
- reviewing financial reporting, and
- accounting personnel staffing.

The Board of Directors has adopted a written charter for the Compensation Committee and for the Audit Committee, both of which can be found on our website at www.basinc.com. Audit Committee members are not employees of BASi and, in the opinion of the Board of Directors, are “independent” (as defined by Rule 4200(a)(15) of the NASD listing standards). The Board of Directors has determined that each of Larry S. Boulet and David L. Omachinski is an “audit committee financial expert” (as defined by Item 401(h) of Regulation S-K) and “independent” (as defined by Item 7(d)(3)(iv) of Schedule 14A).

The Nominating / Corporate Governance Committee is responsible for receiving and reviewing recommendations for nominations to the Board of Directors and recommending individuals as nominees for election to the Board of Directors. Nominating Committee members are not employees of BASi and, in the opinion of the Board of Directors, are “independent” (as defined by rule 4200 (a)(15) of the NASD listing standards). The Board of Directors adopted a written charter for the Nominating Committee on February 21, 2007 which can be found on our website at www.basinc.com.

The Board of Directors will consider for nomination as directors persons recommended by shareholders. Such recommendations must be made to the Board of Directors or to an individual director in writing and delivered to Bioanalytical Systems, Inc., Attention: Corporate Secretary, 2701 Kent Avenue, West Lafayette, Indiana 47906 not less than 90 days nor more than 120 days prior to the anniversary date of the prior year’s annual shareholders meeting. The Corporate Secretary will forward all such communications to the addressee. Nominations must set forth, with respect to the person nominated, their name, age, business address and residence address, principal occupation or employment, class and number of shares of BASi which are owned beneficially or of record by the person, and any other information relating to the person that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Section 14 of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder. The shareholder making this proposal must state his, her or its name and record address, the class and number of shares of BASi which he, she or it owns beneficially or of record, a description of all arrangements or understandings between such shareholder and each proposed nominee and any other person or persons (including their names) pursuant to which the nomination(s) are to be made by such shareholder, a representation that such shareholder intends to appear in person or by proxy at the meeting to nominate the persons named in its notice, and any other information relating to such shareholder that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Section 14 of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder. Such notice must be accompanied by a written consent of each proposed nominee to being named as a nominee and to serve as a director if elected. The Chair of the Nominating/Corporate Governance Committee or his or her designee shall have the authority to determine whether a nomination is properly made.

There is no fixed process for identifying and evaluating potential candidates to be nominees for directors, and there is no fixed set of qualifications that must be satisfied before a candidate will be considered. Rather, the Nominating Committee has the flexibility to consider such factors as it deems appropriate. These factors may include education, diversity, experience with business and other organizations comparable with BASi, the interplay of the candidate’s experience with that of other members of the Board of Directors, and the extent to which the candidate would be a desirable addition to the Board of Directors and to any of the committees of the Board of Directors. The Nominating Committee does not have a formal policy regarding the consideration of diversity in identifying director nominees, but the Nominating Committee does consider, among other things, a director nominee’s potential contribution to the diversity of background and experience of our Board of Directors, including with respect to age, gender, international background, race and specialized experience. The Nominating Committee will evaluate nominees for directors submitted by shareholders in the same manner in which it evaluates other director nominees. No shareholder has properly nominated anyone for election as a director at the Annual Meeting.

Family Relationships

There are no family relationships among the directors and executive officers of BASi.

Certain Relationships and Transactions

The Board reviews transactions with related parties, but has no formal policies in place with respect to such review or the approval of such transactions. There were no transactions with related parties in fiscal 2010.

Communications with the Board of Directors

Any shareholder who desires to contact members of the Board of Directors, including non-management members as a group, may do so by writing to:

Corporate Secretary, Bioanalytical Systems, Inc.
2701 Kent Avenue
West Lafayette, IN 47906
corporatesecretary@BASInc.com

The corporate secretary will collect all such communications and organize them by subject matter. Thereafter, each communication will be promptly forwarded to the appropriate board committee chairperson according to the subject matter of the communication. Communications addressed to the non-management members as a group will be forwarded to each non-management member of the board.

Communications with the Audit Committee

Any person who would like to contact the Company for the purpose of submitting a complaint regarding accounting, internal accounting controls, or auditing matters may do so via email, by writing to:

Chairman of the Audit Committee,
Larry S. Boulet
auditcommittee@BASInc.com

Upon receipt of a complaint, the Chairman of the Audit Committee will follow a review process and actions dictated in the Company's Code of Business Conduct and Ethics to review and address the complaint. The Company's Code of Business Conduct and Ethics applies to all of BASi's directors, employees and officers. BASi's Code of Business Conduct and Ethics is available on the Company's website.

Non-Employee Director Compensation and Benefits

BASi's compensation package for non-employee directors is generally comprised of cash (annual retainers and board and committee meeting fees) and stock option awards. The annual pay package is designed to attract and retain highly-qualified, independent professionals to represent BASi's shareholders and reflect BASi's position in the industry. With the 2008 Stock Option Plan, BASi intended to better align director and shareholder interests through the use of stock option awards to directors. Actual annual pay varies among directors based on Board committee memberships, committee chair responsibilities and meetings attended. BASi has not adopted guidelines with respect to non-employee director ownership of common shares. Directors who are employees, if any, receive no additional compensation for their service on the Board.

Compensation for non-employee directors during the 2010 fiscal year consisted of the following:

Type of Compensation	Amount (\$)
Annual retainer for Board membership	3,300
Annual retainer for director serving as Chair of the Audit Committee	2,000
Annual retainer for director serving as Chair of the Compensation Committee	1,000
Annual retainer for director serving as Chair of the Nominating Committee	500
Meeting fee for Board meeting, in person	1,000
Meeting fee for Board meeting, by phone	500
Committee meetings, non-Board meeting days, in person	500
Committee meetings, non-Board meeting days, by phone	250
Daily fee for consultation with management	1,000

For meetings of the standing Board committees held in conjunction with a meeting of the Board, no additional fees are paid.

Option Awards

The amounts disclosed under the heading "Option Awards" in the table below consist of the aggregate grant date fair value of the stock option awards granted in fiscal 2010 in accordance with FASB ASC Topic 718. The grant date fair value of the option awards may vary from the actual amount ultimately realized based on a number of factors. The factors include BASi's actual operating performance, Common Share price fluctuations, differences from the valuation assumptions used, the limited liquidity in the trading of the Company's shares and the timing of exercise or applicable vesting.

Business Expenses

The directors are reimbursed for their business expenses related to their attendance at BASi meetings, including room, meals and transportation to and from Board and committee meetings. Directors are also encouraged to attend educational programs related to Board issues and corporate governance, which are reimbursed by the Company.

Non-Employee Directors' Compensation Table

The following table shows information regarding the compensation of BASi's non-employee directors for the 2010 fiscal year.

DIRECTOR COMPENSATION FOR FISCAL 2010				
Name (4)	Fees paid in cash (\$)	Option Awards (1) (\$)	All Other Compensation (\$)(3)	Total (\$)
Larry S. Boulet	19,450	4,245	—	23,695
David W. Crabb	15,200	—	—	15,200
Leslie B. Daniels (2)	15,700	4,245	1,504	21,449
John B. Landis	5,675	8,490	227	14,392
David L. Omachinski	5,975	8,490	560	15,025
A. Charlene Sullivan	4,925	8,490	185	13,600

- (1) Stock option awards granted to non-employee directors on August 16, 2010 with an exercise price of \$1.01 per share and grant date fair value of \$.849 per share. Assumptions used in the calculation of the grant date fair value are included in Note 8 in the Notes to Consolidated Financial Statements in BASi's Annual Report on Form 10-K for the fiscal year ended September 30, 2010.
- (2) Mr. Daniels resigned as a director on October 5, 2010.
- (3) Reimbursement for travel expenses associated with Board meetings.
- (4) Total options outstanding for each director at fiscal year end 2010 are as follows: 10,000 outstanding options for each of Dr. Landis, Mr. Omachinski and Dr. Sullivan, respectively; 15,000 outstanding options for each of Mr. Boulet and Mr. Daniels, respectively. Mr. Daniels' options were subsequently forfeited upon his resignation on October 5, 2010.

PROPOSAL 2 - RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

The Audit Committee of the Board has appointed Crowe Horwath LLP as the Company's independent registered public accountants for the fiscal year ending September 30, 2011.

We are asking our shareholders to ratify the selection of Crowe Horwath LLP as our independent registered public accountants. Although ratification is not required by our Bylaws or otherwise, the Board is submitting the selection of Crowe Horwath LLP to our shareholders for ratification as a matter of good corporate practice.

The proposal will be approved if more shares represented in person or by proxy and entitled to vote on this item at the Annual Meeting are voted for approval of the proposal than are voted against approval of the proposal.

The Board unanimously recommends that shareholders vote “FOR” ratification of the appointment of Crowe Horwath LLP as the Company’s independent registered public accountants for fiscal 2011.

In the event shareholders do not ratify the appointment, the appointment will be reconsidered by the Audit Committee and the Board. Even if the selection is ratified, the Audit Committee in its discretion may select a different registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of the Company and our shareholders.

Selection of Independent Registered Public Accountants

The Company’s Audit Committee engaged Crowe Horwath LLP (“Crowe”) as the Company’s independent registered public accounting firm for the audit of the consolidated financial statements for the fiscal years ended September 30, 2010, 2009, 2008, 2007 (as Crowe Chizek and Company LLC) and 2006 (as Crowe Chizek and Company LLC).

The Company engaged Crowe as its principal independent registered public accountants effective as of October 30, 2006. At no time prior to October 30, 2006 had the Company consulted with Crowe regarding either: (i) the application of accounting principles to a specified transaction, either completed or proposed; or the type of audit opinion that might be rendered on the Company’s financial statements; or (ii) any matter that was either the subject of a disagreement (as that term is defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions to that Item) or a reportable event (as that term is defined in Item 304(a)(1)(v) of Regulation S-K).

Representatives of Crowe are expected to be present at the Annual Meeting. They will have the opportunity to make a statement if they desire to do so and will be available to answer appropriate questions concerning the audit of the Company’s financial statements.

Fees of Independent Registered Public Accountants

The aggregate fees billed for the last two fiscal years for each of the following categories of services are set forth below:

	<u>2010</u>	<u>2009</u>
Audit Fees -		
Aggregate fees for annual audit, quarterly reviews	\$ 220,000	\$ 200,000
Tax Fees -		
Income tax services related to compliance with tax laws	\$ 80,000	\$ 120,000

There were no fees for services other than the above paid to the Company’s independent registered public accountants.

BASi’s policies require that the scope and cost of all work to be performed for BASi by its independent registered public accountants must be approved by the Audit Committee. Prior to the commencement of any work by the independent registered public accountants on behalf of BASi, the independent registered public accountants provide an engagement letter describing the scope of the work to be performed and an estimate of the fees. The Audit Committee and the Chief Financial Officer must review and approve the engagement letter and the estimate before authorizing the engagement. All fees were reviewed and approved by the Audit Committee during fiscal 2010 and 2009. Where fees charged by the independent registered public accountants exceed the estimate, the Audit Committee must review and approve the excess fees prior to their payment.

REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The following Report of the Audit Committee shall not be deemed to be “soliciting material” or to be “filed” with the Securities and Exchange Commission nor shall this information be incorporated by reference into any existing or future filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that BASi specifically incorporates it by reference into a filing.

The Audit Committee of the Board operates under a written charter, which is reviewed periodically and was most recently amended in May, 2008. The Audit Committee is comprised of four non-employee directors, each of whom in the opinion of the Board of Directors meets the current independence requirements and financial literacy standards of the NASDAQ Marketplace Rules, as well as the independence requirements of the SEC. In the opinion of the Board of Directors, Mr. Boulet and Mr. Omachinski each meet the criteria for an “audit committee financial expert” as set forth in applicable SEC rules.

BASi’s management is primarily responsible for the preparation, presentation and integrity of the Company’s financial statements. BASi’s independent registered public accounting firm, Crowe Horwath LLP (‘independent auditors’), is responsible for performing an independent audit of the Company’s financial statements and expressing an opinion as to the conformity of the financial statements with generally accepted accounting principles.

The function of the Audit Committee is to assist the Board of Directors in its oversight responsibilities relating to the integrity of BASi’s accounting policies, internal controls and financial reporting. The Audit Committee reviews BASi’s quarterly and annual financial statements prior to public earnings releases and submission to the SEC; reviews and evaluates the performance of our independent auditors; consults with the independent auditors regarding internal controls and the integrity of the Company’s financial statements; assesses the independence of the independent auditors; and is responsible for the selection of the independent auditors. In this context, the Audit Committee has met and held discussions with members of management and the independent auditors. Management has represented to the Audit Committee that the Company’s consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States, and the Audit Committee has reviewed and discussed the consolidated financial statements with management and the independent auditors. Management has also represented to the Audit Committee that the Company’s internal controls over financial reporting were effective, except for income tax accounting and debt covenant compliance reviews, as of the end of the Company’s most recently-completed fiscal year.

The Audit Committee also discussed with the independent auditors matters required to be discussed by Statement on Auditing Standards No. 61 (Communications with Audit Committees), as amended, including the quality and acceptability of the Company’s financial reporting process and internal controls. The Audit Committee has also discussed with the Company’s independent auditors the overall scope and plans for the annual audit and reviewed the results of the audit with management and the independent auditors.

In addition, the Audit Committee has discussed the independent auditors’ independence from the Company and its management, including the matters in the written disclosures required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant’s communications with the audit committee concerning independence. The Audit Committee has also considered whether the provision of any non-audit services (as discussed under “Fees of Independent Registered Public Accountants”) would impact the independence of the auditors.

The members of the Audit Committee are not engaged in the practice of auditing or accounting. In performing its functions, the Audit Committee necessarily relies on the work and assurances of the Company’s management and independent auditors.

In reliance on the reviews and discussions referred to in this report and in light of its role and responsibilities, the Audit Committee recommended to the Board of Directors that the audited financial statements of the Company included in the Company’s Annual Report on Form 10-K for the year ended September 30, 2010, be filed with the SEC.

AUDIT COMMITTEE

Larry S. Boulet (Chairman)
Dr. David W. Crabb
David L. Omachinski
Dr. A. Charlene Sullivan

PRINCIPAL SHAREHOLDERS

Common Stock

The following table shows, as of January 31, 2011, the number of common shares owned by our directors, executive officers named in the Summary Compensation Table below, our current directors and executive officers as a group, and beneficial owners known to us to hold more than 5% of our outstanding common shares. As of January 31, 2011, there were 4,915,318 common shares outstanding.

NAME	Shares Owned	Shares Owned Jointly	Shares / Options Owned Beneficially	Total	%
Peter T. Kissinger (1)	427,747	595,910	252,310	1,275,967	26.0
Candice B. Kissinger (1)	250,956	595,910	429,101	1,275,967	26.0
Thomas A. Harenburg (2)	276,767	—	—	276,767	5.6
Michael R. Cox (3)	81,000 (4)	—	—	81,000	1.7
Anthony S. Chilton (3)	70,000 (5)	—	—	70,000	1.4
David L. Omachinski (3)	10,000	—	—	10,000	0.2
Larry S. Boulet (3)	6,000 (6)	—	—	6,000	0.1
David W. Crabb (3)	1,300	—	—	1,300	*
John B. Landis (3)	—	—	—	—	*
A. Charlene Sullivan (3)	—	—	—	—	*
11 Executive Officers and Directors as a group	217,219	—	—	217,219	4.4

* Less than 0.1%

(1) Dr. and Mrs. Kissinger's shares owned beneficially include the shares owned individually by the other spouse and 1,354 shares jointly owned with their children. The address for the Kissingers is 111 Lorene Place, West Lafayette, Indiana 47906.

(2) Mr. Harenburg's address is 206 N. Main St., Oshkosh, WI 54901.

(3) Addresses are in care of BASi at 2701 Kent Avenue, West Lafayette, Indiana 47906.

(4) Shares owned include 80,000 exercisable stock options as of January 31, 2011.

(5) Shares owned include 70,000 exercisable stock options as of January 31, 2011.

(6) Shares owned include 2,500 exercisable stock options as of January 31, 2011.

COMPENSATION OF EXECUTIVE OFFICERS

Compensation Committee and Compensation Methodology

During the 2010 fiscal year, the Compensation Committee of the Board was responsible for administering the compensation and benefit programs for BASi's team members, including the executive officers. Historically, the Compensation Committee annually reviewed and evaluated cash compensation and stock option award recommendations along with the rationale for such recommendations, as well as summary information regarding the aggregate compensation, provided to BASi's executive officers. The Compensation Committee examined these recommendations in relation to BASi's overall objectives and made compensation recommendations to the Board for final approval. The Compensation Committee also historically sent to the Board for approval its recommendations on compensation for President and Chief Executive Officer, who does not participate in the decisions of the Board as to his compensation package. The President and Chief Executive Officer was not a member of the Compensation Committee during the 2010 fiscal year.

BASi has not hired a compensation consultant to review its compensation practices. The compensation of BASi's executives who were employees as of September 30, 2007 was frozen by the Compensation Committee at the last fiscal year's 2008 compensation level through fiscal 2010 as part of the effort to return the Company to profitability. This group did not include Dr. Chilton, who was hired in December 2008.

BASi's executive compensation practices are also affected by the highly competitive nature of the biotechnology industry and the location of BASi's executive offices in West Lafayette, Indiana. The fact that West Lafayette, Indiana is a small city in a predominantly rural area can present challenges to attracting executive talent from other industries and parts of the country. However, the favorable cost of living in this area and the small number of competitive employers in this market, enable the Company to pay generally lower salaries for comparable positions to others in its industry. The Company has also recruited a number of key employees from Purdue University, particularly for scientific and technical responsibilities.

The Compensation Committee, in collaboration with management, is in the process of reviewing the compensation structure of the Company in order to provide the proper incentives and necessary retention of key employees, including the named executive officers, to achieve financial success and an appropriate return to shareholders. These efforts will be ongoing in the current fiscal year.

The Company intends to develop compensation packages for BASi's executive officers that meet each of the following three criteria: (1) market competitive - levels competitive with companies of similar size and performance to BASi; (2) performance-based "at risk" pay that is based on both short- and long-term goals; and (3) shareholder-aligned incentives that are structured to create alignment between the shareholders and executives with respect to short- and long-term objectives.

Recent Changes in Senior Management

Since the beginning of the 2010 fiscal year, there were significant changes in BASi's executive management team. Among other changes, the following events occurred:

- ☞ on January 4, 2010, Jon Brewer, Vice President of Sales and Marketing, resigned from the Company;
- ☞ on January 27, 2010, Richard M. Shepperd retired from the office of President of the Company and retired as Chief Executive Officer and as a director on February 12, 2010;
- ☞ on January 27, 2010, Dr. Chilton was elected as interim President of the Company;
- ☞ on May 13, 2010, Dr. Chilton was elected as President and Chief Executive Officer; and
- ☞ on August 18, 2010, Alberto F. Hidalgo was hired as Vice President of Business Development and Marketing.

Employment Agreements and Post-Termination Payments

BASi has Employment Agreements with Messrs. Chilton and Cox and had an Employment Agreement with Mr. Shepperd.

Employment Agreement with Dr. Anthony S. Chilton

On December 1, 2008, BASi entered into an Employment Agreement with Dr. Chilton to serve as Chief Operating Officer, Scientific Services of BASi. Pursuant to the terms of the agreement between BASi and Dr. Chilton, the agreement has an initial term that ends on December 30, 2010, but this employment term can be extended for successive one year periods unless either BASi or Dr. Chilton gives the other party written notice at least 90 days before the end of the term. Dr. Chilton received a base salary of \$195,000 per year in the first year, which may be increased by the Company in the future. Additionally, Dr. Chilton received a sign-on bonus in two installments of \$5,000 each, on March 15, 2009 and July 15, 2009. Dr. Chilton will also be eligible for any bonus plans adopted by the Company at the discretion of the Compensation Committee of the Board of Directors.

The Agreement provides that Dr. Chilton could be entitled to severance benefits following the termination of his employment, as is further described below under the heading, "Change-in Control Agreements." If he is terminated by BASi without "cause", or if Dr. Chilton terminates his employment for "good reason" he would be entitled to the following:

- Dr. Chilton's base salary, payable monthly for 12 months following termination;
- all vacation accrued as of the date of termination;
- all bonus amounts earned but not paid as of the date of termination; and
- all salary earned but not paid through the date of termination.

In addition, the non-solicitation provision of Dr. Chilton's employment contract will not apply in the event of termination without cause or resignation with good reason.

On January 27, 2010, Dr. Chilton was elected as the interim President of the Company.

On February 1, 2010, BASi and Dr. Chilton entered into an Amended and Restated Employment Agreement. Under the amended Employment Agreement, the Company extended the term of Dr. Chilton's employment until January 31, 2013. The amended Employment Agreement provides that, during any period Dr. Chilton serves as Interim President of the Company, (a) his base salary will be increased to \$19,105 per month, and (b) he will receive a cash bonus equal to two percent (2%) of the consolidated earnings before interest expense, income tax expense, depreciation expense and amortization expense of the Company for that period ("EBITDA Bonus"). In addition to reimbursement of business expenses in accordance with the Company's standard reimbursement policies, Dr. Chilton will be entitled to reimbursement for reasonable living expenses in the Lafayette, Indiana area during the term of his employment, and reasonable travel expenses for travel to and from his residence in Alpharetta, Georgia. The Company has also agreed to provide Dr. Chilton a \$600 monthly car allowance and certain other benefits consistent with other executive level employees.

The Employment Agreement also provides that if Dr. Chilton becomes the Company's President and Chief Executive Officer, then (i) his base salary will increase to \$21,188.33 per month, (ii) he will receive a grant of options to purchase an additional 125,000 common shares of the Company on the date he is elected to those positions and grants of additional options to purchase 25,000 common shares on the first and second anniversaries of the date of the Employment Agreement, (iii) he will continue to earn the EBITDA Bonus, and (iv) he will be elected to the Company's Board of Directors. All of the options will be granted at an exercise price that is equal to the fair market value of the common shares on the date of grant. The options granted on the date of Dr. Chilton's election would vest in three equal installments on January 31, 2011, 2012 and 2013. The options granted in 2011 would vest in two equal installments on January 31, 2012 and 2013 and the options granted in 2012 would vest on January 31, 2013.

According to the Employment Agreement, if Dr. Chilton's employment is terminated without Cause (as defined in the Employment Agreement) or he resigns for "Good Reason" (as defined in the Employment Agreement), then the Company shall (a) pay Dr. Chilton (i) his current salary through the termination date or resignation date; (ii) all vacation accrued as of date of resignation or termination, and (iii) all bonuses earned but not paid as of the date of termination or resignation; and (b) pay Dr. Chilton as compensation for loss of office twelve (12) months base salary at the then current salary, provided that such payments shall cease if Dr. Chilton becomes employed during such period. If Dr. Chilton is terminated for Cause or resigns without Good Reason, the Company will pay Dr. Chilton (x) his earned but unpaid then-current base salary through the date of termination or resignation (y) all vacation accrued as of the date of termination resignation and (z) all bonuses earned but not paid as of the date of termination or resignation.

The Agreement provides that Dr. Chilton could be entitled to severance benefits following the termination of his employment, as is further described below under the heading, "Change-in Control Agreements."

On May 13, 2010, Dr. Chilton was elected as President and Chief Executive Officer of the Company.

Employment Agreement with Michael R. Cox

On November 6, 2007, BASi entered into an Employment Agreement with Mr. Cox to serve as Vice President, Finance and Administration and Chief Financial Officer of BASi. Pursuant to the terms of the agreement between BASi and Mr. Cox, the agreement has an initial term that ends on December 30, 2010, but this employment term can be extended for successive one year periods unless either BASi or Mr. Cox gives the other party written notice at least 90 days before the end of the term. Mr.

Cox will receive a base salary of \$165,000 per year in the first year, which may be increased by the Company in the future. Mr. Cox is also eligible for any bonus plans adopted by the Company at the discretion of the Compensation Committee of the Board of Directors.

The Agreement provides that Mr. Cox could be entitled to severance benefits following the termination of his employment, as is further described below under the heading, "Change-in Control Agreements." If he is terminated by BASi without "cause", or if Mr. Cox terminates his employment for "good reason" he would be entitled to the following:

- Mr. Cox's base salary, payable monthly for 12 months following termination;
- all vacation accrued as of the date of termination;
- all bonus amounts earned but not paid as of the date of termination; and
- all salary earned but not paid through the date of termination.

In addition, the non-solicitation provision of Mr. Cox's employment contract will not apply in the event of termination without cause or resignation with good reason.

On April 15, 2010, BASi entered into an Amendment to the Employment Agreement with Mr. Cox. The Amendment revised the definition of a "Change of Control" to exclude the filing of a Form 13-D with the Securities and Exchange Commission as a triggering event. The Amendment further stipulates that no event constituting a Change of Control from the filing of Form 13-D prior to the date of the Amendment has occurred or will be asserted. Additionally, the term of Mr. Cox's employment was extended until December 30, 2011.

Employment Agreement with Richard M. Shepperd

On January 12, 2009, BASi entered into an Amendment to Employment Agreement with Mr. Shepperd. The Amendment reduced Mr. Shepperd's base salary from \$35,000 per month to \$20,000 per month. Partially offsetting this, the Amendment provided for a new housing allowance of \$1,000 per month, for a total of \$12,000 in calendar 2009. The Amendment also contemplated that, if a "Change in Control" (as defined in the employment contract) occurs prior to the end of the term of the Agreement, Mr. Shepperd will receive a bonus payment of \$201,600.

The agreement provided that Mr. Shepperd could be entitled to certain severance benefits following termination of employment. If he is terminated by BASi without "cause", or if Mr. Shepperd terminates his employment for "good reason," he would be entitled to the following:

- Mr. Shepperd's base salary through December 31, 2009, to be paid monthly;
- all vacation accrued as of the date of termination;
- all bonus amounts earned but not paid as of the date of termination; and
- all salary earned but not paid through the date of termination.

In addition, the non-solicitation provisions of Mr. Shepperd's employment contract will not apply in the event of termination without cause or resignation with good reason.

The agreement further provides that if Mr. Shepperd's employment ends for any reason other than termination without cause or resignation with "good reason," Mr. Shepperd shall receive his earned but unpaid salary through the date of termination, all bonus amounts earned but not paid as of the date of termination and all vacation accrued through the date of such termination.

On January 27, 2010, Mr. Shepperd retired as President of the Company and retired as Chief Executive Officer and as a director of the Company on February 12, 2010. In connection with Mr. Shepperd's retirement from the Company, the Board of Directors approved a retirement payment to Mr. Shepperd of \$120,000, payable in twelve equal monthly installments commencing March 1, 2010.

Change-in-Control Agreements

Dr. Chilton's and Mr. Cox's Employment Agreements contain a change in control feature. Under these Employment Agreements, if Dr. Chilton or Mr. Cox are "involuntarily terminated" for any reason following a change in control, Dr. Chilton or Mr. Cox would receive an amount equal to his monthly base salary for the 12 months prior to termination payable for at least 2 years. Each would also be eligible for any special bonus program and be eligible to participate in Company sponsored benefits, savings and retirement plans, practices, policies and programs, with the employee contribution paid by the employee.

"Involuntarily terminated" is defined in the Employment Agreements as resulting from a "change in control" of the Company, and due to either (1) the elimination or diminution of the Employee's position, authority, duties and responsibilities relative to the most significant of those held, exercised and assigned at any time during the six month period immediately preceding a "change in control"; or (2) a change in location requiring the Employee's services to be performed at a location other than the location where the Employee was employed immediately preceding a "change in control," other than any office which is the headquarters of the Company and is less than 35 miles from such location.

A "change in control" is defined in Dr. Chilton's Employment Agreements as (1) approval by shareholders of the Company of (a) any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of stock of the Company would be converted into cash, securities or other property, other than a consolidation or merger of the Company in which holders of its common shares immediately prior to the consolidation or merger have substantially the same proportionate ownership of voting common stock of the surviving corporation immediately after the consolidation or merger as immediately before, or (b) a sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all the assets of the Company; (2) a change in the majority of members of the Board of Directors of the Company within a twenty-four (24) month period unless the election, or nomination for election

by the Company shareholders, of each new director was approved by a vote of two-thirds (2/3) of the directors then still in office who were in office at the beginning of the twenty-four (24) month period; or (3) the Company combines with another company and is the surviving corporation but, immediately after the combination, the shareholders of the Company immediately prior to the combination do not hold, directly or indirectly, more than fifty percent (50%) of the share of voting common stock of the combined company (there being excluded from the number of shares held by such shareholders, but not from the shares of voting common stock of the combined company, any shares received by affiliates (as defined in the rules of the SEC) of such other company in exchange for stock of such other company).

Executive Compensation Tables

Fiscal 2010 Summary Compensation Table

The following narrative, tables and footnotes describe the "total compensation" earned during BASi's 2010 fiscal year by BASi's named executive officers (each, an "NEO" and together, the "NEOs"). The total compensation presented below does not reflect the actual compensation received by BASi's NEOs or the target compensation of BASi's NEOs during its 2010 fiscal year because there was no value realized by BASi's NEOs during its 2010 fiscal year from long-term incentives (exercise of options).

The individual components of the total compensation calculation reflected in the Summary Compensation Table are broken out below:

Salary. Base salary earned during BASi's 2010 fiscal year. The terms of the Employment Agreements governed the base salary for Messrs. Chilton, Cox and Shepperd.

Bonus. The amounts presented as bonuses for Dr. Chilton below represent a sign on bonus paid in two equal installments per his employment agreement in fiscal 2009 and an accrued cash bonus of 2% of EBITDA per his amended employment agreement in fiscal 2010. No other bonuses were paid or accrued in fiscal 2009 or 2010 for any other NEO.

Option Awards. The awards disclosed under the heading "Option Awards" consist of the aggregate grant date fair value of the stock option awards granted in fiscal 2010 in accordance with FASB ASC Topic 718. The grant date fair value of the option awards may vary from the actual amount ultimately realized by the NEO based on a number of factors. The factors include BASi's actual operating performance, Common Share price fluctuations, differences from the valuation assumptions used, the limited liquidity in the trading of the Company's shares and the timing of exercise or applicable vesting. Assumptions used in the calculation of the grant date fair value are included in Note 8 in the Notes to Consolidated Financial Statements in BASi's Annual Report on Form 10-K for the fiscal year ended September 30, 2010.

Company Contributions to 401(k). Amounts paid by the Company on behalf of the NEO for matching contributions to a Company qualified 401(k) plan.

All Other Compensation. The amounts included under "All Other Compensation" are described in the footnotes to the table.

SUMMARY COMPENSATION TABLE

Name and principal position	Year	Salary (\$)	Bonus (\$)	Option Awards (1) (\$)	Company Contributions to 401(k) (\$)	All Other Compensation (\$)	Total (\$)
Richard M. Shepperd, President & Chief Executive Officer (2)	2009	285,000	—	—	3,010	9,000(3)	297,010
	2010	90,000	—	—	—	130,036(4)	220,036
Anthony S. Chilton, Ph.D., President, Chief Executive Officer; Director (5)	2009	195,000	10,000(7)	79,200(9)	—	—	284,200
	2010	227,200(6)	32,403(8)	121,100(10)	—	28,667(11)	409,370
Michael R. Cox, Vice President, Finance and Chief Financial Officer (12)	2009	165,000	—	—	1,900	—	166,900
	2010	165,000	—	22,800(13)	—	—	187,800

(1) Aggregate grant date fair value of the stock option awards granted in fiscal years 2010 and 2009 in accordance with FASB ASC Topic 718. There were three stock option grants to an NEO in fiscal 2010 and three grants to an NEO in fiscal 2009.

(2) On January 27, 2010, Mr. Shepperd retired as President of the Company and retired as Chief Executive Officer and as a director of the Company on February 12, 2010.

(3) Housing allowance of \$1,000 per month per amended employment agreement with Mr. Shepperd executed on January 12, 2009, as discussed above.

(4) Retirement payment approved by the Board of Directors upon Mr. Shepperd's retirement of \$120,000 plus a housing allowance of \$1,000 per month per amended employment agreement with Mr. Shepperd executed on January 12, 2009, as discussed above plus vacation payout of \$5,536 for vacation accrued up to his retirement.

(5) Dr. Chilton was hired on December 1, 2008, during fiscal 2009. On January 27, 2010, Dr. Chilton was elected as the interim President of the Company. On May 13, 2010, Dr. Chilton was elected as President and Chief Executive Officer of the Company.

(6) Per amendment to the employment agreement executed on February 1, 2010, as discussed above, Dr. Chilton's base salary was increased to \$19,105 per month for the months in which he served as the Interim President of the Company. His base salary was increased again to \$21,188 per month when, on May 13, 2010, he was elected as the President and Chief Executive Officer of the Company.

(7) Sign-on bonus in two installments of \$5,000 each, paid on March 15, 2009 and July 15, 2009.

(8) EBITDA bonus per amended employment agreement accrued in fiscal 2010, paid in fiscal 2011.

(9) Grant date fair value of new grant on December 1, 2008 for 30,000 options on common shares, vesting in equal installments beginning December 1, 2009 and each successive year through December 1, 2011. As of January 31, 2011, 20,000 option shares have vested and are exercisable.

(10) Grant date fair value of two new grants in fiscal 2010. The first grant was on February 1, 2010 for 25,000 options on common shares, vesting evenly beginning January 31, 2011 and each successive year through January 1, 2013. The second grant was on May 12, 2010 for 125,000 options on common shares, vesting evenly beginning on January 31, 2011 and each successive year through January 31, 2013. As of January 31, 2011, 50,000 option shares have vested and are exercisable.

(11) \$600 monthly car allowance and reimbursement of reasonable living and travel expenses per amended employment agreement with Dr. Chilton signed on February 1, 2010.

(12) Effective October 4, 2007, Mr. Cox also assumed the responsibilities of Chief Administrative Officer. In April, 2010, as discussed above, Mr. Cox entered into a new employment agreement and was awarded additional stock option grants.

(13) Grant date fair value of new grant on April 15, 2010 for 20,000 options on common shares, vesting in equal installments beginning April 15, 2011 and each successive year through April 15, 2013. As of January 31, 2011, no shares have vested and are exercisable.

Outstanding Equity Awards at Fiscal Year-End Table

BASi has awarded stock options to members of its senior management and other BASi team members. The terms of these awards typically provide for vesting over a defined period of time. Option awards generally have a four-part vesting schedule in which the first of the four installments vests on the second anniversary of the grant date. Each subsequent one-fourth installment thereafter vests on the anniversary of the grant date for the next three years; however, the Compensation Committee and the Board have the ability to alter, and occasionally do alter, the vesting schedule to meet specific objectives. The options

expire if not exercised within ten years from the date of grant. The following table shows the equity awards granted to BASi's NEOs that were outstanding as of the end of BASi's 2010 fiscal year.

OUTSTANDING EQUITY AWARDS AT FISCAL 2010 YEAR-END

OPTION AWARDS

Name	Number of Securities Underlying Unexercised Options		Option Exercise Price (\$)	Option Expiration Date
	(#) Exercisable	(#) Unexercisable		
Richard M. Shepperd (1)	—	—	—	—
Anthony S. Chilton, Ph.D.	10,000	20,000(2)	3.53	November 30, 2018
	—	25,000(3)	0.79	January 31, 2020
	—	125,000(4)	0.99	May 11, 2020
Michael R. Cox	50,000	—	4.58	March 31, 2014
	20,000	10,000(5)	8.60	November 5, 2017
		20,000(6)	1.35	April 14, 2020

- (1) Mr. Shepperd's options were forfeited upon retirement.
- (2) Options on 10,000 shares vested on December 1, 2010 and 10,000 shares vest on December 1, 2011.
- (3) Options on 8,334 shares vested on January 31, 2011, 8,333 shares vest on January 31, 2012 and 8,333 shares vest on January 31, 2013.
- (4) Options on 41,666 shares vested on January 31, 2011, 41,667 shares vest on January 31, 2012 and 41,667 shares vest on January 31, 2013.
- (5) Options on 10,000 shares vested on November 5, 2010.
- (6) Options on 6,667 shares vest on April 15, 2011, 6,667 shares vest on April 15, 2012 and 6,666 shares vest on April 15, 2013.

Fiscal 2010 Option Exercises

There were no options exercised by NEOs in fiscal 2010.

Equity Compensation Plan Information

BASi maintains stock option plans that allow for the granting of options to certain key employees and directors of BASi. The following table gives information about equity awards under the stock option plans of BASi:

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options	Weighted Average Exercise Price of Outstanding Options	Number of Securities Remaining Available for Future Issuance under the Equity Compensation Plan (Excluding Securities Reflected in First Column)
Equity compensation plans approved by security holders	680,000	\$2.59	3,000
Equity compensation plans not approved by security holders ⁽¹⁾	<u>25,000</u>	\$4.58	—
Total	705,000	\$2.66	3,000

(1) Includes option to purchase 25,000 shares at \$4.58 granted to Michael R. Cox on April 1, 2004. This grant is fully vested and expires after 10 years.

For additional information regarding BASi's stock option plans, please see Note 8 in the Notes to Consolidated Financial Statements in BASi's Annual Report on Form 10-K for the fiscal year ended September 30, 2010.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Corporation's directors and executive officers and persons who beneficially own more than ten percent of BASi's Common Shares and any other person subject to section 16(a) with respect to BASi to file with the Securities and Exchange Commission reports showing ownership of and changes in ownership of BASi's Common Shares and other equity securities. On the basis of information available to us, we believe that all filing requirements were met for fiscal 2010.

SHAREHOLDER PROPOSALS FOR 2012 ANNUAL MEETING

Shareholder proposals to be considered for presentation and inclusion in the proxy statement for the 2012 Annual Meeting of Shareholders must be submitted in writing and received by BASi on or before December 10, 2011. If notice of any other shareholder proposal intended to be presented at the 2012 Annual Meeting of Shareholders is not received by BASi on or before December 10, 2011, the proxy solicited by the Board of Directors of BASi for use in connection with that meeting may confer authority on the proxies to vote in their discretion on such proposal, without any discussion in the BASi proxy statement for that meeting of either the proposal or how such proxies intend to exercise their voting discretion. The mailing address of the principal offices of BASi is 2701 Kent Avenue, West Lafayette, Indiana 47906.

In addition, any shareholder proposal must be in proper written form. To be in proper written form, a shareholder's proposal must set forth as to each matter such shareholder proposes to bring before the 2012 Annual Meeting (a) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (b) the name and record address of such shareholder, (c) the number of common shares of BASi which are owned beneficially or of record by such shareholder, (d) a description of all arrangements or understandings between such shareholder and any other person or persons (including their names) in connection with the proposal of such business by such shareholder and any material interest of such shareholder in such business and (e) a representation that such shareholder intends to appear in person or by proxy at the annual meeting to bring such business before the meeting.

OTHER BUSINESS

As of the date of this proxy statement, the Board of Directors of BASi has no knowledge of any matters to be presented for consideration at the Annual Meeting other than those referred to above. If (a) any matters not within the knowledge of the Board of Directors as of the date of this proxy statement should properly come before the meeting; (b) a person not named herein is nominated at the meeting for election as a director because a nominee named herein is unable to serve or for good cause will not serve; (c) any proposals properly omitted from this proxy statement and the form of proxy should come before the meeting; or (d) any matters should arise incident to the conduct of the meeting, then the proxies will be voted in accordance with the recommendations of the Board of Directors of BASi.

By Order of the Board of Directors,



Anthony S. Chilton, Ph. D.
Chief Executive Officer
January 28, 2011



ANNUAL REPORT

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended September 30, 2010.

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 000-23357

BIOANALYTICAL SYSTEMS, INC.

(Exact name of the registrant as specified in its charter)

INDIANA
(State or other jurisdiction of incorporation or organization)

35-1345024
(I.R.S. Employer Identification No.)

2701 KENT AVENUE
WEST LAFAYETTE, INDIANA
(Address of principal executive offices)

47906
(Zip code)

(765) 463-4527
(Registrant's telephone number, including area code)

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

Securities registered pursuant to section 12(g) of the Act: Common Shares

Name of exchange on which registered: NASDAQ Capital Market

Indicate by checkmark if the registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act. YES NO

Indicate by checkmark 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 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 definitions 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

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

Based on the closing price on the NASDAQ Global Market on March 31, 2010, the aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was \$4,348,000. As of January 7, 2011, 4,915,318 of registrant's common shares were outstanding. None of the registrant's Preferred Shares were outstanding as of January 7, 2011.

Documents Incorporated by Reference

Portions of the registrant's definitive proxy statement for its 2011 Annual Meeting of Shareholders are incorporated by reference into Part III hereof.

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PART I

This Report may contain "forward-looking statements," within the meaning of Section 27A of the Securities Act of 1933, as amended, and/or Section 21E of the Securities Exchange Act of 1934, as amended. Those statements may include, but are not limited to, discussions regarding our intent, belief or current expectations with respect to (i) our strategic plans; (ii) our future profitability, liquidity and capital resources; (iii) our capital requirements; (iv) industry trends affecting our financial condition or results of operations; (v) our sales or marketing plans; or (vi) our growth strategy. Investors in our common shares are cautioned that reliance on any forward-looking statement involves risks and uncertainties, including the risk factors contained beginning on page 11 of the Report. Although we believe that the assumptions on which the forward-looking statements contained herein are based are reasonable, any of those assumptions could fail to project actual events and, as a result, the forward-looking statements based upon those assumptions could prove to be significantly different from actual results. In light of the uncertainties inherent in any forward-looking statement, the inclusion of a forward-looking statement herein should not be regarded as a representation by us that our plans and objectives will be achieved. We do not undertake any obligation to update any forward-looking statement.

(Dollar amounts in thousands, except per share data, unless noted otherwise.)

ITEM 1 - BUSINESS

General

The Company, a corporation organized in Indiana, provides contract drug development services and research equipment to many leading global pharmaceutical, medical research and biotechnology companies and institutions. We offer an efficient, variable-cost alternative to our clients' internal product development programs. Outsourcing development work to reduce overhead and speed drug approvals through the Food and Drug Administration ("FDA") is an established alternative to in-house development among pharmaceutical companies. We derive our revenues from sales of our research services and drug development tools, both of which are focused on determining drug safety and efficacy. The Company has been involved in the research of drugs to treat numerous therapeutic areas since its formation in 1974.

We support the preclinical and clinical development needs of researchers and clinicians for small molecule and large biomolecule drug candidates. We believe our scientists have the skills in analytical instrumentation development, chemistry, computer software development, physiology, medicine, analytical chemistry and toxicology to make the services and products we provide increasingly valuable to our current and potential clients. Our principal clients are scientists engaged in analytical chemistry, drug safety evaluation, clinical trials, drug metabolism studies, pharmacokinetics and basic neuroscience research from small start-up biotechnology companies to many of the largest global pharmaceutical companies.

Changing Nature of the Pharmaceutical Industry

Our services and products are marketed globally to pharmaceutical, medical research and biotech companies and institutions engaged in drug research and development. The research services industry is highly fragmented among many niche vendors led by a small number of larger companies; the latter offer an ever-growing portfolio of start-to-finish pharmaceutical development services. Our products are also marketed to academic and governmental institutions. Our services and products may have distinctly different clients (often separate divisions in a single large pharmaceutical company) and requirements. We believe that all clients are facing increased pressure to outsource facets of their research and development activities and that the following factors will increase client outsourcing:

Accelerated Drug Development

Clients continue to demand faster, more efficient, more selective development of an increasing pool of drug candidates. Consequently, our clients require fast, high-quality service in order to make well-informed decisions to quickly exclude poor candidates and speed development of successful ones. The need for additional development capacity to exploit more opportunities, accelerate development, extend market exclusivity and increase profitability drives the demand for outsourced services.

Cost Containment

Pharmaceutical companies continue to push for more efficient operations through outsourcing to optimize profitability as development costs climb, staff costs increase, generic competition challenges previously secure profit generators, political and social pressures to reduce health care costs escalate, and shareholder expectations mount.

Patent Expiration

As exclusivity ends with patent expiry, drug companies defend their proprietary positions against generic competition with various patent extension strategies. Both the drug company creating these extensions and the generic competitors should provide additional opportunities for us.

Alliances

Strategic alliances allow pharmaceutical companies to share research know-how and to develop and market new drugs faster in more diverse, global markets. We believe that such alliances will lead to a greater number of potential drugs in testing, many under study by small companies lacking broad technical resources. Those small companies can add shareholder value by further developing new products through outsourcing, reducing risk for potential allies. Clients seek realistic business partnerships with their service provider in an effort to ensure that costs are controlled as their development programs progress. We have long-standing business relationships with many pharmaceutical companies and continue to offer flexible services and adapt to our client's requirements.

Mergers and Acquisitions

Consolidation in the pharmaceutical industry is commonplace. As firms blend personnel, resources and business activities, we believe they will continue to streamline operations and minimize staffing, which may lead to more outsourcing. Consolidation may result in a disruption in the progress of drug development programs as merging companies rationalize their respective drug development pipelines.

Biotechnology Industry and Virtual Drug Company Growth

The biotechnology industry continues to grow and has introduced many new developmental drugs. Many biotechnology drug developers do not have in-house resources to conduct development. Many new companies choose only to carry a product to a developed stage sufficient to attract a partner who will manufacture and market the drug. Efficient use of limited funds motivates smaller firms to seek outside service providers rather than build expensive infrastructure.

Unique Technical Expertise

The increasing complexity of new drugs requires highly specialized, innovative, solution-driven research not available in all client labs. We believe that this need for unique technical expertise will increasingly lead to outsourcing of research activity.

Data Management and Quality Expertise

Our clients and the FDA require more data, greater access to that data, consistent and auditable management of that data, and greater security and control of that data. We have made significant investments in software throughout our contract services groups to optimize efficiency and ensure compliance with FDA regulations and market expectations.

Globalization of the Marketplace

Foreign firms rely on independent development companies with experience in the U.S. to provide integrated services through all phases of product development and to assist in preparing complex regulatory submissions. Domestic drug firms are broadening product availability globally, demanding local regulatory approval. We believe that domestic service providers with global reach, established regulatory expertise, and a broad range of integrated development services will benefit from this trend.

The Company's Role in the Drug Development Process

After a new drug candidate is identified and carried through preliminary screening, the development process for new drugs has three distinct phases.

1) The **preclinical phase** includes safety testing to prepare an Investigational New Drug ("IND") for submission to the FDA. The IND must be accepted by the FDA before the drug can be tested in humans. Once a pharmacologically active molecule is fully analyzed to confirm its integrity, the initial dosage form for clinical trials is created. An analytical chemistry method is developed to enable reliable quantification. Stability and purity of the formulation are also determined.

Clients work with our preclinical services group to establish pharmacokinetics (PK), pharmacodynamics (PD) and safety testing of the new drug. These safety studies range from dose ranging studies, that involve acute safety monitoring of drugs and medical devices to chronic, multi-year oncogenicity and reproductive toxicity studies. Dose level confirmation is provided by our pharmaceutical analysis group. Bioanalyses of blood sampled under these protocols by our bioanalytical services group provide pharmacokinetic and metabolism data that is used with the safety and toxicity information to determine the exposure required to demonstrate toxicity. A no effect level is then established for the drug and sets the basis for future dose levels in further safety testing and clinical phase I studies. Upon successful completion of preclinical safety studies, an IND submission is prepared and provided to the FDA for review prior to human clinical trials.

Many of our products are designed for use in discovery and preclinical development. The Culex® family of robotic automated dose delivery and blood and other biofluids sampling and physiological parameters measurement systems enable researchers to quickly and cost effectively determine PK/PD profiles of drugs in large and small animal models. The Culex system allows experiments on freely moving conscious animals from early research for therapeutic target validation to lead optimization of compounds. Using the Culex system, researchers are able to automatically dose and sample in-vivo to develop pharmacokinetic and pharmacodynamic profiles of drugs during early screening in rodents and other animals quickly and cost effectively. Our bioanalytical services group utilizes our depth of expertise in liquid chromatography with detection by mass spectrometry as a mainstay of our bioanalytical laboratories to support research, preclinical and clinical programs. We also offer bioanalytical services that utilize electrochemistry, spectrophotometric (UV/Vis or fluorescence) and Corona Discharge detection as options. We have invested heavily in robotics and mass spectrometry systems in previous years. Application of this technology allows us to rapidly develop and validate methods for new compounds and obtain information suitable for regulatory submission.

2) The **clinical phase** further explores the safety and efficacy of the substance in humans. The sponsor conducts Phase I human clinical trials in a limited number of healthy individuals to determine safety and tolerability. Bioanalytical assays determine the availability and metabolism of the active ingredient following administration. Expertise in method development and validation is critical, particularly for new chemical entities.

Exhaustive safety, tolerability and dosing regimens are established in sick humans in Phase II trials. Phase III clinical trials verify efficacy and safety. After successful completion of Phase III trials, the sponsor of the new drug submits a New Drug Application ("NDA") or Product License Application ("PLA") to the FDA requesting that the product be approved for marketing. Early manufacturing demonstrates production of the substance in accordance with FDA Good Manufacturing Practices ("GMP") guidelines. Data are compiled in an NDA, or for biotechnology products a PLA, for submission to the FDA requesting approval to market the drug or product. Our bioanalytical work per study grows rapidly from Phase I through Phase III. The number of samples per patient declines as the number of patients grows in later studies. Phase II and III studies take several years, supported by well-proven, consistently applied analytical methods. It is unusual for a sponsor to change laboratories unless there are problems in the quality or timely delivery of results.

Our services include evaluation of bioequivalence and bioavailability to monitor the rate and extent to which a drug is available in the body and to demonstrate that the availability is consistent between formulations. We additionally offer support in clinical sample development, release and stability of clinical samples including comparators.

3) The **Post-approval phase** follows FDA approval of the NDA or PLA. This includes production and continued analytical and clinical monitoring of the drug. The post-approval phase also includes development and regulatory approval of product modifications and line extensions, including improved dosage forms. The drug manufacturer must comply with quality assurance and quality control requirements throughout production and must continue analytical and stability studies of the drug during commercial production to continue to validate production processes and confirm product shelf life. Samples from each manufactured batch must be tested prior to release of the batch for distribution to the public.

We also provide services in all areas during the post-approval phase, concentrating on bioequivalence studies of new formulations, line extensions, new disease indications and drug interaction studies. Our ability to offer quick sample analysis has provided increased business opportunities for release testing.

The increases in our services offerings as a result of both acquisition and internal development have resulted in our ability to provide a broader range of services to our clients, often using combined services of several disciplines to address client needs. Our ability to solve client problems by combining our knowledge base, services and products has been a factor in our selection by major pharmaceutical companies to assist in several preclinical through the post-approval phases.

Company Services and Products

Overview

We operate in two business segments – contract research services and research products, both of which address the bioanalytical, preclinical, and clinical research needs of drug developers. Both segments arose out of our expertise in a number of core technologies designed to quantify trace chemicals in complex matrices. We evaluate performance and allocate resources based on these segments.

Services

The contract research services segment provides screening and pharmacological testing, preclinical safety testing, formulation development, regulatory compliance and quality control testing. Revenues from continuing operations from the services segment were \$21.9 million for fiscal 2010. The following is a description of the services provided by our contract research services segment:

- **Product Characterization, Method Development and Validation:** Analytical methods, primarily performed in West Lafayette, Indiana, determine potency, purity, chemical composition, structure and physical properties of a compound. Methods are validated to ensure that data generated are accurate, precise, reproducible and reliable and are used consistently throughout the drug development process and in later product support.
- **Bioanalytical Testing:** We analyze specimens from preclinical and clinical trials to measure drug and metabolite concentrations in complex biological matrices. Bioanalysis is performed at our facilities in Indiana, Oregon and the United Kingdom (“UK”).
- **Stability Testing:** We test stability of drug substances and formulated drug products and maintain secure storage facilities in West Lafayette, Indiana to establish and confirm product purity, potency and shelf life. We have multiple International Conference on Harmonization validated controlled-climate GMP (Good Manufacturing Practices) systems in place, and the testing capability to complete most stability programs.
- **In Vivo Pharmacology:** We provide preclinical *in vivo* sampling services for the continuous monitoring of chemical changes in life, in particular, how a drug enters, travels through, and is metabolized in living systems. Most services are performed in customized facilities in Evansville, Indiana using our robotic Culex® APS (Automated Pharmacology System) system.
- **Preclinical and Pathology Services:** We provide pharmacokinetic and safety testing in studies ranging from acute safety monitoring of drugs and medical devices to chronic, multi-year oncogenicity studies in our Evansville, Indiana site. Depending on protocol, multiple tissues may be collected to monitor pathological changes.

Research Products

We focus our products business on expediting preclinical screening of developmental drugs. We compete in small niches of the multibillion dollar analytical instrument industry. The products business targets unique niches in life science research. We design, develop, manufacture and market state-of-the-art:

- *In vivo* sampling systems and accessories (including disposables, training and systems qualification)
- Physiology monitoring tools
- Liquid chromatography and electrochemistry instruments platforms

Revenues from continuing operations for our products segment were \$6.9 million for fiscal 2010. We offer three (3) principal product lines: Analytical Products, In vivo Sampling Products and Vetronics' Products. The following is a brief description of the products offered:

- **Analytical Products:** The analytical products consist of our liquid chromatographic and electrochemical instruments with associated accessories. The critical component of these products is the Epsilon® electrochemical platform. This incorporates all the hardware capabilities needed for most electrochemical experiments but can be modified through software development. The market is principally academic institutions and industrial research companies.
- **In vivo Sampling Products:** The *in vivo* sampling products consist of the *Culex*® family of automated *in vivo* sampling and dosing instruments. These are used by pharmaceutical researchers to dose animals and collect biological samples (blood, bile, urine, microdialysate, feces or any bio-fluid) from the animals. Since dosing and sample collections are automated, animals are not manually handled, reducing stress on the animals and producing more representative pharmacological data. Behavior and other physiological parameters can also be monitored simultaneously. Compared to manual methods, the *Culex*® products offer significant reduction in test model use and comparable reduction in labor. The line also includes miniaturized *in vivo* sampling devices sold to drug developers and medical research centers to assist in the study of a number of medical conditions including stroke, depression, Alzheimer's and Parkinson's diseases, diabetes and osteoporosis.
- **Vetronics' Products:** The Vetronics' products consist of instruments and related software to monitor and diagnose cardiac function (electro-cardiogram) and measure other vital physiological parameters primarily in cats and dogs in veterinary clinics.

Clients

Over the past five years, we have regularly provided our services and/or products to most of the top 25 pharmaceutical companies in the world, as ranked by the number of research and development projects. Approximately 11% of our revenues are generated from customers outside of North America.

We balance our business development effort between large pharmaceutical developers and smaller drug development companies.

Pfizer, Inc. is our largest client, accounting for approximately 7.0% of our total revenues in fiscal 2010 and 2009. Pfizer, Inc. accounted for 4.7% and 3.2% of total trade accounts receivable at September 30, 2010 and 2009, respectively.

There can be no assurance that our business will not continue to be dependent on continued relationships with Pfizer, Inc. or other clients, or that annual results will not be dependent on a few large projects. In addition, there can be no assurance that significant clients in any one period will continue to be significant clients in other periods. In any given year, there is a possibility that a single pharmaceutical company may account for 5% or more of our total revenue. Since we do not have long-term contracts with our clients, the importance of a single client may vary dramatically from year to year.

Sales and Marketing

Our current sales and marketing efforts target both the top 200 global pharmaceutical companies and smaller companies. We recognize that our growth and customer satisfaction depend upon our ability to continually improve and create new client relationships.

Our products and services are sold directly to the client. We currently have 10 employees on our sales and marketing staff. Sales, marketing and technical support is based in the corporate headquarters located in West Lafayette, Indiana.

We have a network of 11 established distributors covering Japan, the Pacific Basin, South America, the Middle East, India, South Africa and Eastern Europe. All of our distributor relationships are managed from the corporate headquarters in West Lafayette, Indiana.

Contractual Arrangements

Our service contracts typically establish an estimated fee to be paid for identified services. In most cases, some percentage of the contract costs is paid in advance. While we are performing a contract, clients often adjust the scope of services to be provided based on interim project results. Fees are adjusted accordingly. Generally, our fee-for-service contracts are terminable by the client upon written notice of 30 days or less for a variety of reasons, including the client's decision to forego a particular study, the failure of product prototypes to satisfy safety requirements, and unexpected or undesired results of product testing. Cancellation or delay of ongoing contracts may result in fluctuations in our quarterly and annual results. We are generally able to recover at least our invested costs when contracts are terminated.

Our products business offers annual service agreements on most product lines.

Backlog

The contracts pursuant to which we provide our services are terminable upon written notice of 30 days or less. We maintain projections based on bids and contracts to optimize asset utilization. We have increased the use of sales forecasts in manufacturing our products, with the result that we rarely have a significant backlog for Products. For Services, backlog generally includes work to be performed under signed agreements (i.e., contracts and letters of intent). Once work under a signed agreement begins, net revenues are recognized over the life of the project. Some of our studies and projects are performed over an extended period of time, which may exceed several years. We maintain an order backlog to track anticipated net revenues yet to be earned for work that has not been performed.

Although backlog can provide meaningful information to our management with respect to a particular study, we believe that our backlog for Services as of any date is not necessarily a meaningful indicator of our future results for a variety of reasons. Studies vary in duration; the scope of studies may change, which may either increase or decrease their value; and studies may be terminated, or delayed at any time by the client or regulatory authorities.

Competition

Services

We compete with in-house research, development, quality control and other support service departments of pharmaceutical and biotechnology companies. There are also full-service Contract Research Organizations ("CROs") that compete in this industry. Several of our competitors have significantly greater financial resources than we do. The largest CRO competitors offering similar research services include:

- Covance, Inc.;
- Pharmaceutical Product Development, Inc.;
- Charles River Laboratories, Inc.;
- Parexel; and
- MDS Health Group Ltd.

CROs generally compete on:

- regulatory compliance record;
- reputation for on-time quality performance
- quality system;
- previous experience;
- medical and scientific expertise in specific therapeutic areas;
- scientist-to-scientist relationships;
- quality of contract research;

- financial viability;
- database management;
- statistical and regulatory services;
- ability to recruit investigators;
- ability to integrate information technology with systems to optimize research efficiency;
- quality of facilities;
- an international presence with strategically located facilities; and
- price.

Products

Founded as a provider of instrumentation and products utilized in life and physical sciences research laboratories, we continue to serve these product niches today. Though many global analytical instruments competitors exist, we have an extensive, long standing network of customers who are repeat buyers and recommend our products. In contrast, there are few competitors for our in vivo sampling products. The primary market is large and small pharmaceutical researchers. Our differentiators are high quality, flexibility to meet customers' specific needs and superior technical support and service. We provide equipment that enables our customers to attain premium scientific laboratory information on a reasonable operating investment. As customers' needs constantly change, we continually invest in the refinement of our products and in new product opportunities that meet our operating objectives.

Government Regulation

We are subject to various regulatory requirements designed to ensure the quality and integrity of our data and products. These regulations are promulgated primarily under the Federal Food, Drug and Cosmetic Act, and include Good Laboratory Practice ("GLP"), Good Manufacturing Practice ("GMP"), and Good Clinical Practice ("GCP") guidelines administered by the FDA. The standards of GLP, GMP, and GCP are required by the FDA and by similar regulatory authorities around the world. These guidelines demand rigorous attention to employee training; detailed documentation; equipment validation; careful tracking of changes and routine auditing of compliance. Noncompliance with these standards could result in disqualification of project data collected by the Company. Material violation of GLP, GMP, or GCP guidelines could result in regulatory sanctions and, in severe cases, could also result in a discontinuance of selected operations. Since October 2004, we have been audited, on a routine basis, by the FDA and UK's MHRA fifteen times. The FDA has visited five times in West Lafayette, and twice each at the UK, Oregon, and Evansville locations. MHRA has visited the UK facility four times. Of the eleven FDA audits, five were without findings. Where the FDA had findings, which have not been significant to our operations, we have taken actions to address the findings. The UK facility was found to be compliant with GLP and GCP.

We have not experienced any significant problems to date in complying with the regulations of such agencies and do not believe that any existing or proposed regulations will require material capital expenditures or changes in our method of operation.

Analytical Services

Laboratories that provide information included in INDs, NDAs and PLAs must conform to regulatory requirements that are designed to ensure the quality and integrity of the testing process. Most of our contract research services are subject to government standards for laboratory practices that are embodied in guidelines for GLP. The FDA and other regulatory authorities require that test results submitted to such authorities be based on studies conducted in accordance with GLP. These guidelines are set out to help the researcher perform work in compliance with a pre-established plan and standardized procedures. These guidelines include but are not restricted to:

- Resources – organization, personnel, facilities and equipment
- Rules – protocols and written procedures
- Characterization – test items and test systems

- Documentation – raw data, final report and archives
- Quality assurance unit – formalized internal audit function

We must also maintain reports for each study for specified periods for auditing by the study sponsor and by the FDA or similar regulatory authorities in other parts of the world. Noncompliance with GLP can result in the disqualification of data collection during the preclinical trial.

Preclinical Services

Our animal research facilities are subject to a variety of federal and state laws and regulations, including The Animal Welfare Act and the rules and regulations enforced by the United States Department of Agriculture ("USDA") and the National Institutes of Health ("NIH"). These regulations establish the standards for the humane treatment, care and handling of animals by dealers and research facilities. Our animal research facilities maintain detailed standard operating procedures and other documentation necessary to comply with applicable regulations for the humane treatment of the animals in our custody. Besides being licensed by the USDA as a research facility, we are also accredited by the Association for Assessment and Accreditation of Laboratory Animal Care International ("AAALAC") and have registered assurance with the NIH.

Quality Assurance and Information Technology

To assure compliance with applicable regulations, we have established quality assurance programs at our facilities that audit test data, train personnel and review procedures and regularly inspect facilities. In addition, FDA regulations and guidelines serve as a basis for our Standard Operating Procedures ("SOPs") where applicable. On an ongoing basis, we endeavor to standardize SOPs across all relevant operations. In addition, we have both developed and purchased software to ensure compliant documentation, handling and reporting of all laboratory-generated study data. In fiscal 2004, we purchased similar 21 CFR Part 11 (FDA guidelines on electronic records and electronic signatures that define the criteria under which electronic records and electronic signatures are considered to be trustworthy, reliable and equivalent to paper records) compliant software for our preclinical research group. At the end of fiscal 2010, the majority of our laboratory operations in the U.S. were fully in compliance with 21 CFR Part 11, in our analytical, bioanalytical, toxicology, lab information management, and document management systems. Systems compliant with 21 CFR Part 11 were formally validated and released for use in regulated studies.

We manage our business systems through the use of an Enterprise Resource Planning ("ERP") system. We are continually refining and adjusting our ERP system to improve efficiency, provide better management tools and address changes in our business. These changes are appropriately documented and tested before implementation. We also test these systems in connection with management's annual review of our internal control systems. Management's assessment and report on internal controls over financial reporting is included in Item 9A.

Controlled, Hazardous, and Environmentally Threatening Substances

Some of our development and testing activities are subject to the Controlled Substances Act administered by the Drug Enforcement Agency ("DEA"), which strictly regulates all narcotic and habit-forming substances. We maintain restricted-access facilities and heightened control procedures for projects involving such substances due to the level of security and other controls required by the DEA. In addition, we are subject to other federal and state regulations concerning such matters as occupational safety and health and protection of the environment.

Our U.S. laboratories are subject to licensing and regulation under federal, state and local laws relating to hazard communication and employee right-to-know regulations, the handling and disposal of medical specimens and hazardous waste, as well as the safety and health of laboratory employees. All of our laboratories are subject to applicable federal and state laws and regulations relating to the storage and disposal of all laboratory specimens, including the regulations of the Environmental Protection Agency, the Department of Transportation, the National Fire Protection Agency and the Resource Conservation and Recovery Act. Although we believe that we are currently in compliance in all material respects with such federal, state and local laws, failure to comply could subject us to denial of the right to conduct business, fines, criminal penalties and other enforcement actions.

The regulations of the U.S. Department of Transportation, the U.S. Public Health Service and the U.S. Postal Service apply to the surface and air transportation of laboratory specimens. Our laboratories also comply with the International Air Transport Association regulations which govern international shipments of laboratory specimens.

Furthermore, when materials are sent to a foreign country, the transportation of such materials becomes subject to the laws, rules and regulations of such foreign country.

Safety

In addition to comprehensive regulation of safety in the workplace, the Occupational Safety and Health Administration has established extensive requirements relating to workplace safety for health care employers whose workers may be exposed to blood-borne pathogens such as HIV and the hepatitis B virus. These regulations, among other things, require work practice controls, protective clothing and equipment, training, medical follow-up, vaccinations and other measures designed to minimize exposure to chemicals, and transmission of blood-borne and airborne pathogens. Furthermore, relevant employees receive initial and periodic training focusing on compliance with applicable hazardous materials regulations and health and safety guidelines.

HIPAA

The U.S. Department of Health and Human Services has promulgated final regulations under the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") that govern the disclosure of confidential medical information in the United States. We have had a global privacy policy in place since January 2001 and believe that we are in compliance with the current European Union and HIPAA requirements. We continue to monitor our compliance with these regulations, and we intend to take appropriate steps to ensure compliance as these and other privacy regulations are revised or come into effect.

Product Liability and Insurance

We maintain product liability and professional errors and omissions liability insurance, providing approximately \$3.0 million in coverage on a claims-made basis. Additionally, in certain circumstances, we seek to manage our liability risk through contractual provisions with clients requiring us to be indemnified by the client or covered by the client's product liability insurance policies. Also, in certain types of engagements, we seek to limit our contractual liability to clients to the amount of fees received. The contractual arrangements are subject to negotiation with clients, and the terms and scope of such indemnification, liability limitation and insurance coverage vary by client and project.

Research and Development

In fiscal 2010 and 2009, we spent \$546 and \$762, respectively, on research and development. Separate from our contract research services business, we maintain applications research and development to enhance our products business.

Expenditures cover hardware and software engineering costs, laboratory supplies, labor, prototype development and laboratory demonstrations of new products and applications for those products.

Intellectual Property

We believe that our patents, trademarks, copyrights and other proprietary rights are important to our business and, accordingly, we actively seek protection for those rights both in the United States and abroad. Where we deem it to be an appropriate course of action, we will vigorously prosecute patent infringements. We do not believe, however, that the loss of any one of our patents, trademarks, copyrights or other proprietary rights would be material to our consolidated revenues or earnings.

We currently hold three federally registered trademarks, as well as one copyright registration for software. We also have two pending patents, one on the Dried Blood Spot (DBS) sampling card for the Culex Automated Blood Sampling Instrumentation and the second for the No Blood Waste technology also for the Culex instrument. The former (DBS) reduces the cost of bio-sample collection, shipment and storage and the latter is important for precisely sampling of bio-fluids of very small volume from animals such as mice. We also generate client value through continuing client support, hardware and software upgrades, system reliability and accuracy. In addition to these formal intellectual property rights, we rely on trade secrets, unpatented know-how and continuing applications research which we seek to protect through means of reasonable business procedures, such as confidentiality agreements. We believe that the greatest value that we generate for our clients comes from these trade secrets, know-how and applications research.

Raw Materials

There are no specialized raw materials that are particularly essential to our business. We have a variety of alternative suppliers for our essential components.

Employees

At September 30, 2010, we had 233 full-time employees and 15 part-time employees. All employees enter into confidentiality agreements intended to protect our proprietary information. We believe that our relations with our employees are good. None of our employees are represented by a labor union. Our performance depends on our ability to attract and retain qualified professional, scientific and technical staff. The level of competition among employers for skilled personnel is high. We believe that our employee benefit plans enhance employee morale, professional commitment and work productivity and provide an incentive for employees to remain with the Company.

Executive Officers of the Registrant

The following table illustrates information concerning the persons who served as our executive officers as of September 30, 2010. Except as indicated in the following paragraphs, the principal occupations of these persons have not changed in the past three years. Officers are elected annually at the annual meeting of the board of directors.

Name	Age	Position
Anthony S. Chilton, Ph.D.	54	President, Chief Executive Officer
Michael R. Cox	63	Vice President, Finance; Chief Financial and Administrative Officer; Treasurer
Alberto Hidalgo	45	Vice President, Business Development and Marketing
Craig S. Bruntlett, Ph.D.	61	Senior Vice President, Instruments Division
Lina L. Reeves-Kerner	59	Senior Vice President, Human Resources

Anthony S. Chilton, Ph.D. was named as the Chief Executive Officer, effective May 13, 2010. Dr. Chilton had previously served as Chief Operating Officer since December 1, 2008 and interim President since January 27, 2010. Dr. Chilton has over 30 years of experience as a scientist and executive in leading life sciences companies in England, Canada and the United States. For the two years prior to joining the Company, Dr. Chilton was in charge of early development programs at Atherogenics, Inc. of Alpharetta, Ga. In the two years prior to that, Dr. Chilton provided consulting and advisory services to various pharmaceutical companies. Prior to that, he was Vice President of the Biopharmaceutical Development Division of Cardinal Health Inc., which he joined through a predecessor company in 1998 that was acquired by Cardinal in 2002. Previously, Dr. Chilton spent three years with life sciences companies in Canada, prior to which he held positions in his native United Kingdom. Dr. Chilton received his bachelor's degree in Chemistry from the University of East Anglia in 1981, and his Ph.D. in Analytical Chemistry from the University of Hertfordshire in 1993.

Michael R. Cox has been Vice President, Finance, Chief Financial Officer and Treasurer since April 2004. In October 2007, he assumed the additional duties of Chief Administrative Officer. He was Vice President, Finance and CFO of Integrity Pharmaceutical Corporation, a private specialty pharmaceutical company, from October 2003 until its acquisition and merger in March 2004. Prior to that he was Senior Vice President, Finance of InterGen Company, a private biotech manufacturing and research products company, from 1997 until its acquisition in 2001, and continued with the acquirer, Serologicals Corporation, on special projects until joining Integrity. Prior to that, Mr. Cox held various executive positions in two environmental services firms and an investment firm. He was a partner in Touche Ross & Co., where he began his career after obtaining a BS in business administration from the University of North Carolina.

Alberto Hidalgo was hired as the Vice President of Business Development and Marketing, effective August 18, 2010. Mr. Hidalgo has over 15 years of senior-level sales experience in both domestic and international markets including 13 years in the CRO Market. Most recently he consulted with companies to develop and implement new sales and marketing strategies. Prior to that he served as Area Director of Sales with Covance Central Laboratory Services and held various positions including Director of Sales, for Eli Lilly Export, Puerto Rico. He has a strong history of developing new business relationships and sales strategies resulting in exceptional sales growth.

Craig S. Bruntlett, Ph.D. has been Senior Vice President of the Instruments Division since September 2005. Prior to that, he was Senior Vice President of International Sales from 1999. From 1992 to 1999 he was Vice President, Electrochemical Products. From 1980 to 1990, Dr. Bruntlett was Director of New Products Development for the Company. Dr. Bruntlett has a Bachelor of Arts degree in Chemistry and Mathematics from St. Cloud State University in Minnesota and a Ph.D. in Chemistry from Purdue University.

Lina L. Reeves-Kerner has been Vice President, Human Resources since 1995 and is responsible for the administrative support functions of the Company, including shareholder relations, human resources and community relations. From 1980 to 1990, Ms. Reeves-Kerner served as an Administrative Assistant with the Company. Ms. Reeves-Kerner has a Bachelor of Science degree in Business Administration from Indiana Wesleyan University.

Investor Information

We file various reports with, or furnish them to, the Securities and Exchange Commission (the "SEC"), including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to such reports. These reports are available free of charge upon written request or by visiting www.BASInc.com/invest. Other media inquiries and requests for reports or investor's kits should be directed to:

Corporate Communications Director, Corporate Center

2701 Kent Avenue, West Lafayette, IN 47906 USA

Inquiries from shareholders, security analysts, portfolio managers, registered representatives and other interested parties should be directed to:

BASi Investor Relations, NASDAQ: BASi

Phone 765-463-4527, Fax 765-497-1102,

basi@BASInc.com, www.BASInc.com

ITEM 1A - RISK FACTORS

Our business is subject to many risks and uncertainties, which may affect our future financial performance. If any of the events or circumstances described below occurs, our business and financial performance could be adversely affected, our actual results could differ materially from our expectations and the market value of our stock could decline. The risks and uncertainties discussed below are not the only ones we face. There may be additional risks and uncertainties not currently known to us or that we currently do not believe are material that may adversely affect our business and financial performance.

We have limited ability to raise additional cash.

Substantially all of our assets are encumbered as security for our existing indebtedness. It could be difficult to raise additional debt without additional collateral for security. There is also a limited market for our common shares, which could make it difficult to issue additional equity. It could therefore be difficult to raise additional cash if our revolving line of credit and operations do not generate sufficient cash to fund our operations.

Noncompliance with debt covenants contained in our credit agreements could adversely affect our ability to borrow under our credit agreements and could ultimately render a substantial portion of our outstanding indebtedness immediately due and payable.

Certain of the Company's credit agreements contain certain affirmative and negative financial covenants. A breach of any of these covenants or our inability to comply with any required financial ratios could result in a default under one or more credit agreements, unless we are able to obtain the necessary waivers or amendments to the credit agreements. Upon the

occurrence of an event of default that is not waived, and subject to any appropriate cure periods, the lenders under the affected credit agreements could elect to exercise any of their available remedies, which may include the right to not lend any additional amounts to us or, in certain instances, to declare all outstanding borrowings, together with accrued interest and other fees, to be immediately due and payable. If we are unable to repay the borrowings with respect to such credit facility when due the lenders could be permitted to proceed against their collateral. The election to exercise any such remedy could have a material adverse effect on our business and financial condition.

The global credit crisis and market downturn has had a negative impact on our ability to obtain additional financing. The inability to obtain additional financing could have a significant adverse effect on our operations.

The global credit crisis destabilized the global economy and adversely impacted consumer confidence and spending. We believe this global credit crisis has also negatively impacted our ability to obtain additional financing. Our inability to obtain additional financing could have a significant adverse effect on our operations. Uncertainty about current global economic conditions could also continue to increase the volatility of the Company's stock price.

Although we currently meet the listing requirements for the NASDAQ Capital Market, our common stock could be de-listed from the NASDAQ Capital Market.

The National Association of Securities Dealers, Inc. has certain standards for the continued listing of a security on The NASDAQ Capital Market. These standards require, among other things, that a listed issuer have either (i) listed securities with a market value of at least \$1.0 million and (ii) a bid price of at least \$1 per share, and either (i) minimum stockholders' equity of \$2.5 million, (ii) net income from continuing operations of \$500,000 in the most recently completed fiscal year or in two of the three most recently completed fiscal years, or (iii) market value of the listed securities of at least \$35.0 million.

If we are unsuccessful in maintaining our NASDAQ listing, then we may pursue listing and trading of our common stock on the Over-The-Counter Bulletin Board or another securities exchange or association with different listing standards than NASDAQ. We anticipate the change in listings may result in a reduction in some or all of the following, each of which could have a material adverse effect on our shareholders:

- the liquidity of our common stock;
- the market price of our common stock;
- our ability to obtain financing for the continuation of our operations;
- the number of institutional and general investors that will consider investing in our common stock;
- the number of investors in general that will consider investing in our common stock;
- the number of market makers in our common stock;
- the availability of information concerning the trading prices and volume of our common stock; and
- the number of broker-dealers willing to execute trades in shares of our common stock.

Our business is affected by macroeconomic conditions.

Various macroeconomic factors could affect our business and the results of our operations. For instance, slower economic activity, inflation, volatility in foreign currency exchange rates, decreased consumer confidence and other factors could increase our business costs, lower our revenues or affect the ability of our customers to purchase and pay for our products and services. Interest rates and the liquidity of the credit markets could also affect the value of our investments.

A reduction in research and development budgets at pharmaceutical and biotechnology companies may adversely affect our business.

Our customers include researchers at pharmaceutical and biotechnology companies. Our ability to continue to grow and win new business is dependent in large part upon the ability and willingness of the pharmaceutical and biotechnology industries to continue to spend on research and development and to outsource the products and services we provide. Fluctuations in the research and development budgets of these researchers and their organizations could have a significant effect on the demand for our products and services. Research and development budgets fluctuate due to changes in available resources, mergers of pharmaceutical and biotechnology companies, spending priorities and institutional budgetary policies. Our business could be adversely affected by any significant decrease in life sciences research and development expenditures by pharmaceutical and biotechnology companies. Similarly, economic factors and industry trends that affect our clients in these industries also affect our business.

Since October 1, 2008, we have seen evidence that suggests that many customers have reduced their research and development budgets. We believe that this is in connection with the general economic slowdown. While this condition continues, our revenues will be negatively impacted.

Our future success depends on our ability to keep pace with rapid technological changes that could make our services and products less competitive or obsolete.

The biotechnology, pharmaceutical and medical device industries generally, and contract research services more specifically, are subject to increasingly rapid technological changes. Our competitors or others might develop technologies, services or products that are more effective or commercially attractive than our current or future technologies, services or products, or that render our technologies, services or products less competitive or obsolete. If competitors introduce superior technologies, services or products and we cannot make enhancements to ours to remain competitive, our competitive position, and in turn our business, revenues and financial condition, would be materially and adversely affected.

We operate in a highly competitive industry.

The CRO services industry is highly competitive. We often compete for business not only with other, often larger and better capitalized, CRO companies, but also with internal discovery and development departments within our clients, some of which are large pharmaceutical and biotechnology companies with greater resources than we have. If we do not compete successfully, our business will suffer. The industry is highly fragmented, with numerous smaller specialized companies and a handful of full-service companies with global capabilities much larger than ours. Increased competition might lead to price and other forms of competition that might adversely affect our operating results. As a result of competitive pressures, our industry experienced consolidation in recent years. This trend is likely to produce more competition among the larger companies for both clients and acquisition candidates. In addition, there are few barriers to entry for smaller specialized companies considering entering the industry. Because of their size and focus, these companies might compete effectively against larger companies such as us, which could have a material adverse impact on our business.

The loss of our key personnel could adversely affect our business.

Our success depends to a significant extent upon the efforts of our senior management team and other key personnel. The loss of the services of such personnel could adversely affect our business. Also, because of the nature of our business, our success is dependent upon our ability to attract, train, manage and retain technologically qualified personnel. There is substantial competition for qualified personnel, and an inability to recruit or retain qualified personnel may impact our ability to grow our business and compete effectively in our industry.

Any failure by us to comply with existing regulations could harm our reputation and operating results.

Any failure on our part to comply with existing regulations could result in the termination of ongoing research or the disqualification of data for submission to regulatory authorities. For example, if we were to fail to properly monitor compliance with study protocols, the data collected could be disqualified. If this were to happen, we could be contractually required to repeat a study at no further cost to the customer, but at substantial cost to us. This would harm our reputation, our prospects for future work and our operating results. Furthermore, the issuance of a notice from the FDA based on a finding of a material violation by us of good clinical practice, good laboratory practice or good manufacturing practice requirements could materially and adversely affect our business and financial performance.

Our business uses biological and hazardous materials, which could injure people or violate laws, resulting in liability that could adversely impact our financial condition and business.

Our activities involve the controlled use of potentially harmful biological materials, as well as hazardous materials, chemicals and various radioactive compounds. We cannot completely eliminate the risk of accidental contamination or injury from the use, storage, handling or disposal of these materials. In the event of contamination or injury, we could be held liable for damages that result, and any liability could exceed our insurance coverage and ability to pay. Any contamination or injury could also damage our reputation, which is critical to getting new business. In addition, we are subject to federal, state and local laws and regulations governing the use, storage, handling and disposal of these materials and specified waste products. The cost of compliance with these laws and regulations is significant and if changes are made to impose additional requirements, these costs could increase and have an adverse impact on our financial condition and results of operations.

The majority of our customers' contracts can be terminated upon short notice.

Most of our contracts for CRO services are terminable by the client upon 30 to 90 days' notice. Clients terminate or delay their contracts for a variety of reasons, including but not limited to:

- products being tested fail to satisfy safety requirements;
- products have undesired clinical results;
- the client decides to forego a particular study;
- inability to enroll enough patients in the study;
- inability to recruit enough investigators;
- production problems cause shortages of the drug; and
- actions by regulatory authorities.

The loss, reduction in scope or delay of a large contract or the loss or delay of multiple contracts could materially adversely affect our business, although our contracts frequently entitle us to receive the costs of winding down the terminated projects, as well as all fees earned by us up to the time of termination. Some contracts also entitle us to a termination fee.

We may bear financial risk if we under price our contracts or overrun cost estimates.

Since some of our contracts are structured as fixed price or fee-for-service, we bear the financial risk if we initially under price our contracts or otherwise overrun our cost estimates. Such under pricing or significant cost overruns could have a material adverse effect on our business, results of operations, financial condition, and cash flows.

Our Products business depends on our intellectual property.

Our products business is dependent, in part, on our ability to obtain patents in various jurisdictions on our current and future technologies and products, to defend our patents and protect our trade secrets and to operate without infringing on the proprietary rights of others. There can be no assurance that our patents will not be challenged by third parties or that, if challenged, those patents will be held valid. In addition, there can be no assurance that any technologies or products developed by us will not be challenged by third parties owning patent rights and, if challenged, will be held not to infringe on those patent rights. The expense involved in any patent litigation can be significant. We also rely on unpatented proprietary technology, and there can be no assurance that others will not independently develop or obtain similar products or technologies.

We might incur substantial expense to develop products that are never successfully developed and commercialized.

We have incurred and expect to continue to incur substantial research and development and other expenses in connection with our products business. The potential products to which we devote resources might never be successfully developed or commercialized by us for numerous reasons, including:

- inability to develop products that address our customers' needs;
- competitive products with superior performance;
- patent conflicts or unenforceable intellectual property rights;

- demand for the particular product; and
- other factors that could make the product uneconomical.

Incurring significant expenses for a potential product that is not successfully developed and/or commercialized could have a material adverse effect on our business, financial condition, prospects and stock price.

Providing CRO services creates a risk of liability.

In certain circumstances, we seek to manage our liability risk through contractual provisions with clients requiring us to be indemnified by the clients or covered by the clients' product liability insurance policies. Although most of our clients are large, well-capitalized companies, the financial performance of these indemnities is not secured. Therefore, we bear the risk that the indemnifying party may not have the financial ability to fulfill its indemnification obligations or the liability would exceed the amount of applicable insurance. Furthermore, we could be held liable for errors and omissions in connection with the services we perform. There can be no assurance that our insurance coverage will be adequate, or that insurance coverage will continue to be available on acceptable terms, or that we can obtain indemnification arrangements or otherwise be able to limit our liability risk.

We may expand our business through acquisitions.

We occasionally review acquisition candidates and acquisitions which we have already made. We have faced substantial problems integrating acquisitions in the past. Factors which may affect our ability to grow successfully through acquisitions include:

- inability to obtain financing due to our financial condition and recent performance;
- difficulties and expenses in connection with integrating the acquired companies and achieving the expected benefits;
- diversion of management's attention from current operations;
- the possibility that we may be adversely affected by risk factors facing the acquired companies;
- acquisitions could be dilutive to earnings, or in the event of acquisitions made through the issuance of our common stock to the shareholders of the acquired company, dilutive to the percentage of ownership of our existing stockholders;
- potential losses resulting from undiscovered liabilities of acquired companies not covered by the indemnification we may obtain from the seller; and
- loss of key employees of the acquired companies.

Changes in government regulation or in practices relating to the pharmaceutical industry could change the need for the services we provide.

Governmental agencies throughout the world, but particularly in the United States, strictly regulate the drug development process. Our business involves helping pharmaceutical and biotechnology companies comply with the regulatory drug approval process. Changes in regulation, such as a relaxation in regulatory requirements or the introduction of simplified drug approval procedures, or an increase in regulatory requirements that we have difficulty satisfying, or that make our services less competitive, could substantially change the demand for our services. Also, if the government increases efforts to contain drug costs and pharmaceutical and biotechnology company profits from new drugs, our customers may spend less, or reduce their growth in spending on research and development.

Privacy regulations could increase our costs or limit our services.

The US Department of Health and Human Services has issued regulations under the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"). These regulations demand greater patient privacy and confidentiality. Some state governments are considering more stringent regulations. These regulations might require us to increase our investment in security or limit the services we offer. We could be found legally liable if we fail to meet existing or proposed regulation on privacy and security of health information.

We may be affected by health care reform.

In March 2010, the United States Congress enacted health care reform legislation intended over time to expand health insurance coverage and impose health industry cost containment measures. This legislation may significantly impact the pharmaceutical and biotechnology industries. In addition, the U.S. Congress, various state legislatures and European and Asian governments may consider various types of health care reform in order to control growing health care costs. We are presently uncertain as to the effects of the recently enacted legislation on our business and are unable to predict what legislative proposals will be adopted in the future, if any.

Implementation of health care reform legislation may have certain benefits but also may contain costs that could limit the profits that can be made from the development of new drugs. This could adversely affect research and development expenditures by pharmaceutical and biotechnology companies, which could in turn decrease the business opportunities available to us both in the United States and abroad. In addition, new laws or regulations may create a risk of liability, increase our costs or limit our service offerings.

We rely on air transportation to serve our customers.

Our laboratories and certain of our other businesses are heavily reliant on air travel for transport of samples and other material, products and people. A significant disruption to the air travel system, or our access to it, could have a material adverse effect on our business.

We have experienced periods of losses on our operating activities.

Our overall strategy includes increasing revenue and reducing/controlling operating expenses. We have concentrated our efforts in ongoing, Company-wide efficiency activities intended to increase productivity and reduce costs including personnel reductions, reduction or elimination of non-personnel expenses and realigning and streamlining operations. We cannot assure that our efforts will result in any increased profitability, or if our efforts result in profit, that profits will continue, for any meaningful period of time.

We depend on the pharmaceutical and biotechnology industries.

Over the past several years, some areas of our businesses have grown significantly as a result of the increase in pharmaceutical and biotechnology companies outsourcing their preclinical and clinical research support activities. We believe that due to the significant investment in facilities and personnel required to support drug development, pharmaceutical and biotechnology companies look to outsource some or all of those services. By doing so, they can focus their resources on their core competency of drug discovery, while obtaining the outsourced services from a full-service provider like us. Our revenues depend greatly on the expenditures made by these pharmaceutical and biotechnology companies in research and development. In some instances, companies in these industries are reliant on their ability to raise capital in order to fund their research and development projects. Accordingly, economic factors and industry trends that affect our clients in these industries also affect our business. If companies in these industries were to reduce the number of research and development projects they conduct or outsource, our business could be materially adversely affected.

Unfavorable general economic conditions may materially adversely affect our business.

Unfavorable global economic conditions, including the recent recession in the United States and the recent financial crisis affecting the banking system and financial markets, could negatively affect our business. While it is difficult for us to predict the impact of general economic conditions on our business, these conditions could reduce customer demand for some of our services, which could cause our revenue to decline. Also, our customers, particularly smaller biotechnology companies which are especially reliant on the credit and capital markets, may not be able to obtain adequate access to credit or equity funding, which could affect their ability to make timely payments to us. Moreover, we rely on credit facilities to provide working capital to support our operations. We regularly evaluate alternative financing sources. Further changes in the commercial credit market or in the financial stability of our creditors may impact the ability of our creditors to provide additional financing. In addition, the financial condition of our credit facility providers, which is beyond our control, may adversely change. Any decrease in our access to borrowings under our credit facility, tightening of lending standards and other changes to our sources of liquidity could adversely impact our ability to obtain the financing we need to continue operating the business in our current manner. For these reasons, among others, if the economic conditions stagnate or decline, our operating results and financial condition could be adversely affected.

ITEM 1B- UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2-PROPERTIES

We operate in the following locations, all of which we own, except as otherwise indicated:

- **Our principal executive offices** are located at 2701 Kent Avenue, West Lafayette, Indiana 47906, and constitute multiple buildings with approximately 117,000 square feet of operations, manufacturing, and administrative space. Both the services segment and the products segment conduct operations at this facility. The buildings have been financed by mortgages.
- **BAS Evansville Inc.**, is in Evansville, Indiana. We occupy 10 buildings with roughly 92,000 square feet of operating and administrative space on 52 acres. Most of this site is engaged in preclinical toxicology testing of developmental drugs in animal models. A recent addition was financed by a mortgage.
- **Bioanalytical Systems, Ltd.** is in Warwickshire, UK. This facility contains our contract services and instruments operations for laboratories, sales and technical support services in the U.K. During fiscal 2008, we moved into a newly constructed laboratory space in the same office park as the previous leased space. Our space of approximately 8,000 square feet is specifically designed for laboratory use and will allow us to potentially double capacity over the previous space.
- **BASi Northwest Laboratory** is in McMinnville, Oregon, approximately 40 miles from Portland. We lease roughly 8,600 square feet of laboratory and administrative space, principally used for bioanalytical services.

We believe that our facilities are adequate for our operations and that suitable additional space will be available if and when needed. The terms of any mortgages and leases for the above properties are detailed in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Notes 6 and 7 to the Notes to Consolidated Financial Statements.

ITEM 3-LEGAL PROCEEDINGS

We currently do not have any material pending legal proceedings.

ITEM 4-SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

PART II

ITEM 5-MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

As of September 30, 2010, our common stock was traded on NASDAQ Capital Markets under the symbol "BASi". The following table sets forth the quarterly high and low sales price per share of our common stock from October 1, 2008 through September 30, 2010.

	<u>High</u>	<u>Low</u>
Fiscal Year Ended September 30, 2009		
First Quarter	\$ 5.13	\$ 1.00
Second Quarter	1.82	0.60
Third Quarter	1.81	0.70
Fourth Quarter	1.15	0.60
Fiscal Year Ended September 30, 2010		
First Quarter	\$ 2.42	\$ 0.81
Second Quarter	1.42	0.65
Third Quarter	1.50	0.74
Fourth Quarter	1.22	0.77

Holdings

There were approximately 2,700 holders of record of our common stock as of January 7, 2011.

Dividends

We did not pay any cash dividends on our common shares in fiscal years 2009 or 2010 and do not anticipate paying cash dividends in the foreseeable future.

Equity Compensation Plan Information

We maintain a stock option plan that allows for the granting of options to certain key employees and directors. The following table gives information about equity awards under our stock option plans (in thousands except per share amounts):

<u>Plan Category</u>	<u>Number of Securities to be Issued upon Exercise of Outstanding Options</u>	<u>Weighted Average Exercise Price per share of Outstanding Options</u>	<u>Number of Securities Remaining Available for Future Issuance under the Equity Compensation Plan (Excluding Securities Reflected in First Column)</u>
Equity compensation plans approved by security holders	680	\$2.59	3
Equity compensation plans not approved by security holders ⁽¹⁾	<u>25</u>	\$4.58	<u>--</u>
Total	705	\$2.66	3

(1) Includes option to purchase 25 shares at \$4.58 granted to Michael R. Cox on April 1, 2004.

For additional information regarding our stock option plans approved by security holders, please see Note 8 to the Notes to Consolidated Financial Statements included in Item 8 of this report.

ITEM 6 – SELECTED FINANCIAL DATA

Not applicable.

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ITEM 7-MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This report contains statements that constitute forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Those statements appear in a number of places in this Report and may include statements regarding our intent, belief or current expectations with respect to, but are not limited to (i) our strategic plans; (ii) trends in the demand for our products and services; (iii) trends in the industries that consume our products and services; (iv) our ability to develop new products and services; (v) our ability to make capital expenditures and finance operations; (vi) global economic conditions, especially as they impact our markets; (vii) our cash position; and (viii) our ability to integrate a new marketing team. Readers are cautioned that any such forward looking statements are not guarantees of future performance and involve risks and uncertainties. Actual results may differ materially from those in the forward looking statements as a result of various factors, many of which are beyond our control.

In addition, we have based these forward-looking statements on our current expectations and projections about future events. Although we believe that the assumptions on which the forward-looking statements contained herein are based are reasonable, any of those assumptions could prove to be inaccurate, and as a result, the forward-looking statements based upon those assumptions also could be incorrect. The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and notes thereto included or incorporated by reference elsewhere in this Report. In addition to the historical information contained herein, the discussions in this Report may contain forward-looking statements that may be affected by risks and uncertainties, including those discussed in Item 1A, Risk Factors. Our actual results could differ materially from those discussed in the forward-looking statements.

The following amounts are in thousands unless otherwise indicated.

Business Overview

We provide contract drug development services and research equipment to many leading global pharmaceutical, medical research and biotechnology companies and institutions that advance the drug discovery and development process. We offer an efficient, variable-cost alternative to our clients' internal product development programs. Outsourcing development work to reduce overhead and speed drug approvals through the Food and Drug Administration ("FDA") is an established alternative to in-house development among pharmaceutical companies. We derive our revenues from sales of our research services and drug development tools, both of which are focused on determining drug safety and efficacy. Since its formation in 1974, the Company's products and services have been utilized in the research of drugs to treat central nervous system disorders, diabetes, osteoporosis and other diseases.

We support the preclinical and clinical development needs of researchers and clinicians for small molecule and large biomolecule drug candidates. We believe our scientists have the skills in analytical instrumentation development, chemistry, computer software development, physiology, medicine, analytical chemistry and toxicology to make the services and products we provide increasingly valuable to our current and potential clients. Our principal clients are scientists engaged in analytical chemistry, drug safety evaluation, clinical trials, drug metabolism studies, pharmacokinetics and basic neuroscience research at many of the small start-up biotechnology companies and the largest global pharmaceutical companies.

Our business is largely dependent on the level of pharmaceutical and biotechnology companies' efforts in new drug discovery and approval. Our services segment is a direct beneficiary of these efforts, through outsourcing by these companies of research work. Our products segment is an indirect beneficiary of these efforts, as increased drug development leads to capital expansion, providing opportunities to sell the equipment we produce and the consumable supplies we provide that support our products.

Developments within the industries we serve have a direct, and sometimes material, impact on our operations. Currently, many large pharmaceutical companies have major "block-buster" drugs that are nearing the end of their patent protections. This puts significant pressure on these companies both to develop new drugs with large market appeal, and to re-evaluate their cost structures and the time-to-market of their products. Contract research organizations ("CRO's") have benefited from these developments, as the pharmaceutical industry has turned to out-sourcing to both reduce fixed costs and to increase the speed of research and data development necessary for new drug applications. The number of significant drugs that have reached or are nearing the end of their patent protection has also benefited the generic drug industry. Generic drug companies provide a significant source of new business for CRO's as they develop, test and manufacture their generic compounds.

A significant portion of innovation in the pharmaceutical industry is now being driven by biotech and small, venture capital funded, drug development companies. Many of these companies are "single-molecule" entities, whose success depends on one innovative compound. While several of the biotech companies have reached the status of major pharmaceuticals, the industry is still characterized by smaller entities. These developmental companies generally do not have the resources to perform much of the research within their organizations, and are therefore dependent on the CRO industry for both their research and for guidance in preparing their FDA submissions. These companies have provided significant new opportunities for the CRO industry, including us. They do, however, provide challenges in selling, as they frequently have only one product in development, which causes CRO's to be unable to develop a flow of projects from a single company. These companies may expend all their available funds and cease operations prior to fully developing a product. Additionally, the funding of these companies is subject to investment market fluctuations, which changes as the risk profiles and appetite of investors change.

Research services are capital intensive. The investment in equipment and facilities to serve our markets is substantial and continuing. While our physical facilities are adequate to meet market needs for the near term, rapid changes in automation, precision, speed and technologies necessitate a constant investment in equipment and software to meet market demands. We are also impacted by the heightened regulatory environment and the need to improve our business infrastructure to support our increasingly diverse operations, which will necessitate additional capital investment. Our ability to generate capital to reinvest in our capabilities, both through operations and financial transactions, is critical to our success. While we are currently committed to fully utilizing recent additions to capacity, sustained growth will require additional investment in future periods. Our financial position could limit our ability to make such investments.

In fiscal 2009, there were several announcements of large mergers in the pharmaceutical industry. Pfizer Inc. and Eli Lilly and Co. have both announced significant acquisitions. Also, Merck and Roche announced mergers with Schering-Plough and Genentech, respectively. We believe that such merger and consolidation activity reduced the demand and increased competition for CRO services and was a distraction for the research and development arms of these companies as they awaited finalization of new drug development portfolios. With the closing of these major mergers, the pharmaceutical industry can now return to focusing on driving drugs and therapies through the development pipeline. We believe that as larger pharmaceutical companies become leaner and more efficient, generally focusing on their core competencies of fundamental research and development and commercialization, they will also continue to be conservative in their staffing and further reduce their in-house expertise. This should lead to reinvigoration of outsourcing as they assess their key internal priorities.

Our primary market, the contract research organization ("CRO") market, is experiencing serious economic pressures. Pharmaceutical development companies have delayed the initiation of CRO studies and reduced their total spending for CRO services. The combination of reduced customer demand, cost containment initiatives pursued by our customers and excess capacity within our industry generally, resulted in significant pricing pressure in 2010. This resulted in a significant negative impact on our revenues for fiscal 2010 as compared to our prior fiscal year. In response, we have taken a number of steps to better support our customers in today's challenging environment, identify new strategies to enhance client satisfaction, improve operating efficiencies and generally strengthen our business model.

Patient Protection and Affordable Care Act

In March 2010, the Patient Protection and Affordable Care Act (the "Act") was enacted by the U.S. Congress and signed into law by the President. The purpose of the legislation is to extend medical insurance coverage to a higher percentage of U.S. citizens. Many of the provisions in the Act have delayed effective dates over the next decade, and will require extensive regulatory guidance. Companies in our principal client industry, pharmaceuticals, will be required under the Act to provide additional discounts on medicines provided under Medicare and Medicaid to assist in the funding of the program; however, government estimates are that over 31 million additional citizens will eventually be covered by medical insurance as a result of the Act, which should expand the markets for their products. It is premature to accurately predict the impacts these and other competing forces will have on our basic client market, drug development. Additionally, the Act does not directly impact spiraling health care costs in the U.S., which could lead to additional legislation impacting our target markets in the future.

We maintain an optional health benefits package for all of our full-time employees, which is largely paid by our contributions with employees paying a portion of the cost, generally less than 20% of the total. Based on our current understanding of the Act, we do not anticipate significant changes to our programs or of their costs to the Company or our employees as a result of the Act.

We have experienced increases in the costs of our health benefit programs in excess of inflation rates, and expect those trends to continue. We are exploring options in plan funding, delivery of benefits and employee wellness in our continuing effort to obtain maximum benefit for our health care expenditures, while maintaining quality programs for our employees. We do not expect these efforts to have a material financial impact on the Company.

Executive Overview

Our revenues are dependent on a relatively small number of industries and clients. As a result, we closely monitor the market for our services. In fiscal 2010, we experienced lower demand for our products and services and significant project delays. We believe this was primarily due to the current general economic conditions and the global financial crisis, increased competition, and consolidation of several large pharmaceutical and biotechnology companies, which delayed decisions on research and development spending. Despite these conditions and uncertainties about the level of and delays in R&D spending by pharmaceutical and biotechnology companies, we continue to believe in the fundamentals of the market and that it will rebound in future periods. For fiscal 2011, we plan to focus on sales execution, operational performance and building strategic partnerships with pharmaceutical and biotechnology companies.

We review various metrics to evaluate our financial performance, including period-to-period changes in new orders, revenue, margins and earnings. In fiscal 2010, we had new authorizations of \$38.4 million, an increase of 14.3% over the same period in 2009. Though the new authorizations increased, pricing declines along with study delays contributed to an overall decline in revenues of approximately 10% versus the prior fiscal year. Gross margin declined as well from the prior fiscal year, but earnings increased in the current fiscal year due to savings in operating expenses of approximately 24%. For a detailed discussion of our revenue, margins, earnings and other financial results for the fiscal year ended September 30, 2010, see “Results of Operations – 2010 Compared to 2009” below.

As of September 30, 2010, we had \$1,422 of cash and cash equivalents as compared to \$870 of cash and cash equivalents at the end of fiscal 2009. In fiscal 2010, we generated \$2,441 in cash from operations. Our accounts receivable and unbilled revenues balances decreased \$650 from the prior fiscal year primarily due to the decline in sales and increased efforts to collect outstanding receivables. We plan to continue to monitor accounts receivable and the various factors that affect it, including contract terms, the mix of contracts performed and our success in collecting receivables. We will also continue to limit unnecessary spending, and continue our freeze on wage rates until increases can be supported by improved operations.

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Results of Operations

The following table summarizes the consolidated statement of operations as a percentage of total revenues:

	<u>Year Ended September 30,</u>	
	<u>2010</u>	<u>2009</u>
Service revenue	76.0%	76.0%
Product revenue	<u>24.0</u>	<u>24.0</u>
Total revenue	100.0%	100.0%
Cost of service revenue ^(a)	85.0	86.8
Cost of product revenue ^(a)	<u>41.6</u>	<u>42.2</u>
Total cost of revenue	<u>74.5</u>	<u>76.1</u>
Gross profit	25.5	23.9
Total operating expenses	<u>32.4</u>	<u>38.4</u>
Operating loss	(6.9)	(14.5)
Other expense	<u>(3.6)</u>	<u>(3.3)</u>
Loss before income taxes	(10.5)	(17.8)
Income tax benefit	<u>(1.2)</u>	<u>(0.6)</u>
Net loss	<u>(9.3)%</u>	<u>(17.2)%</u>

(a) Percentage of service and product revenues, respectively.

2010 Compared to 2009

Service and Product Revenues

Overall, our Services and Product revenues continued to be negatively impacted by the U.S. and European economic recession. Revenues for the year ended September 30, 2010 declined 9.5% to \$28,781 compared to \$31,784 for the year ended September 30, 2009. A substantial portion of the decline was in the first half of the current fiscal year.

Our Services revenue declined 9.5% to \$21,864 compared to \$24,158 for the prior fiscal year primarily as a result of lower bioanalytical analysis, pharmaceutical analysis and toxicology revenues. Our bioanalytical analysis revenues decreased \$904 (a 6.6% decline from fiscal 2009), mainly due to study delays by clients and price declines. While volumes of studies and samples continue to show an increase, pricing still lags pre-recession levels. Our Oregon facility experienced the majority of the decline in bioanalytical analysis revenues, or \$1,049. Likewise, the decrease in toxicology revenues of \$411, or 5.2%, from prior the fiscal year is mainly due to study delays and cancellations. Further, other laboratory services declined from fiscal 2009 by \$979, or 38.8%, due in part to customers bringing these services in house.

	Fiscal Year Ended		<u>Change</u>	<u>%</u>
	September 30,			
	<u>2010</u>	<u>2009</u>		
Bioanalytical analysis	\$ 12,779	\$ 13,683	\$ (904)	-6.6%
Toxicology	7,543	7,954	(411)	-5.2%
Other laboratory services	1,542	2,521	(979)	-38.8%

Sales in our Products segment decreased 9.3% from \$7,626 to \$6,917 when compared to the prior fiscal year. The majority of that decrease stems from lower grant revenue in fiscal 2010 as the grant funded by the NIH expired in January 2010. Also contributing to the decline in Products revenues are lower sales of our Culex automated *in vivo* sampling systems, which declined 3.5% to \$3,150 from \$3,263, and a decline in the sales of our mature analytical instruments, which declined \$186 or 5.7%. Though we continue to experience sluggish demand for higher priced capital assets as customers reduce spending as part of their overall cost savings initiatives, a few customers have begun to release capital funds for larger projects.

	Fiscal Year Ended		<u>Change</u>	<u>%</u>
	September 30,			
	<u>2010</u>	<u>2009</u>		
Culex, in-vivo sampling systems	\$ 3,150	\$ 3,263	\$ (113)	-3.5%
Analytical instruments	3,070	3,256	(186)	-5.7%

Although our revenues for the current fiscal year were less than our prior fiscal year, our revenues increased 16% in the second half of the current fiscal year from the first half. This increase is the result of increased proposal opportunities and acceptance rates for our Service revenues in our current fiscal year as well as slightly increased capital spending by Product customers in the second half of the current fiscal year.

Cost of Revenue

Cost of revenue for the year ended September 30, 2010 was \$21,448 or 74.5% of revenue compared to \$24,180, or 76.1% of revenue for the comparable prior period.

Cost of Service revenue as a percentage of Service revenue decreased to 85.0% in the current fiscal year from 86.8% in the prior year. The principal cause of this decrease was a reduction of our work force in January 2010 and other cost containment measures.

Cost of Product revenue as a percentage of Product revenue in the current fiscal year decreased to 41.6% from 42.2% in the prior fiscal year. This decrease is mainly due to headcount and other expense reductions, as well as a reduction in the cost of obsolete and slow moving inventory in the current fiscal year compared to the cost recognized in the prior fiscal year.

Operating Expenses

Selling expenses for the year ended September 30, 2010 decreased by 19.1% to \$2,665 from \$3,296 for the year ended September 30, 2009. This decrease was primarily driven by a decrease in salary expense resulting from the reduction in work force and other departures, lower commissions due to the decline in sales and reduced spending on marketing. The reduction in marketing expenditures is related to the initial costs of our branding and marketing campaign in fiscal 2009.

Research and development expenses for the year ended September 30, 2010 decreased 28.3% to \$546 from \$762 for the year ended September 30, 2009. The decrease was partially due to a decrease in salaries from the reduction in work force as well as reduced spending on temporary labor, operating supplies and consulting services.

General and administrative expenses for the current fiscal year decreased 20.3% to \$6,119 from \$7,674 for the prior year. The decrease is mainly due to the following: 1) severance expenses for former employees recorded in the first quarter of fiscal 2009 exceeded those recorded in the second quarter of fiscal 2010; 2) a decline in stock based compensation expense as grants became fully vested; and 3) company-wide efforts at cost containment. This decline was after incurring \$216 in the current fiscal year for lease settlement costs.

Other Income/Expense

Other income (expense), net, was \$(1,027) for the year ended September 30, 2010 as compared to \$(1,060) for the year ended September 30, 2009. The primary reason for the decrease is a \$103 non-cash charge on our interest rate swaps in fiscal 2009, slightly offset by increased interest expense from our new line of credit agreement in fiscal 2010.

Income Taxes

Our effective tax rate for continuing operations for the year ended September 30, 2010 was (11.0%) compared to (3.5%) for the prior fiscal year. In fiscal 2009, a valuation allowance was recorded against the entire US deferred income tax balance, adjusting the rate from (36.4%) to (3.5%) due to the uncertainty of the benefit realization. The benefit in fiscal 2010 is the result of resolving an uncertain state tax liability for less than the recorded amount. No net benefits have been provided on taxable losses in the current fiscal year.

Liquidity and Capital Resources

Comparative Cash Flow Analysis

Since inception, our principal sources of cash have been cash flow generated from operations and funds received from bank borrowings and other financings. At September 30, 2010, we had cash and cash equivalents of \$1,422 compared to \$870 at September 30, 2009.

Net cash provided by continuing operating activities was \$2,441 for the year ended September 30, 2010, compared to \$1,999 for the year ended September 30, 2009. The increase in cash provided by operating activities in the current fiscal year partially results from a decrease in our operating loss. Other contributing factors to our cash from operations were \$2,323 of depreciation and amortization, net collections on accounts receivable of \$650, an increase in customer advances of \$1,719 as we booked new business and the recording of a \$216 long-term liability in settlement of a contingent lease liability on our former Baltimore facility. Included in operating activities for fiscal 2009 are non-cash charges of \$2,645 for depreciation and amortization, \$103 recorded to reflect the fair value of our interest rate swaps and \$472 for impairment of goodwill for our UK operations. The impact on operating cash flow of other changes in working capital was not material.

In January 2010, we completed a reduction in work force, through both attrition and terminations, which impacted all areas of operations and reduced our annual compensation expense by approximately 10%.

Investing activities used \$450 in fiscal 2010, primarily for capital expenditures. Our principal investments were for laboratory equipment replacements and upgrades in all of our facilities as well as general building and information technology infrastructure expenditures at all sites. The 46% reduction in capital spending from fiscal 2009 is a result of our efforts to contain cash commitments throughout the organization, funding only necessary expenditures. We intend to increase capital expenditures, particularly for laboratory equipment, in our next fiscal year when financing becomes available to fund our purchases.

Financing activities used \$1,458 in the current fiscal year as compared to \$1,476 used for fiscal 2009. The main use of cash in fiscal 2010 was for long term debt and capital lease payments of \$1,325, as well as net payments on our line of credit of \$564. We also conducted a sale and leaseback of some of our unencumbered laboratory equipment which netted \$431 in cash. In fiscal 2009, our net payments on our line of credit were \$264 with long term debt and capital lease payments of \$1,212.

During fiscal 2009, cash provided by operating activities for discontinued operations of \$588 was mainly due to the collection of outstanding receivables.

Capital Resources

Property and equipment spending totaled \$450 and \$834 in fiscal 2010 and 2009, respectively. The decrease in spending in fiscal 2010 is the result of cash savings initiatives, funding only necessary expenditures. Capital investments for the purchase of additional laboratory equipment are driven by anticipated increases in research services, and by the replacement or upgrading of our equipment. Although we may consider strategic acquisition opportunities, we do not intend to aggressively pursue additional acquisitions until we fully utilize existing capacity.

We have notes payable to Regions Bank (“Regions”) aggregating approximately \$8,147 and a \$3,000 line of credit with Entrepreneur Growth Capital LLC (EGC), which is subject to qualifying collateral that may substantially reduce or eliminate our borrowing capacity at any time. Regions notes payable include three outstanding mortgages on our facilities in West Lafayette and Evansville, Indiana, which total \$7,051. Two of the mortgages mature in November 2012 with an interest rate fixed at 7.1%, while the other matures in February 2011 with an interest rate of 6.1%. In addition to the mortgages, we also have a note payable with Regions totaling \$1,096, maturing December 18, 2010. Interest on this term loan is equal to 6.1%. Monthly payments are \$9 plus interest. The loan is collateralized by real estate at our West Lafayette and Evansville, Indiana locations.

On November 29, 2010, we executed an amendment to loans with Regions. Regions agreed to accept a \$500 principal payment on the note payable with \$1.1 million of principal maturing on December 18, 2010 and a \$500 principal payment on one mortgage with \$1.3 million of principal maturing on February 11, 2011. The principal payments are to be made on or before December 18, 2010 and February 11, 2011, respectively. Thereafter, the unpaid principal on the note payable and the mortgage will then be incorporated into a replacement note maturing in November 1, 2012. The replacement note will bear interest at LIBOR plus 300 basis points (minimum of 4.5%) with monthly principal amortization. See Note 6 to the Consolidated Financial Statements for additional information. On December 17, 2010, we made the \$500 principal payment on the \$1.1 million note.

We have interest rate swap agreements with respect to the note payable and mortgage mentioned in the above paragraph to fix the interest rate at 6.1%. We entered into the derivative transactions to hedge interest rate risk of this debt obligation and not to speculate on interest rates. The notional values of the swaps as of September 30, 2010 and 2009 were \$2,442 and \$2,701, respectively. The fair value of the swaps was determined with a level two analysis. As a result of recent declines in short term interest rates, the swaps had a negative fair value of \$31 at September 30, 2010 and \$103 at September 30, 2009, with the decline in the liability being recorded in our consolidated financial statements as a reduction in interest expense in the current fiscal year and the increase in liability recorded as an increase in interest expense in the prior fiscal year. The terms of the interest rate swaps match the scheduled principal outstanding under the loans. We do not intend to prepay the loans, and expect the swaps to expire under their terms in fiscal 2011 without payment by us. Upon expiration of the swaps, the net fair value recorded in the consolidated financial statements is expected to be zero.

As part of the amendment, Regions also agreed to amend the loan covenants for all of the debt to be more favorable to us beginning with our fiscal quarter ending December 31, 2010. Regions requires us to maintain certain ratios including a fixed charge coverage ratio and total liabilities to tangible net worth ratio. The fixed charge coverage ratio calculation has been adjusted with an ending ratio required of not less than 1.25 to 1.00. Also, the total liabilities to tangible net worth ratio has been adjusted to not greater than 2.10 to 1.00. Provided we comply with the revised covenant ratios, the amendment removes limitations on the Company’s purchase of fixed assets. Based on projections for fiscal 2011, we expect to be in compliance with the adjusted covenants. The first compliance test under this amendment will be on the balance sheet and trailing twelve months at March 31, 2011.

Borrowings under our credit agreements are collateralized by substantially all assets related to our operations and all common stock of our U.S. subsidiaries and 65% of the common stock of our non-United States subsidiaries. Under the terms of our credit agreements, we have agreed to restrict advances to subsidiaries and limit additional indebtedness. The Regions loan agreements both contain cross-default provisions with each other and with the revolving line of credit with EGC described below. At September 30, 2010, we were in compliance with these covenants.

In fiscal 2011, we expect to see slow but continued improvement in the volume of new bookings, but little improvement in pricing. We also expect improved gross profit margins due to the cost controls implemented. Based on our expectation of a small increase in revenue, the availability on our line of credit, and the impact of the cost reductions

implemented, we project that we will have the liquidity required to meet our fiscal 2011 operations and debt obligations. Should operations materially fail to meet our expectations for the coming fiscal year, we may not be able to comply with all of our debt covenants.

Revolving Line of Credit

On January 13, 2010, we entered into a new \$3,000 revolving line of credit agreement (“Credit Agreement”), with EGC, which we use for working capital and other purposes, to replace a line of credit that expired on January 15, 2010. On January 18, 2010, we used this facility to repay our prior line of credit. Borrowings under the Credit Agreement are secured by a blanket lien on our personal property, including certain eligible accounts receivable, inventory, and intellectual property assets, and a second mortgage on our West Lafayette and Evansville real estate. Borrowings are calculated based on 75% of eligible accounts receivable. Under the Credit Agreement, the Company has agreed to restrict advances to subsidiaries, limit additional indebtedness and capital expenditures and comply with certain financial covenants outlined in the Credit Agreement. The initial term of the Credit Agreement terminates January 31, 2011. If we prepay prior to the expiration of the renewal term, then we are subject to an early termination fee equal to the minimum interest charges of \$15 for each of the months remaining until expiration.

Under the Credit Agreement, borrowings bear interest at an annual rate equal to Citibank’s Prime Rate plus five percent (5%), or 8.25% as of September 30, 2010, with minimum interest of \$15 per month. Interest is paid monthly. The line of credit also carries an annual facilities fee of 2% and a 0.2% collateral monitoring fee.

The covenants in the Credit Agreement require that we maintain a minimum tangible net worth of \$9,000. The Credit Agreement also contains cross-default provisions with the Regions loans and any future EGC loans. At September 30, 2010, we were not in compliance with the minimum tangible net worth covenant requirement.

On December 23, 2010, we negotiated an amendment to this Credit Agreement (“Amendment”). As part of the Amendment, the maturity date was extended to January 31, 2013. The Amendment reduced the minimum tangible net worth covenant requirement to \$8,500 and waived all non-compliances with this covenant through the date of the Amendment.

Based on our current business activities and cash on hand, we expect to borrow on our revolving credit facility in fiscal 2011 to finance working capital. To conserve cash, we instituted a freeze on non-essential capital expenditures. As of September 30, 2010, we had \$1,774 of total borrowing capacity with the line of credit, of which \$1,195 was outstanding, and \$1,422 of cash on hand.

We had a decrease in our total borrowing capacity of \$1,226, from \$3,000 to \$1,774, from the fiscal year ended September 30, 2009 primarily as a result of inventories not being included in our current collateral base, whereas they provided \$500 of borrowing base in the prior fiscal year.

The following table summarizes the cash payments under our contractual term debt and other obligations at September 30, 2010 and the effect such obligations are expected to have on our liquidity and cash flows in future fiscal periods (amounts in thousands). The table does not include our revolving line of credit. Additional information on the debt is described in Note 6, Debt Arrangements.

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>After 2015</u>	<u>Total</u>
Notes payable	\$ 1,855	\$ 888	\$ 5,589	\$ —	\$ —	\$ —	\$ 8,332
Capital lease obligations	701	565	159	—	—	—	1,425
Operating leases	<u>435</u>	<u>430</u>	<u>416</u>	<u>413</u>	<u>340</u>	<u>2,579</u>	<u>4,613</u>
	<u>\$ 2,991</u>	<u>\$ 1,883</u>	<u>\$ 6,164</u>	<u>\$ 413</u>	<u>\$ 340</u>	<u>\$ 2,579</u>	<u>\$ 14,370</u>

We anticipate spending approximately \$1.0 million in fiscal 2011 on capital assets, primarily laboratory equipment which will be financed using capital leases.

Inflation

We do not believe that inflation has had a material adverse effect on our business, operations or financial condition.

Critical Accounting Policies

"Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Liquidity and Capital Resources" discusses the consolidated financial statements of the Company, which have been prepared in accordance with accounting principles generally accepted in the United States. Preparation of these financial statements requires management to make judgments and estimates that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosures of contingent assets and liabilities. Certain significant accounting policies applied in the preparation of the financial statements require management to make difficult, subjective or complex judgments, and are considered critical accounting policies. We have identified the following areas as critical accounting policies.

Revenue Recognition

The majority of our service contracts involve the processing of bioanalytical samples for pharmaceutical companies. These contracts generally provide for a fixed fee for each assay method developed or sample processed and revenue is recognized under the specific performance method of accounting. Under the specific performance method, revenue and related direct costs are recognized when services are performed. Other service contracts generally consist of preclinical studies for pharmaceutical companies. Service revenue is recognized based on the ratio of direct costs incurred to total estimated direct costs under the proportional performance method of accounting. Losses on contracts are provided in the period in which the loss becomes determinable. Revisions in profit estimates are reflected on a cumulative basis in the period in which such revisions become known. The establishment of contract prices and total contract costs involves estimates made by the Company at the inception of the contract period. These estimates could change during the term of the contract which could impact the revenue and costs reported in the consolidated financial statements. Projected losses on contracts are provided for in their entirety when known. Revisions to estimates have not been material. Service contract fees received upon acceptance are deferred and classified within customer advances, until earned. Unbilled revenues represent revenues earned under contracts in advance of billings.

Product revenue from sales of equipment not requiring installation, testing or training is recognized upon shipment to customers. One product includes internally developed software and requires installation, testing and training, which occur concurrently. Revenue from these sales is recognized upon completion of the installation, testing and training when the services are bundled with the equipment sale.

Long-Lived Assets, Including Goodwill

Long-lived assets, such as property and equipment, and purchased intangibles subject to amortization, 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 estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Goodwill is tested annually for impairment, and more frequently if events and circumstances indicate that the asset might be impaired, using a two-step process. In the first step, we compare the fair value of each reporting unit, as computed primarily by present value cash flow calculations, to its book carrying value, including goodwill. We do not believe that market value is indicative of the true fair value of the Company mainly due to average daily trading volumes of less than 1%. If the fair value exceeds the carrying value, no further work is required and no impairment loss is recognized. If the carrying value exceeds the fair value, the goodwill of the reporting unit is potentially impaired and we would then complete step 2 in order to measure the impairment loss. In step 2, the implied fair value is compared to the carrying amount of the goodwill. If the implied fair value of goodwill is less than the carrying value of goodwill, we would recognize an impairment loss equal to the difference. The implied fair value is calculated by allocating the fair value of the reporting unit (as determined in step 1) to all of its assets and liabilities (including unrecognized intangible assets) and any excess in fair value that is not assigned to the assets and liabilities is the implied fair value of goodwill.

The discount rate and sales growth rates are the two material assumptions utilized in our calculations of the present value cash flows used to estimate the fair value of the reporting units when performing the annual goodwill impairment test.

Our reporting units with goodwill at September 30, 2010 are Vetronics, Oregon and Evansville, based on the discrete financial information available which is reviewed by management. We utilize a cash flow approach in estimating the fair value of the reporting units, where the discount rate reflects a weighted average cost of capital rate. The cash flow model used to derive fair value is sensitive to the discount rate and sales growth assumptions used. Due to fiscal year 2009 operating losses and lowered expectations for the near future, we performed an impairment test for our UK reporting unit as of June 30, 2009. As a result of this test, we recorded a \$472 impairment loss equal to the total value of the UK goodwill in fiscal 2009.

We performed our annual impairment test for all other reporting units mentioned above at September 30, 2010. Using a discount rate of 22% and a revenue growth rate of 0%, the fair value of our Vetronics, Oregon and Evansville reporting units is greater than the carrying value by approximately \$2,500.

Considerable management judgment is necessary to evaluate the impact of operating and macroeconomic changes and to estimate future cash flows. Assumptions used in our impairment evaluations, such as forecasted sales growth rates and our cost of capital or discount rate, are based on the best available market information. Changes in these estimates or a continued decline in general economic conditions could change our conclusion regarding an impairment of goodwill and potentially result in a non-cash impairment loss in a future period. The assumptions used in our impairment testing could be adversely affected by certain of the risks discussed in "Risk Factors" in Item 1A of this report. There have been no significant events since the timing of our impairment tests that have triggered additional impairment testing.

At September 30, 2010, remaining recorded goodwill was \$1,383, and the net balance of other intangible assets was \$84.

Stock-Based Compensation

We recognize the cost resulting from all share-based payment transactions in our financial statements using a fair-value-based method. We measure compensation cost for all share-based awards based on estimated fair values and recognize compensation over the vesting period for awards. We recognized stock-based compensation related to stock options of \$226 and \$570 during the fiscal years ended September 30, 2010 and 2009, respectively.

We use the binomial option valuation model to determine the grant date fair value. The determination of fair value is affected by our stock price as well as assumptions regarding subjective and complex variables such as expected employee exercise behavior and our expected stock price volatility over the term of the award. Generally, our assumptions are based on historical information and judgment is required to determine if historical trends may be indicators of future outcomes. We estimated the following key assumptions for the binomial valuation calculation:

- *Risk-free interest rate.* The risk-free interest rate is based on U.S. Treasury yields in effect at the time of grant for the expected term of the option.
- *Expected volatility.* We use our historical stock price volatility on our common stock for our expected volatility assumption.
- *Expected term.* The expected term represents the weighted-average period the stock options are expected to remain outstanding. The expected term is determined based on historical exercise behavior, post-vesting termination patterns, options outstanding and future expected exercise behavior.
- *Expected dividends.* We assumed that we will pay no dividends.

Employee stock-based compensation expense recognized in fiscal 2010 and 2009 was calculated based on awards ultimately expected to vest and has been reduced for estimated forfeitures. Forfeitures are revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates and an adjustment will be recognized at that time.

Changes to our underlying stock price, our assumptions used in the binomial option valuation calculation and our forfeiture rate as well as future grants of equity could significantly impact compensation expense recognized in future periods.

Income Tax Accounting

As described in Note 7 to the consolidated financial statements, we use the asset and liability method of accounting for income taxes. We recognize deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. We measure deferred tax assets and liabilities 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. We recognize the effect on deferred tax assets and liabilities of a change in tax rates in income in the period that includes the enactment date. We record valuation allowances based on a determination of the expected realization of tax assets.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not to be sustained upon examination based on the technical merits of the position. We measure the amount of the accrual for which an exposure exists as the largest amount of benefit determined on a cumulative probability basis that we believe is more likely than not to be realized upon ultimate settlement of the position.

We record interest and penalties accrued in relation to uncertain income tax positions as a component of income tax expense. Any changes in the accrued liability for uncertain tax positions would impact our effective tax rate. Over the next twelve months we do not anticipate resolution to the carrying value of our reserve. Interest and penalties are included in the reserve.

As of September 30, 2010 and 2009, we had a \$30 and \$473 liability for uncertain income tax positions, respectively.

We file income tax returns in the U.S., several U.S. states, and the foreign jurisdiction of the United Kingdom. We remain subject to examination by taxing authorities in the jurisdictions in which we have filed returns for years after 2005.

In April 2010, we settled state tax litigation relating to our fiscal tax years 2003 through 2006 by agreeing to pay \$35 and foregoing a refund claim for \$63. Because we had previously recorded a \$443 liability for this uncertain tax position, we recognized a net tax benefit of \$345 in our second fiscal quarter ended March 31, 2010.

We have an accumulated net deficit in our UK subsidiaries. Consequently, United States deferred tax assets on such earnings have not been recorded. Also, a valuation allowance was established in fiscal 2009 against the US deferred income tax balance. We had previously recorded a valuation allowance on the UK subsidiary deferred income tax balance.

Inventories

Inventories are stated at the lower of cost or market using the first-in, first-out (FIFO) cost method of accounting.

New Accounting Pronouncements

In August 2008, the SEC announced that it will issue for comment a proposed roadmap regarding the potential use by U.S. issuers of financial statements prepared in accordance with IFRS (International Financial Reporting Standards). IFRS is a comprehensive series of accounting standards published by the IASB (International Accounting Standards Board). Under the proposed roadmap, we could be required to prepare financial statements in accordance with IFRS beginning in fiscal 2014. The SEC has indicated it will make a determination in 2011 regarding mandatory adoption of IFRS.

In October 2009, the FASB issued an Accounting Standards Update on the accounting for revenue recognition to specifically address how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting. This guidance is applicable to revenue arrangements entered into or materially modified during our next fiscal year that begins October 1, 2010. The guidance may be applied either prospectively from the beginning of the fiscal year for new or materially modified arrangements or retrospectively. We are currently reviewing this authoritative guidance to determine the potential impact, if any, that it may have on our consolidated financial statements.

ITEM 7A – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 8-FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Financial Statement Schedules:

Schedules are not required, are not applicable or the information is shown in the Notes to the Consolidated Financial Statements.

BIOANALYTICAL SYSTEMS, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands)

	As of September 30,	
	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,422	\$ 870
Accounts receivable		
Trade	3,670	3,996
Unbilled revenues and other	1,298	1,684
Inventories	1,673	1,847
Refundable income taxes	16	544
Prepaid expenses	555	622
Total current assets	8,634	9,563
Property and equipment, net	19,439	21,282
Deferred income taxes	—	12
Goodwill	1,383	1,383
Intangible assets, net	84	114
Debt issue costs	123	145
Other assets	80	86
Total assets	\$ 29,743	\$ 32,585
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	\$ 1,911	\$ 1,997
Accrued expenses	1,848	2,113
Customer advances	4,582	2,863
Income tax accruals	30	473
Revolving line of credit	1,195	1,759
Fair value of interest rate swaps	31	103
Current portion of capital lease obligation	524	650
Current portion of long-term debt	1,855	524
Total current liabilities	11,976	10,482
Capital lease obligation, less current portion	623	792
Long-term debt, less current portion	6,477	8,191
Shareholders' equity:		
Preferred Shares:		
Authorized 1,000 shares; none issued and outstanding	—	—
Common shares, no par value:		
Authorized 19,000 shares; issued and outstanding 4,915 at September 30, 2010 and 2009	1,191	1,191
Additional paid-in capital	13,357	13,131
Accumulated deficit	(3,981)	(1,290)
Accumulated other comprehensive income	100	88
Total shareholders' equity	10,667	13,120
Total liabilities and shareholders' equity	\$ 29,743	\$ 32,585

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

BIOANALYTICAL SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

	For the Years Ended September 30,	
	2010	2009
Service revenue	\$ 21,864	\$ 24,158
Product revenue	6,917	7,626
Total revenue	28,781	31,784
Cost of service revenue	18,574	20,959
Cost of product revenue	2,874	3,221
Total cost of revenue	21,448	24,180
Gross profit	7,333	7,604
Operating expenses:		
Selling	2,665	3,296
Research and development	546	762
General and administrative	6,119	7,674
Impairment loss	—	472
Total operating expenses	9,330	12,204
Operating loss	(1,997)	(4,600)
Interest income	—	2
Interest expense	(1,028)	(1,063)
Other income	1	1
Loss before income tax benefit	(3,024)	(5,660)
Income tax benefit	(333)	(197)
Net loss	\$ (2,691)	\$ (5,463)
Basic net loss per share:	\$ (0.55)	\$ (1.11)
Diluted net loss per share:	\$ (0.55)	\$ (1.11)
Weighted common shares outstanding:		
Basic	4,915	4,915
Diluted	4,915	4,915

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

BIOANALYTICAL SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE LOSS
(In thousands)

	<u>Common shares</u>		<u>Additional paid-in- capital</u>	<u>Accumulated deficit</u>	<u>Accumulated other comprehensive Income (loss)</u>	<u>Total shareholders' equity</u>
	<u>Number</u>	<u>Amount</u>				
Balance at October 1, 2008	4,915	\$ 1,191	\$ 12,561	\$ 4,173	\$ (130)	\$ 17,795
Comprehensive loss:						
Net loss	—	—	—	(5,463)	—	(5,463)
Other comprehensive income (loss):						
Foreign currency translation adjustments	—	—	—	—	218	218
Total comprehensive loss						<u>(5,245)</u>
Stock compensation	—	—	570	—	—	570
Balance at September 30, 2009	4,915	\$ 1,191	\$ 13,131	\$ (1,290)	\$ 88	\$ 13,120
Comprehensive loss:						
Net loss	—	—	—	(2,691)	—	(2,691)
Other comprehensive income (loss):						
Foreign currency translation adjustments	—	—	—	—	12	12
Total comprehensive loss						<u>(2,679)</u>
Stock compensation	—	—	226	—	—	226
Balance at September 30, 2010	<u>4,915</u>	<u>\$ 1,191</u>	<u>\$ 13,357</u>	<u>\$ (3,981)</u>	<u>\$ 100</u>	<u>\$ 10,667</u>

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

BIOANALYTICAL SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Years Ended September 30,	
	2010	2009
Operating activities:		
Net loss	\$ (2,691)	\$ (5,463)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	2,323	2,645
Impairment loss	—	472
Employee stock compensation expense	226	570
Provision for doubtful accounts	61	(2)
Liability incurred on settlement of lease	216	—
(Gain) loss on interest rate swaps	(72)	103
(Gain) loss on sale of property and equipment	(1)	37
Deferred income taxes	12	160
Changes in operating assets and liabilities:		
Accounts receivable	650	3,680
Inventories	174	338
Refundable income taxes	529	739
Prepaid expenses and other assets	90	49
Accounts payable	(86)	(212)
Accrued expenses	(709)	52
Customer advances	1,719	(1,169)
Net cash provided by operating activities	2,441	1,999
Investing activities:		
Capital expenditures	(450)	(834)
Net cash used by investing activities	(450)	(834)
Financing activities:		
Payments of long-term debt	(599)	(491)
Payments on revolving line of credit	(28,948)	(19,052)
Borrowings on revolving line of credit	28,384	18,788
Proceeds from sale and leaseback	431	—
Payments on capital lease obligations	(726)	(721)
Net cash used by financing activities	(1,458)	(1,476)
Cash flow of discontinued operations:		
Cash provided by operating activities	—	588
Net cash provided by discontinued operations	—	588
Effect of exchange rate changes	19	258
Net increase in cash and cash equivalents	552	535
Cash and cash equivalents at beginning of year	870	335
Cash and cash equivalents at end of year	\$ 1,422	\$ 870

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

BIOANALYTICAL SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands unless otherwise listed)

1. DESCRIPTION OF THE BUSINESS

Bioanalytical Systems, Inc. and its subsidiaries (the “Company” or “BASi” or “we”) engage in research services and other services related to pharmaceutical development. We also manufacture scientific instruments for medical research, which we sell with related software for use in industrial, governmental and academic laboratories. We conduct our businesses through our research facilities in Indiana, Oregon, and the United Kingdom and our manufacturing facility in Indiana. Our customers are located throughout the world.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant inter-company accounts and transactions have been eliminated.

(b) Revenue Recognition

The majority of our service contracts involve the development of analytical methods and the processing of bioanalytical samples for pharmaceutical companies and generally provide for a fixed fee for each sample processed. Revenue is recognized under the specific performance method of accounting and the related direct costs are recognized when services are performed. Our research service contracts generally consist of preclinical studies, and revenue is recognized based on the ratio of direct costs incurred to total estimated direct costs under the proportional performance method of accounting. Losses on both types of contracts are provided in the period in which the loss becomes determinable. Revisions in profit estimates, if any, are reflected on a cumulative basis in the period in which such revisions become known. The establishment of contract prices and total contract costs involves estimates we make at the inception of the contract. These estimates could change during the term of the contract and impact the revenue and costs reported in the consolidated financial statements. Revisions to estimates have generally not been material. Research service contract fees received upon acceptance are deferred until earned, and classified within customer advances. Unbilled revenues represent revenues earned under contracts in advance of billings.

Product revenue from sales of equipment not requiring installation, testing or training is recognized upon shipment to customers. One product includes internally developed software and requires installation, testing and training, which occur concurrently. Revenue from these sales is recognized upon completion of the installation, testing and training when the services are bundled with the equipment sale.

(c) Cash Equivalents

We consider all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

(d) Financial Instruments

Our credit risk consists principally of trade accounts receivable. We perform periodic credit evaluations of our customers’ financial conditions and generally do not require collateral on trade accounts receivable. We account for trade receivables based on the amounts billed to customers. Past due receivables are determined based on contractual terms. We do not accrue interest on any of our trade receivables. The allowance for doubtful accounts is determined by management based on our historical losses, specific customer circumstances, and general economic conditions. Periodically, management reviews accounts receivable and adjusts the allowance based on current circumstances and charges off uncollectible receivables when all attempts to collect have failed. Our allowance for doubtful accounts was \$165 and \$110 at September 30, 2010 and 2009, respectively.

A summary of activity in our allowance for doubtful accounts is as follows:

	<u>2010</u>	<u>2009</u>
Opening balance	\$ 110	\$ 83
Charged to expense, net	61	39
Accounts written off	<u>(6)</u>	<u>(12)</u>
Ending balance	<u>\$ 165</u>	<u>\$ 110</u>

(e) *Inventories*

Inventories are stated at the lower of cost or market using the first-in, first-out (FIFO) cost method of accounting.

(f) *Property and Equipment*

We record property and equipment at cost, including interest capitalized during the period of construction of major facilities. We compute depreciation, including amortization on capital leases, using the straight-line method over the estimated useful lives of the assets, which we estimate to be: buildings and improvements, 34 to 40 years; machinery and equipment, 5 to 10 years, and office furniture and fixtures, 10 years. Depreciation expense was \$2,287 in fiscal 2010 and \$2,609 in fiscal 2009. Expenditures for maintenance and repairs are expensed as incurred.

Property and equipment, net, as of September 30, 2010 and 2009 consisted of the following:

	<u>2010</u>	<u>2009</u>
Land and improvements	\$ 488	\$ 490
Buildings and improvements	21,296	21,298
Machinery and equipment	20,652	20,462
Office furniture and fixtures	952	972
Construction in progress	<u>109</u>	<u>40</u>
	43,497	43,262
Less: accumulated depreciation	<u>(24,058)</u>	<u>(21,980)</u>
Net property and equipment	<u>\$ 19,439</u>	<u>\$ 21,282</u>

(g) *Long-Lived Assets including Goodwill*

Long-lived assets, such as property and equipment, and purchased intangibles subject to amortization, 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 estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized of the amount by which the carrying amount of the asset exceeds the fair value of the asset.

We carry goodwill at cost. Other intangible assets with definite lives are stated at cost and are amortized on a straight-line basis over their estimated useful lives. All intangible assets acquired that are obtained through contractual or legal right, or are capable of being separately sold, transferred, licensed, rented, or exchanged, are recognized as an asset apart from goodwill. Goodwill is not amortized.

Goodwill is tested annually for impairment, and more frequently if events and circumstances indicate that the asset might be impaired, using a two-step process. In the first step, we compare the fair value of each reporting unit, as computed primarily by present value cash flow calculations, to its book carrying value, including goodwill. We do not believe that

market value is indicative of the true fair value of the Company mainly due to average daily trading volumes of less than 1%. If the fair value exceeds the carrying value, no further work is required and no impairment loss is recognized. If the carrying value exceeds the fair value, the goodwill of the reporting unit is potentially impaired and we would then complete step 2 in order to measure the impairment loss. In step 2, the implied fair value is compared to the carrying amount of the goodwill. If the implied fair value of goodwill is less than the carrying value of goodwill, we would recognize an impairment loss equal to the difference. The implied fair value is calculated by allocating the fair value of the reporting unit (as determined in step 1) to all of its assets and liabilities (including unrecognized intangible assets) and any excess in fair value that is not assigned to the assets and liabilities is the implied fair value of goodwill.

The discount rate and sales growth rates are the two material assumptions utilized in our calculations of the present value cash flows used to estimate the fair value of the reporting units when performing the annual goodwill impairment test. Our reporting units with goodwill at September 30, 2010 are Vetronics, Oregon and Evansville, based on the discrete financial information available which is reviewed by management. We utilize a cash flow approach in estimating the fair value of the reporting units, where the discount rate reflects a weighted average cost of capital rate. The cash flow model used to derive fair value is sensitive to the discount rate and sales growth assumptions used. Due to fiscal year 2009 operating losses and lowered expectations for the near future, we performed an impairment test for our UK reporting unit as of June 30, 2009. As a result of this test, we recorded a \$472 impairment loss equal to the total value of the UK goodwill in fiscal 2009.

We performed our annual impairment test for all other reporting units mentioned above at September 30, 2010. Using a discount rate of 22% and a revenue growth rate of 0%, the fair values of our Vetronics, Oregon and Evansville reporting units is greater than the carrying values by approximately \$2,500.

Considerable management judgment is necessary to evaluate the impact of operating and macroeconomic changes and to estimate future cash flows. Assumptions used in our impairment evaluations, such as forecasted sales growth rates and our cost of capital or discount rate, are based on the best available market information. Changes in these estimates or a continued decline in general economic conditions could change our conclusion regarding an impairment of goodwill and potentially result in a non-cash impairment loss in a future period. The assumptions used in our impairment testing could be adversely affected by certain of the risks discussed in "Risk Factors" in Item 1A of this report. There have been no significant events since the timing of our impairment tests that would have triggered additional impairment testing.

At September 30, 2010, remaining recorded goodwill was \$1,383, and the net balance of other intangible assets was \$84.

A summary of activity in our goodwill account is as follows:

	<u>2010</u>	<u>2009</u>
Opening balance	\$ 1,383	\$ 1,855
UK impairment charge	—	(472)
Ending balance	<u>\$ 1,383</u>	<u>\$ 1,383</u>

The components of intangible assets subject to amortization are as follows:

		<u>September 30, 2010</u>	
	<u>Weighted average life (years)</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>
FDA compliant facility	10	<u>\$ 302</u>	<u>\$ 218</u>
		<u>September 30, 2009</u>	
	<u>Weighted average life (years)</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>
FDA compliant facility	10	<u>\$ 302</u>	<u>\$ 188</u>

Amortization expense for intangible assets for fiscal years ended September 30, 2010 and 2009 was \$30. The following table provides information regarding estimated amortization expense for the next five fiscal years:

2011	\$	30
2012		30
2013		24
2014		—
2015		—

(h) *Advertising Expense*

We expense advertising costs as incurred. Advertising expense was \$180 and \$219 for the years ended September 30, 2010 and 2009, respectively.

(i) *Stock-Based Compensation*

We have a stock-based employee compensation plan and a stock-based employee and outside director compensation plan, which are described more fully in Note 8. All options granted under these plans have an exercise price equal to the market value of the underlying common shares on the date of grant. We expense the estimated fair value of stock options over the vesting periods of the grants. Our policy is to recognize expense for awards subject to graded vesting using the straight-line attribution method, reduced for estimated forfeitures. Forfeitures are revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates and an adjustment is recognized at that time.

We use a binomial option-pricing model as our method of valuation for share-based awards, requiring us to make certain assumptions about the future, which are more fully described in Note 8. Stock-based compensation expense for employee stock options for the years ended September 30, 2010 and 2009 was \$226 and \$570, respectively.

(j) *Income Taxes*

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 differences between the 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. We record valuation allowances based on a determination of the expected realization of tax assets.

We may recognize the tax benefit from an uncertain tax position only if it is more likely than not to be sustained upon examination based on the technical merits of the position. The amount of the accrual for which an exposure exists is measured as the largest amount of benefit determined on a cumulative probability basis that we believe is more likely than not to be realized upon ultimate settlement of the position.

We record interest and penalties accrued in relation to uncertain income tax positions as a component of income tax expense. Any changes in the liability for uncertain tax positions would impact our effective tax rate. We do not expect the total amount of unrecognized tax benefits to significantly change in the next twelve months.

(k) *New Accounting Pronouncements*

In August 2008, the SEC announced that it will issue for comment a proposed roadmap regarding the potential use by U.S. issuers of financial statements prepared in accordance with IFRS (International Financial Reporting Standards). IFRS is a comprehensive series of accounting standards published by the IASB (International Accounting Standards Board). Under the proposed roadmap, we could be required to prepare financial statements in accordance with IFRS beginning in fiscal 2014. The SEC has indicated it will make a determination in 2011 regarding mandatory adoption of IFRS.

In October 2009, the FASB issued an Accounting Standards Update on the accounting for revenue recognition to specifically address how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting. This guidance is applicable to revenue arrangements entered into or materially modified during our next fiscal year that begins October 1, 2010. The guidance may be applied either prospectively from the beginning of the fiscal year for new or materially modified arrangements or retrospectively. We are currently reviewing this authoritative guidance to determine the potential impact, if any, that it may have on our consolidated financial statements.

(l) *Fair Value*

The provisions of the Fair Value Measurements and Disclosure Topic defines fair value, establishes a consistent framework for measuring fair value and provides the disclosure requirements about fair value measurements. This Topic also establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's judgment about the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the inputs as follows:

- Level 1 – Valuations based on quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.
- Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
- Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The carrying amounts for cash and cash equivalents, accounts receivable, inventories, prepaid expenses and other assets, accounts payable and other accruals approximate their fair values because of their nature and respective duration. The fair value of the revolving credit facility and certain long-term debt is equal to their carrying values due to the variable nature of their interest rates. Our long-term fixed rate debt was adjusted to a market rate on June 30, 2010, which approximates market rates for similar debt instruments at September 30, 2010. See Note 6 for further discussion of the fair value of our interest rate swap.

(m) *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Significant estimates as part of the issuance of these consolidated financial statements include but are not limited to the determination of fair values, allowance for doubtful accounts, inventory obsolescence, deferred tax valuations, depreciation, impairment charges and stock compensation. Our actual results could differ from those estimates.

(n) *Research and Development*

In fiscal 2010 and 2009, we spent \$546 and \$762, respectively, on research and development. Separate from our contract research services business, we maintain applications research and development to enhance our products business.

(o) *Comprehensive Loss*

We report comprehensive income (loss) in the consolidated statement of shareholders' equity and comprehensive loss. Other comprehensive income (loss) represents changes in shareholders' equity and is comprised of foreign currency translation adjustments. At September 30, 2010 and 2009, accumulated other comprehensive income consisted of foreign currency translation adjustments of \$100 and \$88, respectively.

(p) *Foreign Currency*

For our subsidiary outside of the United States that operates in a local currency environment, income and expense items are translated to United States dollars at the monthly average rates of exchange prevailing during the year, assets and liabilities are translated at year-end exchange rates and equity accounts are translated at historical exchange rates. Translation adjustments are accumulated in a separate component of shareholders' equity in the consolidated balance sheets and are included in the determination of comprehensive income (loss) in the consolidated statements of shareholders' equity. Transaction gains and losses are included in the determination of net income (loss) in the consolidated statements of operations.

3. LOSS PER SHARE

We compute basic loss per share using the weighted average number of common shares outstanding. We compute diluted loss per share using the weighted average number of common and potential common shares outstanding. Potential common shares include the dilutive effect of shares issuable upon exercise of options to purchase common shares. At September 30, 2010 and 2009, we had 705 and 620 shares, respectively, issuable upon exercise of stock options that are not included in our outstanding share calculation as they are anti-dilutive.

The following table reconciles our computation of basic net loss per share to diluted net loss per share:

	Years Ended September 30,	
	2010	2009
Basic net loss per share:		
Net loss applicable to common shareholders	\$ (2,691)	\$ (5,463)
Weighted average common shares outstanding	<u>4,915</u>	<u>4,915</u>
Basic net loss per share	<u>\$ (0.55)</u>	<u>\$ (1.11)</u>
Diluted net loss per share:		
Diluted net loss applicable to common shareholders	<u>\$ (2,691)</u>	<u>\$ (5,463)</u>
Weighted average common shares outstanding	<u>4,915</u>	<u>4,915</u>
Dilutive stock options/shares	<u>—</u>	<u>—</u>
Diluted weighted average common shares outstanding	<u>4,915</u>	<u>4,915</u>
Diluted net loss per share	<u>\$ (0.55)</u>	<u>\$ (1.11)</u>

4. INVENTORIES

Inventories at September 30 consisted of the following:

	<u>2010</u>	<u>2009</u>
Raw materials	\$ 1,534	\$ 1,732
Work in progress	283	131
Finished goods	<u>218</u>	<u>271</u>
	\$ 2,035	\$ 2,134
Obsolescence reserve	<u>(362)</u>	<u>(287)</u>
	<u>\$ 1,673</u>	<u>\$ 1,847</u>

5. LEASE ARRANGEMENTS

The total amount of equipment capitalized under capital lease obligations as of September 30, 2010 and 2009 was \$4,334 and \$3,884, respectively. Accumulated amortization on capital leases at September 30, 2010 and 2009 was \$2,736 and \$1,981, respectively. Amortization of assets acquired through capital leases is included in depreciation expense.

During fiscal years 2010 and 2009, we did not acquire any new equipment through capital lease arrangements. On February 1, 2010, we conducted a sale and leaseback of some of our unencumbered laboratory equipment with a term of 36 months and a monthly payment of \$19. This accounts for the increase in equipment capitalized under capital leases. Future minimum lease payments on capital leases at September 30, 2010 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 524	\$ 177	\$ 701
2012	476	89	565
2013	147	12	159
2014	—	—	—
	<u>\$ 1,147</u>	<u>\$ 278</u>	<u>\$ 1,425</u>

We lease office space and equipment under noncancelable operating leases that terminate at various dates through 2013. The UK building lease expires in 2023 but includes an opt out provision after 7 years. Certain of these leases contain renewal options. Total rental expense under these leases was \$439 and \$485 in fiscal 2010 and 2009, respectively.

Future minimum lease payments for the following fiscal years under operating leases at September 30, 2010 are as follows:

2011	\$ 435
2012	430
2013	416
2014	413
2015	340
After 2015	<u>2,579</u>
	<u>\$ 4,613</u>

6. DEBT ARRANGEMENTS

Long-term debt consisted of the following at September 30:

	<u>2010</u>	<u>2009</u>
Mortgage note payable to a bank, payable in monthly principal and interest installments of \$40. Interest is fixed at 7.1% through June 30, 2010, and thereafter fixed at 4.1%. Collateralized by underlying property. Due November, 2012.	\$ 3,896	\$ 4,117
Mortgage note payable to a bank, payable in monthly principal and interest installments of \$19. The interest rate is 6.1%. Collateralized by underlying property. Due February, 2011. (a)	1,346	1,489
Mortgage note payable to a bank, payable in monthly principal and interest installments of \$17. Interest is fixed at 7.1% through June 30, 2010, and thereafter fixed at 4.1%. Collateralized by underlying property. Due November, 2012.	1,809	1,897
Note payable to a bank, payable in monthly principal installments of \$9 plus interest. The interest rate is 6.1%. Collateralized by West Lafayette and Evansville properties. Due December, 2010. (a)	1,095	1,212
Note payable to Algo Holdings, payable in monthly installments of \$10. There is no interest on this note if paid within terms. Due May 1, 2012. See Note 11.	185	—
	\$ 8,332	\$ 8,715
Less current portion	1,855	524
	<u>\$ 6,477</u>	<u>\$ 8,191</u>

The following table summarizes our principal payment obligations for the years ending September 30:

2011	\$ 1,855
2012	888
2013	<u>5,589</u>
	<u>\$ 8,332</u>

Cash interest payments of \$1,067 and \$917 were made in 2010 and 2009, respectively.

Mortgages and note payable

(a) On November 29, 2010, we executed an amendment to the loans with Regions. Regions agreed to accept a \$500 principal payment on the note payable with \$1.1 million of principal maturing on December 18, 2010 and a \$500 principal payment on one mortgage with \$1.3 million of principal maturing on February 11, 2011. The principal payments are to be made on or before December 18, 2010 and February 11, 2011, respectively. Thereafter, the unpaid principal on the note payable and the mortgage will then be incorporated into a replacement note maturing on November 1, 2012. The replacement note will bear interest at a monthly LIBOR plus 300 basis points (minimum of 4.5%) with monthly principal amortization. On December 17, 2010, we made the \$500 principal payment on the \$1.1 million note. Since we have made

the first payment and expect to have the financial capacity to make the additional \$500 payment in February 2011, we have classified this debt, to the extent of the amount of debt that will be reset to a due date past September 30, 2011, as non-current.

We entered into interest rate swap agreements with respect to the above loans noted by (a) to fix the interest rate at 6.1%. We entered into these derivative transactions to hedge interest rate risk of the related debt obligation and not to speculate on interest rates. The notional values of the swaps as of September 30, 2010 and 2009 were \$2,442 and \$2,701, respectively. The fair value of the swaps was determined with a level two analysis. As a result of recent declines in short term interest rates, the swaps had a negative fair value of \$31 at September 30, 2010 and \$103 at September 30, 2009, with the decline in the liability being recorded in our consolidated financial statements as a reduction in interest expense in the current fiscal year and the increase in liability recorded as an increase in interest expense in the prior fiscal year. The terms of the interest rate swaps match the scheduled principal outstanding under the loans. We do not intend to prepay the loans, and expect the swaps to expire under their terms in fiscal 2011 without payment by us. Upon expiration of the swaps, the net fair value recorded in the consolidated financial statements is expected to be zero.

As part of the amendment, Regions also agreed to amend the loan covenants for the related debt to be more favorable to us beginning with our fiscal quarter ending December 31, 2010. Regions requires us to maintain certain ratios including a fixed charge coverage ratio and total liabilities to tangible net worth ratio. The fixed charge coverage ratio calculation has been adjusted with an ending ratio required of not less than 1.25 to 1.00. Also, the total liabilities to tangible net worth ratio has been adjusted to not greater than 2.10 to 1.00. Provided we comply with the revised covenant ratios, the amendment removes limitations on the Company's purchase of fixed assets. Based on projections for fiscal 2011, we expect to be in compliance with the adjusted covenants. The first compliance test under the amendment will be on the balance sheet and trailing twelve months at March 31, 2011

The Regions loans contain both cross-default provisions with each other and with the revolving line of credit with Entrepreneur Growth Capital described below. At September 30, 2010, we were in compliance with Region's covenant ratios.

Revolving Line of Credit

Through January 15, 2010, we had a revolving line of credit with PNC Bank, which we used for working capital and other purposes. Borrowings under this line were collateralized by substantially all assets related to our operations, other than the real estate securing the Regions loans, all common stock of our United States subsidiaries and 65% of the common stock of our non-United States subsidiaries.

On January 13, 2010, we entered into a new \$3,000 revolving line of credit agreement ("Credit Agreement") with Entrepreneur Growth Capital LLC ("EGC") to replace the PNC Bank line of credit that expired on January 15, 2010. The initial term of the Credit Agreement was set to expire on January 31, 2011. If we prepay prior to the expiration of the initial term (or any renewal term), then we are subject to an early termination fee equal to the minimum interest charges of \$15 for each of the months remaining until expiration.

Borrowings bear interest at an annual rate equal to Citibank's Prime Rate plus five percent (5%), or 8.25% as of September 30, 2010, with minimum monthly interest of \$15. Interest is paid monthly. The line of credit also carries an annual facilities fee of 2% and a 0.2% collateral monitoring fee. Borrowings under the Credit Agreement are secured by a blanket lien on our personal property, including certain eligible accounts receivable, inventory, and intellectual property assets, and a second mortgage on our West Lafayette and Evansville real estate. Borrowings are calculated based on 75% of eligible accounts receivable. Under the Credit Agreement, the Company has agreed to restrict advances to subsidiaries, limit additional indebtedness and capital expenditures and comply with certain financial covenants outlined in the Credit Agreement. At September 30, 2010, we had available borrowings of \$1.8 million on this line.

The covenants in the Credit Agreement required that we maintain a minimum tangible net worth of \$9,000. The Credit Agreement also contains cross-default provisions with the Regions loans and any future EGC loans. At September 30, 2010, we were not in compliance with the minimum tangible net worth covenant requirement.

On December 23, 2010, we negotiated an amendment to this Credit Agreement. As part of the amendment, the maturity date was extended to January 31, 2013. The Amendment reduced the minimum tangible net worth covenant requirement to \$8,500 and waived all non-compliances with this covenant through the date of the Amendment.

7. INCOME TAXES

Significant components of our deferred tax assets and liabilities as of September 30 are as follows:

	<u>2010</u>	<u>2009</u>
Long-term deferred tax assets:		
Tax over book depreciation	\$ (709)	\$ (842)
Lower tax basis on assets of acquired company	(448)	(418)
Domestic net operating loss carryforward	2,396	1,440
Stock compensation expense	416	363
Foreign net operating loss	1,592	1,293
Foreign tax credit carryover	119	119
AMT credit carryover	13	13
Total long-term deferred tax assets	<u>\$ 3,379</u>	<u>\$ 1,968</u>
Current deferred tax assets:		
Inventory pricing	\$ 232	\$ 186
Accrued compensation and vacation	283	240
Accrued expenses and other – net	35	—
Foreign net operating loss	—	(1)
Total current deferred tax assets	<u>\$ 550</u>	<u>\$ 425</u>
Valuation allowance for deferred tax assets	<u>(3,929)</u>	<u>(2,381)</u>
Net deferred tax assets	<u>\$ —</u>	<u>\$ 12</u>

Significant components of the provision (benefit) for income taxes are as follows as of the year ended September 30:

	<u>2010</u>	<u>2009</u>
Current:		
Federal	\$ —	\$ (345)
State	(345)	(11)
Foreign	—	(1)
Total Current	<u>\$ (345)</u>	<u>\$ (357)</u>
Deferred:		
Federal	\$ —	\$ 118
State	—	41
Foreign	12	1
Total deferred	<u>\$ 12</u>	<u>\$ 160</u>
	<u>\$ (333)</u>	<u>\$ (197)</u>

The effective income tax rate on continuing operations varied from the statutory federal income tax rate as follows:

	2010	2009
Statutory federal income tax rate	(34.0%)	(34.0%)
Increases (decreases):		
Nondeductible expenses	3.2	2.6
State income taxes, net of federal tax benefit	---	(5.4)
Nontaxable foreign (gains) losses	4.6	2.5
Uncertain tax positions	(15.6)	---
Valuation allowance	33.3	32.9
Other	(2.5)	(2.1)
	<u>(11.0%)</u>	<u>(3.5%)</u>

We have not provided any U.S. income taxes benefit on the accumulated losses of our UK subsidiary. In fiscal 2010 and 2009, our foreign operations generated losses before income taxes of \$993 and \$2,293, respectively. We have foreign net operating loss carryforwards of \$4,975 that have an indefinite life under current UK tax law. Payments made in fiscal 2010 and 2009 for income taxes amounted to \$3 and \$1, respectively.

Realization of deferred tax assets associated with the net operating loss carryforward and credit carryforward is dependent upon generating sufficient taxable income prior to their expiration. We have a valuation allowance for the deferred tax asset related to the foreign net operating losses. In fiscal 2009, a valuation allowance of \$1,088 was established for our domestic operations to reflect our estimate of the temporary deductible differences that may expire prior to their utilization. The valuation allowance in fiscal 2010 was \$2,337 for our domestic operations.

At September 30, 2010, we had domestic net operating loss carryforwards of approximately \$4,691 for federal and \$9,420 for state, which expire from September 30, 2028 through 2030. Also, we have a foreign tax credit carryforward of approximately \$119, which expires on September 30, 2016. Further, we have an alternative minimum tax credit carryforward of approximately \$13 available to offset future federal income taxes. This credit has an unlimited expiration.

We may recognize the tax benefit from an uncertain tax position only if it is more likely than not to be sustained upon regulatory examination based on the technical merits of the position. The amount of the benefit for which an exposure exists is measured as the largest amount of benefit determined on a cumulative probability basis that we believe is more likely than not to be realized upon ultimate settlement of the position. At September 30, 2010, a \$30 liability remained for other uncertain income tax positions.

A reconciliation of the total amounts of unrecognized tax liability at September 30, 2009 and 2010 is as follows:

Beginning of year balance, October 1, 2008	\$ 473
Changes during the year	—
End of year balance, September 30, 2009	<u>\$ 473</u>
Changes during the year	(443)
End of year balance, September 30, 2010	<u>\$ 30</u>

As noted in the table above, we had a reduction of \$443 in our gross uncertain tax positions during fiscal 2010. This was a result of the settlement of our state tax litigation. We paid approximately \$98 and released the remaining \$345 of unrecognized tax benefits associated with our state tax litigation. We file income tax returns in the U.S., several U.S. States, and the foreign jurisdiction of the United Kingdom. We remain subject to examination by taxing authorities in the jurisdictions in which we have filed returns for years after 2006.

8. STOCK-BASED COMPENSATION

Summary of Stock Option Plans and Activity

In March 2008, our shareholders approved the 2008 Stock Option Plan (the "Plan") to replace the 1997 Outside Director Stock Option Plan and the 1997 Employee Stock Option Plan. Future common shares will be granted from the 2008 Stock Option Plan. The purpose of the Plan is to promote our long-term interests by providing a means of attracting and retaining officers, directors and key employees. The Compensation Committee shall administer the Plan and approve the particular officers, directors or employees eligible for grants. Under the Plan, employees are granted the option to purchase our common shares at fair market value on the date of the grant. Generally, options granted vest and become exercisable in four equal installments commencing one year from date of grant and expire upon the earlier of the employee's termination of employment with us, or ten years from the date of grant. This plan terminates in fiscal 2018.

The maximum number of common shares that may be granted under the Plan is 500 shares. At September 30, 2010, 3 shares remain available for grants under the Plan.

The weighted-average assumptions used to compute the fair value of options granted for the fiscal years ended September 30 were as follows:

	<u>2010</u>	<u>2009</u>
Risk-free interest rate	2.85%	2.89%
Dividend yield	0.00%	0.00%
Volatility of the expected market price of the Company's common stock	55.00%- 96.00%	55.00%- 77.00%
Expected life of the options (years)	8.0	8.0

A summary of our stock option activity and related information for the years ended September 30, 2010 and 2009, respectively, is as follows (in thousands except for share prices):

	Options (shares)	Weighted- Average Exercise Price	Weighted- Average Grant Date Fair Value	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding - October 1, 2008	754	\$ 6.00			
Exercised	-	\$ -			
Granted	60	\$ 4.07	\$ 2.73		
Terminated	(194)	\$ 6.74			
Outstanding - September 30, 2009	<u>620</u>	\$ 5.97	\$ 3.36	7.4	\$ -
Outstanding - October 1, 2009	620	\$ 5.97			
Exercised	-	\$ -			
Granted	432	\$ 1.06	\$ 0.89		
Terminated	(347)	\$ 6.58			
Outstanding - September 30, 2010	<u>705</u>	\$ 2.66	\$ 1.82	8.2	\$ 9
Exercisable at September 30, 2010	<u>185</u>	\$ 5.22	\$ 3.36	4.9	\$ -

A summary of non-vested options for the year ended September 30, 2010 is as follows:

	<u>Number of Shares</u>	<u>Weighted- Average Grant Date Fair Value</u>
Non-vested options at October 1, 2009	299	\$ 3.30
Granted	432	\$ 0.89
Vested	(158)	\$ 3.49
Forfeited	<u>(53)</u>	<u>\$ 3.02</u>
Non-vested options at September 30, 2010	<u><u>520</u></u>	<u><u>\$ 1.27</u></u>

No options were exercised in fiscal years 2010 and 2009. As of September 30, 2010, our total unrecognized compensation cost related to non-vested stock options was \$441 and is expected to be recognized over a weighted-average service period of 1.99 years.

The following table summarizes outstanding and exercisable options as of September 30, 2010 (in thousands except per share amounts):

<u>Range of Exercise Prices</u>	<u>Shares Outstanding</u>	<u>Weighted- Average Remaining Contractual Life (Years)</u>	<u>Weighted- Average Exercise Price</u>	<u>Shares Exercisable</u>	<u>Weighted- Average Exercise Price</u>
\$ 0.79 - 2.80	432	9.69	\$ 1.06	—	\$ —
\$ 2.81 - 4.59	114	4.70	\$ 4.28	94	\$ 4.44
\$ 4.60 - 8.79	159	6.70	\$ 5.85	91	\$ 6.03

9. RETIREMENT PLAN

We have a 401(k) Retirement Plan (the “Plan”) covering all employees over twenty-one years of age with at least one year of service. Under the terms of the Plan, we contribute 1% of each participant’s total wages to the Plan and match 22% of the first 10% of the employee contribution. The Plan also includes provisions for various contributions which may be instituted at the discretion of the Board of Directors. The contribution made by the participant may not exceed 30% of the participant’s annual wages. We made no discretionary contributions under the plan in 2010 and 2009. Contribution expense was \$43 and \$296 in fiscal 2010 and 2009, respectively. The decrease in contribution expense in fiscal 2010 occurred because we suspended our match of the employee contribution as part of our cost reduction efforts.

10. SEGMENT INFORMATION

We operate in two principal segments – research services and research products. Our Services segment provides research and development support on a contract basis directly to pharmaceutical companies. Our Products segment provides liquid chromatography, electrochemical and physiological monitoring products to pharmaceutical companies, universities, government research centers, and medical research institutions. We evaluate performance and allocate resources based on these segments. Certain of our assets are not directly attributable to the Services or Products segments. These assets are grouped into the Corporate segment and include cash and cash equivalents, deferred income taxes, refundable income taxes, debt issue costs and certain other assets. We do not allocate such items to the principal segments because they are not used to evaluate their financial position. The accounting policies of these segments are the same as those described in the summary of significant accounting policies.

(a) *Operating Segments*

		Years Ended September 30,	
		2010	2009
Revenue:			
	Service	\$ 21,864	\$ 24,158
	Product	6,917	7,626
		<u>\$ 28,781</u>	<u>\$ 31,784</u>
Operating loss:			
	Service	\$ (2,350)	\$ (3,884)
	Product	353	(716)
		<u>\$ (1,997)</u>	<u>\$ (4,600)</u>
Corporate Expenses		<u>1,027</u>	<u>1,060</u>
Loss before income taxes		<u>\$ (3,024)</u>	<u>\$ (5,660)</u>

		Years Ended September 30,	
		2010	2009
Identifiable assets:			
	Service	\$ 17,309	\$ 19,102
	Product	7,406	8,046
	Corporate	5,028	5,437
		<u>\$ 29,743</u>	<u>\$ 32,585</u>
Goodwill, net:			
	Service	\$ 1,009	\$ 1,009
	Product	374	374
		<u>\$ 1,383</u>	<u>\$ 1,383</u>
Intangible assets, net:			
	Service	\$ 84	\$ 114
	Product	—	—
		<u>\$ 84</u>	<u>\$ 114</u>
Depreciation and amortization:			
	Service	\$ 2,108	\$ 2,377
	Product	215	268
		<u>\$ 2,323</u>	<u>\$ 2,645</u>
Capital Expenditures:			
	Service	\$ 383	\$ 698
	Product	67	136
		<u>\$ 450</u>	<u>\$ 834</u>

(b) *Geographic Information*

	Years Ended September 30,	
	2010	2009
Sales to External Customers:		
North America	\$ 25,578	\$ 28,656
Pacific Rim	500	661
Europe	2,495	2,215
Other	208	252
	<u>\$ 28,781</u>	<u>\$ 31,784</u>
Long-lived Assets:		
North America	\$ 20,650	\$ 22,472
Europe	459	550
	<u>\$ 21,109</u>	<u>\$ 23,022</u>

(c) *Major Customers*

In 2010 and 2009, Pfizer accounted for approximately 7.0% and 7.0%, respectively, of our total revenues and 4.7% and 3.2% of total trade accounts receivable, respectively.

11. SETTLEMENT OF CONTINGENT LIABILITY

In June of 2008 as part of selling our Baltimore Clinical Pharmacology Research Unit, we subleased the building space it occupied to the purchaser of the assets. We remained contingently liable for the rent payments of \$800 per year through 2015 in the event the sublessor did not perform. In 2009, the purchaser ceased operations in Baltimore and sought to renegotiate the terms of its sublease. In March of 2010, a settlement was reached with the landlord of the building which canceled the sublessor's and our obligations under the lease in exchange for a cash payment from the sublessor. We agreed to contribute \$250 to the settlement, payable in twenty-five monthly installments of \$10 without interest. We recorded the discounted liability of \$216 in March 2010 and recognized the related expense in general and administrative expenses. At September 30, 2010, the balance of this liability was \$185.

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12. CONSOLIDATED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following is a summary of the unaudited quarterly results of operations for fiscal years 2010 and 2009 (in thousands except per share amounts).

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2010				
Total Revenue	\$ 6,377	\$ 6,935	\$ 8,064	\$ 7,405
Gross Profit	1,196	1,485	2,671	1,981
Net income (loss)	(1,488)	(1,212)	288	(279)
Basic net income (loss) per share	(0.30)	(0.25)	0.06	(0.06)
Diluted net income (loss) per share	(0.30)	(0.25)	0.06	(0.06)
2009				
Total Revenue	\$ 8,076	\$ 7,066	\$ 8,121	\$ 8,521
Gross Profit	2,047	872	2,135	2,550
Net loss	(1,584)	(1,831)	(632)	(1,416)
Basic net loss per share	(0.32)	(0.37)	(0.13)	(0.29)
Diluted net loss per share	(0.32)	(0.37)	(0.13)	(0.29)

13. SUBSEQUENT EVENTS

On November 29, 2010, Regions agreed to accept a \$500 principal payment on a note with \$1.1 million of principal maturing on December 18, 2010 and a \$500 principal payment on another note with \$1.3 million of principal maturing on February 11, 2011. Thereafter, the unpaid principal on the notes will then be incorporated into a replacement note maturing on November 1, 2012. On December 17, 2010, we made the \$500 principal payment on the \$1.1 million note. On December 15, 2010, EGC agreed to provide back-up financing up to \$300 towards the second \$500 principal payment on the \$1.3 million note.

On December 23, 2010, we negotiated an amendment to our line of credit agreement with EGC, extending the maturity date until January 31, 2013 and reducing the minimum tangible net worth covenant requirement. See Note 6 for additional information.

No additional matters were identified that would materially impact our consolidated financial statements or require disclosure.

14. RISKS AND UNCERTAINTIES

Our long-term strategic objective is to maximize the Company's intrinsic value per share. However, in the second quarter of fiscal 2009, in response to cancellations and delays of projects by our customers, we began to operate the business in a manner designed to place more emphasis on cash flow generation. Thus, our short-term tactical objective is to maximize free cash flow from operating activities.

The overall economic downturn first began to negatively affect our operating results in fiscal 2009 and continued to negatively impact revenues in fiscal 2010. Revenues for fiscal 2010 declined approximately 9.5% or \$3 million from our prior fiscal year due to study delays and cancellations initiated by the sponsors as well as price declines for accepted work. The lower sales volume and a decrease in our operating expenses created a net loss of \$2.7 million, which is a 51% improvement from the prior fiscal year's net loss of \$5.5 million. We experienced a 16% increase in revenue in the second half versus the first half of fiscal 2010 as the volume of bookings improved and products customers increased capital spending. To improve cash flow and reduce our break-even level, we implemented additional cost reductions starting in the second quarter of fiscal 2010. One such control was a reduction in work force, through both attrition and terminations, impacting all areas of operations. This reduced our annual compensation expense and is expected to save us approximately \$2.4 million annually. These and other cost control measures resulted in the reduction of operating expenses, excluding goodwill impairment, by approximately 20% (\$2.4 million) in fiscal 2010 compared to the prior fiscal year. In addition, we reduced our capital expenditures by 46% (\$400) in fiscal 2010.

In fiscal 2011, we will continue to monitor and address the impact that the challenging economy is having on our company and industry. In fiscal 2011, we expect to see slow but continued improvement in the volume of new bookings, but little improvement in pricing. We also expect improved gross profit margins due to the cost controls implemented. If current economic factors and industry trends for the CRO industry continue or deteriorate in fiscal 2011, our results of operations could be adversely affected. We have renegotiated our note payable and one mortgage, which were set to expire in December 2010 and February 2011, respectively, to extend the maturity dates to November 2012. We will continue to assess the need for additional cost controls such as freezing non-essential capital expenditures and current wage rates, reducing employee costs through personnel reductions either by attrition or reduction in workforce, reducing non-essential expenses, and monitoring our operations for efficiencies to further reduce our break-even point. We have debt and lease obligations of approximately \$3.0 million in fiscal 2011. Based on our expectation of a small increase in revenue, the availability on our line of credit, and the impact of the cost reductions implemented, we project that we will have the liquidity required to meet our fiscal 2011 operations and debt obligations.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Bioanalytical Systems Inc.

We have audited the consolidated balance sheets of Bioanalytical Systems, Inc. as of September 30, 2010 and 2009, and the related consolidated statements of operations, shareholders' equity and comprehensive loss 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 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included 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 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bioanalytical Systems, Inc as of September 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

/s/ Crowe Horwath LLP
Indianapolis, Indiana
January 12, 2011

ITEM 9-CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A-CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to provide reasonable assurance to our management and board of directors that information required to be disclosed in the reports we file or submit to the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Based on an evaluation conducted under the supervision and with the participation of the Company's management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2010, including those procedures described below, we, including our Chief Executive Officer and our Chief Financial Officer, determined that those controls and procedures were not effective for the reasons discussed in the section below entitled, *Management's Report on Internal Control over Financial Reporting*.

Changes in Internal Controls

There were no changes in our internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, during fiscal 2010 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting except as described in the following section entitled, *Management's Report on Internal Control over Financial Reporting*.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

A material weakness is a control deficiency, or combination of control deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. Management's assessment identified two material weaknesses in the design and operating effectiveness of controls related to accounting for income taxes and debt covenant compliance monitoring. Based on this assessment we concluded that we did not maintain effective internal control over financial reporting as of September 30, 2010. The matter relating to accounting for income taxes resulted from the incorrect netting of a deferred federal tax benefit against the reserve for uncertain tax positions relating to state taxes due to an error in reviewing our deferred tax assets at September 30, 2009. This resulted in us not reflecting the write-off of this asset when we determined that all deferred tax assets should be written off based on our assessment of realizability of such deferred tax assets and this later affected the amount of the reversal of the reserve for uncertain tax positions upon settlement.

With respect to the monitoring of our compliance with debt covenants, we have historically maintained our debt financial covenant compliance monitoring on a quarterly basis as required by our lenders. On January 13, 2010, we entered into a replacement revolving line of credit agreement with EGC, which necessitates monitoring of our net tangible net worth on a continuous basis (monthly). We did not maintain effective internal control over debt compliance management for the period ended September 30, 2010 since we did not have procedures in place to effectively monitor these covenants on a timely basis.

Each of these circumstances could result in a reasonable possibility that a material misstatement to our financial statements may not be prevented or detected on a timely basis.

The liability for the uncertain tax provision mentioned above was settled with the taxing authority in fiscal 2010 for substantially less than the recorded amount. No further action regarding this amount or its review is required. We have also initiated monthly review of requisite debt covenants in 2011. With the actions we have or intend to take, we believe that both material weaknesses will be corrected in the near future.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only Management's report in this report.

ITEM 9B-OTHER INFORMATION

None.

PART III

ITEM 10-DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The following information concerns the persons who served as the directors of the Company as of September 30, 2010. Except as indicated in the following paragraphs, the principal occupations of these persons have not changed in the past five years. Information concerning the executive officers of the Company may be found in "Executive Officers of the Registrant" under Item 1 of this report, which is incorporated herein by reference. Information required by Part III, Item 10 is incorporated herein by this reference from the Company's Proxy Statement for the 2011 Annual Meeting.

Name	Age	Position
John B. Landis, Ph.D.	57	Chairman
Larry S. Boulet	64	Director
David W. Crabb, M.D.	57	Director
Leslie B. Daniels	63	Director
David L. Omachinski	58	Director
A. Charlene Sullivan, Ph.D.	61	Director
Anthony S. Chilton, Ph.D.	54	Director, President and Chief Executive Officer

John B. Landis, Ph.D. was elected as a director of the Company on November 12, 2009 and elected as the Chairman of the Board on February 11, 2010. Dr. Landis retired from his position as Senior Vice President, Pharmaceutical Sciences of Schering-Plough in October 2008 and is currently an Adjunct Professor at Purdue University's Department of Chemistry. Prior to joining Schering-Plough in 2003, Dr. Landis served in various management positions with Pharmacia Corporation and The Upjohn Company, including Director of Quality Control, Executive Director of Quality Control, Vice President of Quality Control, Vice President of Analytical Research, Vice President of CNS Psychiatry, and Senior Vice President of Preclinical Development. Dr. Landis received his Bachelor of Science in Chemistry from Kent State University, his Masters in Analytical Chemistry from Purdue University and his Ph.D. in Analytical Chemistry from Purdue University.

Larry S. Boulet has served as a director of the Company since May 2007. Mr. Boulet was a Senior Audit Partner with PriceWaterhouseCoopers (PWC) and a National Financial Services Industry Specialist. For the last five years of his career with PWC, Mr. Boulet served as Partner-in-charge of the Indianapolis office's Private Client Group. Prior to serving on our Board, he served on the Board of Directors of Century Realty Trust, an Indiana based, real estate investment trust. He also served as Audit Committee Chairman until the Trust's sale and liquidation in 2007. Currently, Mr. Boulet also serves on the Indiana State University Foundation Board of Directors, where he is a past Chairman of the Board. He holds a Bachelor of Science degree in Accounting from Indiana State University.

David W. Crabb, M.D. has served as a director of the Company since February, 2004. He has been Chairman of the Indiana University Department of Medicine since 2001. He has been a member of the faculty of the Departments of

Medicine and Biochemistry and Molecular Biology since 1983. He served as Vice Chairman for Research for the department and as an Assistant Dean for Research from 1993 to 2000. Dr. Crabb is the Director of the Indiana Alcohol Research Center, serves on several editorial boards and is a member of the Boards of Directors of Polymer Technology Sciences, Inc., The Regenstrief Institute, and the Health and Hospital Corporation of Marion County. He was a recipient of a NIH Merit award and numerous other research and teaching awards.

Leslie B. Daniels has served as a director of the Company since June 2003. Mr. Daniels is a founding partner of CAI, a private equity fund in New York City. He previously was President of Burdge, Daniels & Co., Inc., a principal in venture capital and buyout investments as well as trading of private placement securities, and before that, a Senior Vice President of Blyth, Eastman, Dillon & Co. where he had responsibility for the corporate fixed income sales and trading departments. Mr. Daniels is a former Director of Aster-Cephac SA, IVAX Corporation, MIM Corporation, Mylan Laboratories, Inc., NBS Technologies Inc. and MIST Inc. He was also Chairman of Zenith Laboratories, Inc. and currently serves as a Director of SafeGuard Health Enterprises, Inc. On October 5, 2010, Mr. Daniels resigned as a Director of the Company.

David L. Omachinski was elected as a director of the Company on October 8, 2009. Mr. Omachinski is currently an executive management consultant. From 1993 to 2005, he served in various executive management positions with Oshkosh B'Gosh, Inc., including President, Chief Operating Officer, Chief Financial Officer, Vice President of Finance and Treasurer. Mr. Omachinski also previously held various executive roles with Schumaker, Romenesko & Associates, S.C., a Wisconsin-based, full service, regional accounting firm. Mr. Omachinski also serves on the board of Anchor Bancorp Wisconsin, Inc. since 1999, the University of Wisconsin-Oshkosh Foundation since 2003, and Chamco, Inc. since 2002. Mr. Omachinski received his Bachelor of Business Administration from the University of Wisconsin-Oshkosh and is a certified public accountant.

A. Charlene Sullivan, Ph.D. was elected as a director of the Company in January 2010. Dr. Sullivan is an Associate Professor of Management at the School of Management and the Krannert Graduate School of Management at Purdue University since 1984 and has been a faculty member at Purdue since 1978. Throughout her career at Purdue, Dr. Sullivan has taught undergraduate and graduate classes on corporate finance, financial institutions and markets and financial and managerial accounting and has received numerous awards and honors from the university. Since 2000 Dr. Sullivan also has served as the Management Faculty Advisor for the Technical Assistance Program at Purdue, which consults with small businesses in Indiana. In addition, Dr. Sullivan has served as a financial analyst for the Indiana Gaming Commission since 1995 and as a risk management consultant for Edgar Dunn & Company (a strategy and consulting firm) since 1994. Dr. Sullivan has served on the boards of directors of several private financial institutions and not-for-profit organizations, including the Federal Reserve Bank of Chicago from 1990 until 1996 and the Purdue Employees Federal Credit Union from 1997 until April 2009. She currently serves on the board of directors of the Greater Lafayette Community Foundation and on the Asset-Liability Committee for the Purdue Employees Federal Credit Union. Dr. Sullivan earned a B.S. degree in Home Economics from the University of Kentucky and a M.S. and Ph.D. in Management from Purdue University.

Anthony S. Chilton, Ph.D. was elected as a director of the Company on August 12, 2010. Dr. Chilton serves as the Chief Executive Officer, effective May 13, 2010. Dr. Chilton had previously served as Chief Operating Officer since December 1, 2008 and interim President since January 27, 2010. Dr. Chilton has over 30 years of experience as a scientist and executive in leading life sciences companies in England, Canada and the United States. For the past two years, Dr. Chilton was in charge of early development programs at Atherogenics, Inc. of Alpharetta, Ga. In the two years prior to joining the Company, Dr. Chilton provided consulting and advisory services to various pharmaceutical companies. Prior to that, he was Vice President of the Biopharmaceutical Development Division of Cardinal Health Inc., which he joined through a predecessor company in 1998 that was acquired by Cardinal in 2002. Previously, Dr. Chilton spent three years with life sciences companies in Canada, prior to which he held positions in his native United Kingdom. Dr. Chilton received his bachelor's degree in Chemistry from the University of East Anglia in 1981, and his Ph.D. in Analytical Chemistry from the University of Hertfordshire in 1993.

The Board of Directors has established an Audit Committee. The Audit Committee is responsible for recommending independent auditors, reviewing, in connection with the independent auditors, the audit plan, the adequacy of internal controls, the audit report and management letter and undertaking such other incidental functions as the board may authorize. Larry S. Boulet, David W. Crabb, David Omachinski and A. Charlene Sullivan are the members of the Audit Committee. The Board of Directors has determined that each of Mr. Boulet and Mr. Omachinski is an audit committee financial expert (as defined by Item 401(h) of Regulation S-K). All of the members of the Audit Committee are "independent" (as defined by Item 7(d)(3)(iv) of Schedule 14A).

The Board of Directors has adopted a Code of Ethics (as defined by Item 406 of Regulation S-K) that applies to the Company's Officers, Directors and employees, a copy of which is incorporated herein by reference to Exhibit 14 to Form 10-K for the fiscal year ended September 30, 2006.

The information contained under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement is incorporated herein by reference.

ITEM 11-EXECUTIVE COMPENSATION

The information included under the captions "Election of Directors – Compensation of Directors," "Executive Compensation" and "Compensation Committee Interlocks and Insider Participation" in the Proxy Statement is incorporated herein by reference in response to this item.

ITEM 12-SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information contained under the caption "Compensation of Directors and Executive Officers" in the Proxy Statement is incorporated herein by reference in response to this item.

For additional information regarding our stock option plans, please see Note 9 in the Notes to Consolidated Financial Statements in this report.

ITEM 13-CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information included under the caption "Certain Relationships and Related Transactions" in the Proxy Statement is incorporated herein by reference in response to this item.

ITEM 14-PRINCIPAL ACCOUNTING FEES AND SERVICES

The information included under the caption "Selection of Independent Accountants" in the Proxy Statement is incorporated herein by reference.

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PART IV

ITEM 15-EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this Report.

1. Financial Statements: See Index to Consolidated Financial Statements under Item 8 on Page 30 of this report.
2. Financial Statement Schedules: Schedules are not required, are not applicable or the information is shown in the Notes to the Consolidated Financial Statements.
3. Exhibits: The following exhibits are filed as part of, or incorporated by reference into, this report:

<u>Number</u>	<u>Description of Exhibits</u>
(3)	3.1 Second Amended and Restated Articles of Incorporation of Bioanalytical Systems, Inc. (incorporated by reference to Exhibit 3.1 to Form 10-Q for the quarter ended December 31, 1997).
	3.2 Second Amended and Restated Bylaws of Bioanalytical Systems, Inc., as subsequently amended (incorporated by reference to Exhibit 3.2 to Form 10-K for the fiscal year ended September 30, 2009).
(4)	4.1 Specimen Certificate for Common Shares (incorporated by reference to Exhibit 4.1 to Registration Statement on form S-1, Registration No. 333-36429).
	4.2 See Exhibits 3.1 and 3.2 to this Form 10-K.
(10)	10.1 Loan Agreement between Bioanalytical Systems, Inc. and Regions Bank dated December 18, 2007 (incorporated by reference to Exhibit 10.7 of Form 10-K for the fiscal year ended September 30, 2007).
	10.2 Form of Grant of non-qualified stock options dated April 1, 2004 to Michael R. Cox (*) (incorporated by reference to Exhibit 10.3 to Form 10-Q for the fiscal quarter ended March 31, 2004).
	10.3 Agreement for Lease, by and among Bioanalytical Systems, Inc., Bioanalytical Systems Limited and Pettifer Estates Limited, dated October 11, 2007 (incorporated by reference to Exhibit 10.1 to Form 8-K filed October 17, 2007).
	10.4 Form of Lease, by and among Bioanalytical Systems, Inc., Bioanalytical Systems Limited and Pettifer Estates Limited (incorporated by reference to Exhibit 10.2 to Form 8-K filed October 17, 2007).
	10.5 Employment Agreement between Michael R. Cox and Bioanalytical Systems, Inc., dated November 6, 2007 (incorporated by reference to Exhibit 10.1 to Form 8-K filed November 13, 2007).
	10.6 Employee Incentive Stock Option Agreement between Michael R. Cox and Bioanalytical Systems, Inc., dated November 6, 2007 (incorporated by reference to Exhibit 10.2 to Form 8-K filed November 13, 2007).

<u>Number</u>	<u>Description of Exhibits</u>
10.7	Bioanalytical Systems, Inc. 2008 Director and Employee Stock Option Plan (incorporated by reference to Appendix A to the Revised Definitive Proxy Statement filed February 5, 2008, SEC File No. 000-23357).
10.8	Form of Bioanalytical Systems, Inc. 2008 Director and Employee Stock Option Plan (*) (incorporated by reference to Exhibit 10.31 to Form 10-K for the fiscal year ended September 30, 2008).
10.9	Employment Agreement between Anthony S. Chilton and Bioanalytical Systems, Inc., dated December 1, 2008 (incorporated by reference to Exhibit 10.1 to Form 8-K filed November 14, 2008).
10.10	Employee Incentive Stock Option Agreement between Anthony S. Chilton and Bioanalytical Systems, Inc., dated December 1, 2008 (incorporated by reference to Exhibit 10.36 to Form 10-K for the fiscal year ended September 30, 2008).
10.11	Second amendment to Loan Agreement between Bioanalytical Systems, Inc. and Regions Bank, dated May 18, 2009 (incorporated by reference to Exhibit 10.3 to Form 10-Q for the fiscal quarter ended March 31, 2009).
10.12	Third amendment to Loan Agreement between Bioanalytical Systems, Inc. and Regions Bank, dated January 13, 2010 (incorporated by reference to Exhibit 10.34 to Form 10-K for the fiscal year ended September 30, 2009).
10.13	Loan and Security Agreement by and between Bioanalytical Systems, Inc., and Entrepreneur Growth Capital LLC, executed January 13, 2010 (incorporated by reference to Exhibit 10.35 to Form 10-K for the fiscal year ended September 30, 2009).
10.14	Agreement for Lease, by Bioanalytical Systems, Inc. and Forum Financial Services, dated January 22, 2010 (incorporated by reference to Exhibit 10.5 to Form 10-Q for the fiscal quarter ended December 31, 2009).
10.15	Amendment to Employment Agreement between Anthony S. Chilton and Bioanalytical Systems, Inc., dated February 1, 2010 (incorporated by reference to Exhibit 10.6 to Form 10-Q for the fiscal quarter ended December 31, 2009).
10.16	Employee Incentive Stock Option Agreement between Anthony S. Chilton and Bioanalytical Systems, Inc., dated February 1, 2010 (incorporated by reference to Exhibit 10.7 to Form 10-Q for the fiscal quarter ended December 31, 2009).
10.17	Amendment to Employment Agreement between Michael R. Cox and Bioanalytical Systems Inc., dated April 15, 2010 (incorporated by reference to Exhibit 10.1 to Form 10-Q for the fiscal quarter ended June 30, 2010).
10.18	Employee Incentive Stock Option Agreement between Michael R. Cox and Bioanalytical Systems Inc. dated April 15, 2010 (incorporated by reference to Exhibit 10.2 to Form 10-Q for the fiscal quarter ended June 30, 2010).
10.19	Promissory Note between Bioanalytical Systems, Inc. and Algorithm Holding Inc. dated April 30, 2010 (incorporated by reference to Exhibit 10.1 to Form 8-K filed April 30, 2010).
10.20	Employee Incentive Stock Option Agreement between Anthony S. Chilton and Bioanalytical Systems, Inc., dated May 12, 2010 (incorporated by reference to Exhibit 10.5 to Form 10-Q for the fiscal quarter ended June 30, 2010).

<u>Number</u>	<u>Description of Exhibits</u>
10.21	Amendment to Loan Agreement between Bioanalytical Systems, Inc., and Entrepreneur Growth Capital LLC, dated May 13, 2010 (incorporated by reference to Exhibit 10.9 to Form 10-Q for the fiscal quarter ended March 31, 2010).
10.22	Employment Agreement between Alberto F. Hidalgo and Bioanalytical Systems Inc., dated August 18, 2010 (filed herewith).
10.23	Non-Qualified Employee Stock Option Agreement between Alberto F. Hidalgo and Bioanalytical Systems Inc., dated August 18, 2010 (filed herewith).
10.24	Fourth Amendment to Loan Agreement between Bioanalytical Systems, Inc. and Regions Bank, executed November 29, 2010 (incorporated by reference to Exhibit 10.1 for Form 8-K filed December 2, 2010).
10.25	Amendment to Loan Agreement between Bioanalytical Systems, Inc., and Entrepreneur Growth Capital LLC, dated December 23, 2010 (incorporated by reference to Exhibit 10.1 for Form 8-K filed December 30, 2010).
10.26	Fourth Amendment to Loan Agreement between Bioanalytical Systems, Inc. and Regions Bank, as amended on December 29, 2010 (incorporated by reference to Exhibit 10.1 for Form 8-K filed January 5, 2011).
(14)	14.1 Code of Ethics (incorporated by reference to Exhibit 14 to Form 10-K for the fiscal year ended September 30, 2006).
(21)	21.1 Subsidiaries of the Registrant (filed herewith).
(23)	23.1 Consent of Independent Registered Public Accounting Firm Crowe Horwath LLP (filed herewith).
(31)	31.1 Certification of Chief Executive Officer (filed herewith).
	31.2 Certification of Chief Financial Officer (filed herewith).
(32)	32.1 Written Statement of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350) (filed herewith).

* Management contract or compensatory plan or arrangement.

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.

BIOANALYTICAL SYSTEMS, INC.
(Registrant)

By: /s/ Anthony S. Chilton

Date: January 12, 2011

Anthony S. Chilton
President and Chief Executive Officer

Date: January 12, 2011

By: /s/ Michael R. Cox

Michael R. Cox
Vice President, Finance and Administration,
Chief Financial Officer and Treasurer

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 and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Capacity</u>	<u>Date</u>
<u>/s/ Anthony S. Chilton</u> Anthony S. Chilton	Director, President and Chief Executive Officer (Principal Executive Officer)	January 12, 2011
<u>/s/ Michael R. Cox</u> Michael R. Cox	Vice President, Finance and Administration, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	January 12, 2011
<u>/s/ John B. Landis, Ph.D.</u> John B. Landis, Ph.D.	Chairman	January 12, 2011
<u>/s/ Larry S. Boulet</u> Larry S. Boulet	Director	January 12, 2011
<u>/s/ David W. Crabb</u> David W. Crabb	Director	January 12, 2011
<u>/s/ David L. Omachinski</u> David L. Omachinski	Director	January 12, 2011
<u>/s/ A. Charlene Sullivan, Ph.D.</u> A. Charlene Sullivan, Ph.D.	Director	January 12, 2011

QUARTERLY FINANCIAL DATA

Unaudited (amounts in thousands except per share amounts)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<u>2010</u>				
Total Revenue	\$ 6,377	\$ 6,935	\$ 8,064	\$ 7,405
Gross Profit	1,196	1,485	2,671	1,981
Net income (loss)	(1,488)	(1,212)	288	(279)
Basic net income (loss) per share	(0.30)	(0.25)	0.06	(0.06)
Diluted net income (loss) per share	(0.30)	(0.25)	0.06	(0.06)
<u>2009</u>				
Total Revenue	\$ 8,076	\$ 7,066	\$ 8,121	\$ 8,521
Gross Profit	2,047	872	2,135	2,550
Net loss	(1,584)	(1,831)	(632)	(1,416)
Basic net loss per share	(0.32)	(0.37)	(0.13)	(0.29)
Diluted net loss per share	(0.32)	(0.37)	(0.13)	(0.29)

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