BIOANALYTICAL SYSTEMS INC
Form 10-K
January 13, 2010

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

FORM 10-K

(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended September 30, 2009.
OR
o 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	35-1345024
(State or other jurisdiction of incorporation or organization)	(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 o NO x

Indicate by checkmark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES o NO x

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

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. x

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 o Accelerated filer o Non-accelerated filer o Smaller Reporting Company x

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

Based on the closing price on the NASDAQ Global Market on March 31, 2009, the aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was $4,432,000. As of January 12, 2010, 4,915,318 of registrant's common shares were outstanding. None of the registrant's Preferred Shares were outstanding as of January 12, 2010.

Documents Incorporated by Reference

Portions of the registrant’s definitive proxy statement for its 2010 Annual Meeting of Shareholders are incorporated by reference into Part III hereof.

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PART I

This Report contains certain statements that are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Readers of this Report are cautioned that reliance on any forward-looking statement involves risks and uncertainties. Although Bioanalytical Systems, Inc. (the "Company", “we”) believes that the assumptions on which the forward-looking statements contained herein are based are reasonable, any of those assumptions could prove to be inaccurate given the inherent uncertainties as to the occurrence or nonoccurrence of future events. There can be no assurance that the forward-looking statements contained in this Report will prove to be accurate. Risks and uncertainties that may affect our future results include, but are not limited to, those discussed under the heading “Risk Factors,” beginning on page 11. The inclusion of a forward-looking statement herein should not be regarded as a representation by the Company that the Company's objectives will be achieved. (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 central nervous system disorders, diabetes, osteoporosis and other diseases 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 at 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") exemption 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 is 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, acute safety monitoring of drugs and medical devices to chronic, multi-year oncogenicity and reproductive toxicity studies. 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 late discovery and preclinical development. The Culex® family of robotic automated dose delivery and blood sampling systems enable researchers to quickly and cost effectively determine PK/PD profiles of drugs in large and small animal models. These capabilities allow experiments on freely moving conscious animals from early research for therapeutic target validation to lead optimization of compounds being able to automatically dose and sample in-vivo to develop pharmacokinetic profiles of drugs during early screening in rodents quickly and cost effectively. Our bioanalytical services group utilizes our depth of expertise in liquid chromatography and electrochemistry to develop assays to support research and clinical programs. Liquid chromatography coupled to mass spectrometry is now a mainstay of our bioanalytical laboratories in support of preclinical projects. 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 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.

Though we no longer perform Phase I clinical studies following the sale of the Baltimore Clinical Pharmacology Research Unit in fiscal 2008, our services include evaluation of bioequivalence and bioavailability to monitor the rate and extent to which a drug is available in the body and that the availability is consistent between formulations.

3) Post-approval 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 tracks 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.

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 $24.2 million for fiscal 2009. 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.

- 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 and West Lafayette, 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.

In June 2008, we sold our Phase I / Bioequivalence business located in Baltimore, Maryland, and exited that area of contract research services. This was a business we acquired in fiscal 2003 with the objective of broadening our service offerings. However, we never attained sustained profitability with this business.

Research Products

We focus our products business on expediting preclinical screening of developmental drugs. We compete in very 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 $7.6 million for fiscal 2009. 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 10% 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% and 7.4% of our total revenues from continuing operations in fiscal 2009 and 2008, respectively. Pfizer, Inc. accounted for 3.2% and 10.0% of total trade accounts receivable from continuing operations at September 30, 2009 and 2008, 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 client relationships.

Our products and services are sold directly to the client. We currently have 18 employees on our sales and marketing staff. Sales, marketing and technical supports are based in the corporate headquarters located in West Lafayette, Indiana.

We have a network of 12 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 as of any date is not necessarily a meaningful indicator of our future results for a variety of reasons. These reasons include the following: 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. 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;
- 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;
- 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 of 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, as well as by associated 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. 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 the 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 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 compliant software for our preclinical research group. At the end of fiscal 2009, the majority of our laboratory operations in the US 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.

Also in fiscal 2004, we initiated an implementation of a new Enterprise Resource Planning ("ERP") system, which was launched at all of our locations in the third quarter of fiscal 2005. The implementation of this system was completed in fiscal 2008. The introduction of this new ERP system is part of our response to the Sarbanes-Oxley Act of 2002 (the "Act"). We determined that it was not practical to comply with the control, documentation and testing requirements of Section 404 of the Act while operating on different, decentralized, obsolete systems at our various locations. As part of the implementation of the new system, documentation has been and will continue to be developed. Testing procedures were initiated in fiscal 2008 at all locations in preparation of management's assessment and report on internal controls over financial reporting required by the Act. We worked diligently to ensure that the ERP system and related procedures were adequately installed and successfully tested by the end of fiscal year 2008. 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 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. Nevertheless, we will continue to monitor our compliance with these regulations, and we intend to take appropriate steps to ensure compliance as these and other privacy regulations 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 clients' 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 2009 and 2008, we spent $762 and $781, 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, animals, drugs and reagents, 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 nine federally registered trademarks, as well as one copyright registration for software. We also maintain a small pool of issued and pending patents. Most of these patents are related to our Culex® or in vivo product line. Of these patents, most are either issued or pending in the United States, although there are also patents issued and pending in the European Union and Japan. Although we believe that at least two of these patents are

important to the Culex® product line, the success of the Culex® business is not dependent on the intellectual property rights because 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.

In fiscal 2008, the intangible assets amortization expense included an accelerated amount of $143 for the impairment of certain patents, licenses and trademarks. This impairment reflected a management decision to no longer support these assets as active patents, licenses and trademarks since they had no related revenue-generating products.

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, 2009, we had 257 full-time employees and 17 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, 2009. 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
Richard M. Shepperd	69	Director, President and Chief Executive Officer
Michael R. Cox	62	Vice President, Finance; Chief Financial and Administrative Officer; Treasurer
Anthony S. Chilton, Ph.D.	53	Chief Operating Officer, Scientific Services
Jon Brewer	48	Vice President, Sales and Marketing
Craig S. Bruntlett, Ph.D.	60	Senior Vice President, Instruments Division
Lina L. Reeves-Kerner	58	Senior Vice President, Human Resources

Richard M. Shepperd was elected President and Chief Executive Officer of the Company in September 2006. Mr. Shepperd served for two years prior to joining the Company with Able Laboratories, Inc., of Cranbury, New Jersey ("Able") as Chief Restructuring Officer and Director of Restructuring. Able was formerly a generic pharmaceutical manufacturing company which filed a voluntary petition for bankruptcy on July 18, 2005 following the loss of FDA approval for its product line. Mr. Shepperd's duties for Able included exercising executive authority over all operational and restructuring activities of Able, which included advising its Board, creditors committee and courts regarding strategies to maintain and realize the most value from the company's assets. Able was not affiliated with the Company. For the two years prior to serving with Able, Mr. Shepperd served as an independent management consultant for various businesses. In that capacity, he advised these businesses on developing strategies to improve their financial health and maximize the assets of those organizations.

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.

Anthony S. Chilton, Ph.D. was hired as the Chief Operating Officer, Scientific Services, effective December 1, 2008. 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.

Jon D. Brewer was hired as the Vice President of Sales and Marketing, effective October 1, 2008. Mr. Brewer has nearly 25 years of experience as a sales and marketing executive in the pharmaceutical industry. Most recently, from 2006 to 2008, he consulted with companies as an independent consultant to develop and implement new business strategies. Prior to that, from 2000 to 2006, he served as Vice President of Integrity Pharmaceuticals and continued in this role through the merger with Xanodyne, a specialty pharmaceutical company headquartered in Cincinnati, Ohio. He has a strong history of developing and executing product launches and sales strategies resulting in exceptional sales growth. Mr. Brewer resigned from the Company effective January 4, 2010.

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 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 are insufficient to generate sufficient cash.

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 which the Company expects will be difficult to comply with based on the Company's current and expected financial condition and results of operations. 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 remedy any default within any allotted cure period or 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 million, (ii) minimum stockholders' equity of $2.5 million in the most recently completed fiscal year or in two of the three most recently completed fiscal years or (iii) net income from continuing operations of $500,000 in the most recently competed fiscal year or in two of the three most recently completed fiscal years.

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 the beginning of our fiscal year on 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.

The CRO services industry is highly competitive.

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.

Certain members of our senior management team (other than Mr. Shepperd and Dr. Chilton) have employment agreements which include a clause for the continuation of the executive's salary for a period of one or two years following the termination of their employment within one year of a Change of Control (as defined therein) regardless of the reason for termination. A Change of Control under these agreements includes the Company's receipt of a report on a Schedule 13D by a person who beneficially owns, directly or indirectly, 20% or more of our outstanding Common Shares. On April 6, 2009, Dr. Peter T. Kissinger and Candice Kissinger filed a Schedule 13D with the Securities and Exchange Commission, which disclosed that they are the beneficial owners of more than 20% of our outstanding Common Shares. The terms of the employment agreements combined with the Kissinger's Schedule 13D filing may make it more difficult to retain these executives. If a significant number of these executives choose to resign prior to April 6, 2010, the Company may be required to make payments to them that may adversely affect our operating results and liquidity.

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. 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.

Proposed and future legislation or regulations might increase the cost of our business or limit our service or product offerings.

Federal or state authorities might adopt healthcare legislation or regulations that are more burdensome than existing regulations. Changes in regulation could increase our expenses or limit our ability to offer some of our services or products.

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 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 termination of one or more significant contracts could have a material adverse effect on our business and financial performance.

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 client 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, in addition to acquisitions which we have already made, we are continually evaluating new acquisition opportunities. 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 might lose business opportunities as a result of healthcare reform.

Numerous governments have undertaken efforts to control growing healthcare costs through legislation, regulation and voluntary agreements with healthcare providers and drug companies. Healthcare reform could reduce demand for our services and products, and, as a result, our revenue. In the last several years, the U.S. Congress and some U.S. states have reviewed several comprehensive health care reform proposals. The proposals are intended to expand healthcare coverage for the uninsured and reduce the growth of total healthcare expenditures. The U.S. Congress has also considered and may adopt legislation that could have the effect of putting downward pressure on the prices that pharmaceutical and biotechnology companies can charge for prescription drugs. Any such legislation could cause our customers to spend less on research and development. If this were to occur, we would have fewer opportunities for our business, which could reduce our earnings. Similarly, pending or future healthcare reform proposals outside the United States could negatively impact our revenues from our international operations.

Reliance on air transportation.

Our laboratories and certain of our other businesses are heavily reliant on air travel for transport of samples and other material, products and people, and 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.

The outsourcing trend in the biotechnology and pharmaceutical industries may decrease, which could adversely affect our operations.

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. While industry analysts expect the outsourcing trend to continue for the next several years, a decrease in preclinical and/or clinical outsourcing activity could result in a diminished growth rate in the sales of one or more of our expected higher-growth areas and adversely affect our financial condition and results of operations. Furthermore, our customer contracts are generally terminable on little or no notice. Termination of a large contract or multiple contracts could adversely affect our sales and profitability.

Current economic and capital market trends may materially adversely affect our business.

Our revenues depend greatly on the expenditures made by the pharmaceutical and biotechnology industries 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, current 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 due to their inability to raise capital because of current economic trends, our business could be materially adversely affected.

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.

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 new space of approximately 7,000 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, 2009, our common stock was traded on the NASDAQ Global Market under the symbol "BASi." Effective November 20, 2009, our common stock is traded on NASDAQ Capital Markets. The following table sets forth the quarterly high and low sales price per share of our common stock from October 1, 2007 through September 30, 2009.

	High	Low
Fiscal Year Ended September 30, 2008		
First Quarter	$ 9.39	$ 6.76
Second Quarter	8.85	5.04
Third Quarter	6.00	4.25
Fourth Quarter	5.70	4.35
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

Holders

There were approximately 2,700 holders of record of our common stock as of January 12, 2010.

Dividends

We have not paid any cash dividends on our common shares 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):

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	595	$ 6.03	336
Equity compensation plans not approved by security holders (1)	25	$ 4.58	—
Total	620	$ 5.97	336

(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 9 to the Notes to Consolidated Financial Statements included in Item 8 of this report.

ITEM 6 – SELECTED FINANCIAL DATA

Not applicable.

[Remainder of page intentionally left blank.]

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 refinance our debt; (v) our ability to develop new products and services; (vi) our ability to make capital expenditures and finance operations; (vii) global economic conditions, especially as they impact our markets; (viii) our cash position; and (ix) 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 the control of the company.

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

The business of Bioanalytical Systems, Inc. is largely dependent on the level of pharmaceutical and biotechnology companies' efforts in new drug discovery and approval. Our services segment is the direct beneficiary of these efforts, through outsourcing by these companies of research work. Our products segment is the indirect beneficiary, 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. That sector of the drug industry has seen significant growth in the past decade, and, we believe, will continue to experience strong growth in the foreseeable future. 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 with changes to the risk profile and appetite of investors.

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 contrast to fiscal 2008, there were several announcements of large mergers in the pharmaceutical industry in fiscal 2009. Pfizer Inc. and Eli Lilly and Co. have both announced significant acquisitions. Also, Merck and Roche have recently 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 in fiscal 2009 and was a distraction for the research and development arms of these companies as they await finalization of new drug development portfolios. The additional competitive pressures could adversely affect our future operating results.

Our primary market, the contract research organization ("CRO") market, is experiencing serious economic pressures. Since the end of our 2008 fiscal year, pharmaceutical development companies have delayed the initiation of CRO studies and reduced their total spending for CRO services. We believe these actions are largely in response to the global economic recession and related financial crisis. The delays and reductions in spending by our customers resulted in a significant negative impact on our revenues for fiscal 2009 as compared to our prior fiscal year. However, the number of new studies initiated by our customers increased during our third fiscal quarter ended June 30, 2009 and continued through the end of the current fiscal year.

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 2009, we experienced lower demand for our products and services, high cancellation rates 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 2010, 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 2009, we had new authorizations of $33.6 million, a decrease of 26.2% over the same period in 2008. Likewise in fiscal 2009, our overall revenues declined approximately 24% versus the prior fiscal year. Gross margin and earnings declined as well from prior year. For a detailed discussion of our revenue, margins, earnings and other financial results for the fiscal year ended September 30, 2009, see "Results of Operations – 2009 Compared to 2008" below.

As of September 30, 2009, we had $870 of cash and cash equivalents as compared to $335 of cash and cash equivalents at the end of fiscal 2008. In fiscal 2009, we generated $1,999 in cash from continuing operations. Our accounts receivable and unbilled revenues balances decreased $3,680 from the prior fiscal year primarily due to the decline in sales, offset slightly by 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 freeze current wage rates for the foreseeable future to control costs and maintain cash.

Results of Operations

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

	Year Ended September 30,	
	2009	2008
Service revenue	76.0%	79.0%
Product revenue	24.0	21.0
Total revenue	100.0%	100.0%
Cost of service revenue (a)	86.8	69.7
Cost of product revenue (a)	42.2	39.0
Total cost of revenue	76.1	63.2
Gross profit	23.9	36.8
Total operating expenses	38.4	30.1
Operating income (loss)	(14.5)	6.7
Other expense	(3.3)	(2.3)
Income (loss) from continuing operations before income taxes	(17.8)	4.4
Income tax (benefit) expense	(0.6)	3.2
Net income (loss) from continuing operations	(17.2)%	1.2%

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

2009 Compared to 2008

Service and Product Revenues

Overall, our Services and Product revenues continue to be negatively impacted by the U.S. and European economic recession. Revenues for the year ended September 30, 2009 declined 23.8% to $31,784 compared to $41,697 for the year ended September 30, 2008.

Our Services revenue declined 26.6% to $24,158 compared to $32,921 for the prior year primarily as a result of lower bioanalytical analysis and toxicology revenues. Our bioanalytical analysis revenues decreased $4,255 (a 23.5% decline from fiscal 2008), mainly due to study delays by clients and decreases in new bookings. Our West Lafayette facility experienced the majority of the decline in bioanalytical analysis revenues, or $2,647. Likewise, our toxicology revenues declined from our prior fiscal year by $3,450, or 30.1%. Study delays and cancellations contributed to the decline for the toxicology group as well.

Sales in our Products segment decreased 13.1% from $8,776 to $7,626 when compared to the same period in the prior year. The majority of that decrease stems from lower sales of our Culex automated in vivo sampling systems, which declined 30.3% to $3,263 from $4,680. This decline stems mainly from the reduction in research and development and capital spending by our customers as part of their overall cost savings initiatives.

Although our revenues for the current fiscal year were less than our prior fiscal year, our revenues increased 10% 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 since January 1, 2009 compared to the last six months of calendar 2008 resulting from the efforts of our sales and marketing department, which was reorganized in the first quarter of fiscal 2009.

Cost of Revenue

Cost of revenue for the year ended September 30, 2009 was $24,180 or 76.1% of revenue compared to $26,364, or 63.2% of revenue for the comparable prior period.

Cost of Service revenue as a percentage of Service revenue increased to 86.8% in the current fiscal year from 69.7% in the prior year. The principal cause of this increase was the decline in sales. A significant portion of our costs of productive capacity in the Service segment are fixed. Thus, decreases in revenues lead to increases in costs as a percentage of revenue.

Cost of Product revenue as a percentage of Product revenue in the current fiscal year increased from 39.0% to 42.2%. The increase in the percentage was mainly due to an increase in our periodic charges for inventory obsolescence of $295. This was the result of higher charges in the current fiscal year for products that were discontinued.

Operating Expenses

Selling expenses for the year ended September 30, 2009 decreased by 15.8% to $3,296 from $3,912 for the year ended September 30, 2008. 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 expenditures. Also, accelerated amortization of $143 in fiscal 2008, related to the abandonment of unused patents, resulted in lower amortization expense in fiscal 2009.

Research and development expenses for the year ended September 30, 2009 decreased 2.4% to $762 from $781 for the year ended September 30, 2008. The decrease was partially due to a decrease in salaries from the reduction in work force as well as reduced spending on temporary labor and operating supplies.

General and administrative expenses for the current year decreased 2.2% to $7,674 from $7,846 for the prior year. A decline in salaries and hourly wages from the January 2009 reduction in force contributed to the reduction in expenses in the current fiscal year as well as strict controls on other variable expenses.

Other Income/Expense

Other income (expense), net, was $(1,060) for the year ended September 30, 2009 as compared to $(971) for the year ended September 30, 2008. This increase is due to additional borrowings on our line of credit, causing higher interest expense and lower interest income year over year.

Income Taxes

Our effective tax rate for continuing operations for the year ended September 30, 2009 was (3.5%) compared to 72.8% for the prior year period. In fiscal 2009, a valuation allowance was set up against the entire US deferred income tax balance, adjusting the rate from (36.4%) to (3.5%). In fiscal 2008, we recorded an additional expense of $233 for uncertain tax positions and incurred taxes on domestic income from which we could not deduct the loss from our UK facility. We also did not provide income taxes on foreign earnings in fiscal 2008 or 2009 due to the availability of net operating loss carry forwards to offset our taxable income, which have not previously been recognized for financial

statement purposes due to the uncertainty of future utilization.

Discontinued Operations

On June 30, 2008, we sold the operating assets of our Baltimore Clinical Pharmacology Research Unit (“CPRU”) to Algorithme Pharma USA Inc. ("AP USA") and Algorithme Pharma Holdings Inc. ("Algorithme") for a cash payment of $850, and the assumption of certain liabilities related to the CPRU. As a result, we exited the market for Phase I first-in-human clinical studies. We remain contingently liable for $800 annually through 2015 for future financial obligations under the CPRU facility lease. For further detail, see Note 5 to the consolidated financial statements included in this report.

Accordingly, in the consolidated statements of operations and cash flows, we segregated the results of the CPRU as discontinued operations for our 2008 fiscal year. The loss from discontinued operations reflects the results of operations of the CPRU until disposal in fiscal 2008. The remaining estimated cash expenditures related to this unit were recorded as current liabilities of discontinued operations, since they were paid within fiscal year 2009. These expenditures relate mostly to normal operating expenses. The current assets of discontinued operations relate mostly to outstanding customer receivables for completed clinical trials that were collected in fiscal 2009.

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, 2009, we had cash and cash equivalents of $870 compared to $335 at September 30, 2008.

Net cash provided by continuing operating activities was $1,999 for the year ended September 30, 2009, compared to $3,959 for the year ended September 30, 2008. The decrease in cash provided by continuing operating activities in the current fiscal year primarily results from a decrease in earnings from continuing operations as well as a decrease in customer advances of $1,169. These items were partially offset by a decrease in accounts receivable of $3,680 as a result of the decline in sales and a decrease in refundable income taxes of $739 due to the receipt of federal and state income tax refunds. 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, $472 for impairment of goodwill for our UK operations and $570 for employee stock option expense. The impact on operating cash flow of other changes in working capital was not material.

The decline in cash generated from operations, which is our primary source of cash, relates to our current operating loss. We experienced an operating loss in fiscal 2009 as compared to operating income in the prior year as a result of an approximate 24% year-to-date decrease in sales, significantly reducing our cash flow from operations. The decline in sales was due to both a decrease in new bookings and delays by sponsors on projects previously booked. This negative impact on our cash flow from operations began to slow in our third quarter of fiscal 2009 as our revenues began to increase. Total revenues in the fourth quarter of fiscal 2009 of $8,521 represent the highest revenues of any quarter in fiscal 2009. Likewise, revenues in the second half of fiscal 2009 increased approximately $1,500 or 10% over the first half of the current fiscal year. Selling, general and administrative costs in the first half of fiscal 2009 included one-time costs, such as severance for employees, recruiting fees for replacing former officers and marketing and advertising costs associated with our new marketing plan and branding. These increased costs did not continue into the second half of fiscal 2009. Compared to the first half of fiscal 2009, selling and general and administrative costs decreased $1,580, or 25%, in the second half of the current fiscal year. We expect the reduced spending levels to continue and that our efforts to reduce costs will positively impact fiscal 2010 as well.

With respect to compliance with our bank loan covenants, EBITDA is computed as earnings before interest, taxes, depreciation and amortization, removing other non-cash charges such as stock option expenses and the impairment loss and deducting unfunded capital expenditures. For the third quarter ended June 30, 2009, we generated positive EBITDA for the first time in fiscal 2009. This continued into the fourth quarter of fiscal 2009 with another positive EBITDA quarter. We also covered our fixed charge coverage ratio for interest, debt and lease amortization for the second half of fiscal 2009, after a period of three fiscal quarters in which we did not. We believe these improvements helped to enable us to obtain waivers from our banks for loan covenant violations and to amend the covenants for future periods as discussed below.

In January 2009, we completed a reduction in work force impacting all areas of operations, through both attrition and terminations, which reduced our annual compensation expense by approximately 12%. Also, in an effort to reduce operating costs and provide greater financial flexibility, we negotiated a 43% reduction in the base salary of Richard M. Shepperd, our CEO.

Investing activities used $834 in fiscal 2009 mainly due to 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 51.3% reduction in capital spending from fiscal 2008 is a result of our efforts to contain cash commitments throughout the organization, funding only necessary expenditures.

Financing activities used $1,476 in the current fiscal year as compared to $2,071 used for fiscal 2008. The main use of cash in fiscal 2009 was for long term debt and capital lease payments of $1,212, as well as net payments on our line of credit of $264. In fiscal 2008, we repaid the balance of our subordinated debt, approximately $4,500, which was partially offset by $1,400 of new borrowings, net borrowings on our line of credit of $2,023 and long term debt and capital lease payments of $1,029.

Since the acquisition of the Baltimore clinic in fiscal 2003, we had consistently experienced negative cash flows from that operation. With the sale of that operation on June 30, 2008, we eliminated a significant drain on operating cash flows, which should result in improved future liquidity. During fiscal 2009, cash provided by operating activities for discontinued operations of $588 is mainly due to the collection of outstanding receivables.

Capital Resources

Property and equipment spending totaled $0.8 million and $3.2 million in fiscal 2009 and 2008, respectively. The decrease in spending in fiscal 2009 is the result of cash savings initiatives, funding only necessary expenditures. Capital spending in fiscal 2008 was mainly for tenant improvements on our new lease in the UK facility as well as laboratory equipment financed mainly through capital leases in the West Lafayette and Evansville, Indiana facilities. 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 aggregating approximately $8,700 and a $3,000 line of credit with Entrepreneur Growth Capital LLC (EGC), which is subject to availability limitations that may substantially reduce or eliminate our borrowing capacity at any time, as described in Note 7 to our consolidated financial statements. Regions notes payable include three outstanding mortgages on our facilities in West Lafayette and Evansville, Indiana, which total $7,503. 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 $1,212, 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. See Note 7 to the Consolidated Financial Statements for additional information.

We have interest rate swap agreements with respect to the note payable and a mortgage loan 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 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 $103 at September 30, 2009 and $0 at September 30, 2008, which was recorded in our consolidated financial statements as interest expense and a long term liability. 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 two years without payment by us. Upon expiration of the swaps, the net fair value recorded in the consolidated financial statements is expected to be zero.

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, limit additional indebtedness and capital expenditures as well as comply with certain financial covenants outlined in the borrowing agreements. All of these credit agreements contain cross-default provisions.

The covenants in our loan agreements with Regions require us to maintain certain ratios including a fixed charge coverage ratio and total liabilities to tangible net worth ratio. The Regions loans contain both cross-default provisions with each other and with the revolving line of credit from EGC as described below. At December 31, 2008 and March 31, 2009, we were not in compliance with our fixed charge coverage ratio. On February 17, 2009, Regions waived our violation of our fixed charge coverage ratio covenant through the end of our second fiscal quarter of the current year. On May 18, 2009, Regions amended the computations and requirements for the fixed charge coverage ratios through December 31, 2009. After that date, the computations and requirements for the fixed charge coverage ratio will revert to those in the original agreement. The amended computations are less restrictive to us. At September 30, 2009, we were in compliance with the amended fixed charge covenant ratio. Based on projections for fiscal 2010, we expect to be in breach of the Regions covenants once the computations and requirements revert to the original agreement after December 31, 2009. On January 7, 2010, Regions waived our expected violation of the fixed charge coverage ratio covenant through December 31, 2009. On January 13, 2010, Regions amended the computations and requirements for the fixed charge coverage ratios through fiscal year 2010.

Revolving Line of Credit

On January 13, 2010, we entered into a new $3,000 revolving line of credit agreement (“Credit Agreement”), with Entrepreneur Growth Capital LLC (EGC), which we intend to use for working capital and other purposes, to replace the National City line of credit that expires on January 15, 2010. 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. 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 but is renewable upon mutual agreement of the parties. 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 for the number of months remaining until expiration.

The covenants in the Credit Agreement require that we maintain a minimum tangible net worth of $9,500, which may restrict the amount we can borrow to fund future operations, acquisitions and capital expenditures. The Credit Agreement also contains cross-default provisions with the Regions loans and any future EGC loans.

Under the Credit Agreement borrowings bear interest at an annual rate equal to Citibank’s Prime Rate plus five percent (5%) 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.

Based on our current business activities and cash on hand, we expect to borrow on our revolving credit facility in fiscal 2010 to finance working capital. To conserve cash, we instituted a freeze on non-essential capital expenditures. As of September 30, 2009, we had $3,000 of total borrowing capacity with the National City line of credit, of which $1,759 was outstanding, and $870 of cash on hand.

We had a decrease in our total borrowing capacity of $1,448, from $4,448 to $3,000, from the fiscal year ended September 30, 2008 due to several factors, including the reduction of our maximum available amount from $5,000 to $3,000. Declining sales in fiscal 2009 led to a lower accounts receivable balance, which reduces the total borrowing capacity. As discussed above, the sales decline, which was due to lower new bookings and sponsor delays, began to slow in the third quarter of the current fiscal year. Revenues in the second half of fiscal year 2009 increased 10% over the first fiscal half and our accounts receivable balance increased slightly as well. Although the second half revenue and cash flow have shown gains over the first half of fiscal 2009, failure to continue to improve revenue and control expenses could impair our ability to continue operations.

With the decrease in cash flow from operations discussed above, we may face additional situations during fiscal 2010 where we are not in compliance with at least one covenant in the Credit Agreement, requiring that we obtain a waiver at that time. If that situation arises, we will be required to negotiate with our lending banks again to obtain loan modifications or waivers as described above. We cannot predict whether our lenders will provide those waivers, if required, what the terms of any such waivers might be or what impact any such waivers will have on our liquidity, financial condition or results of operations.

The following table summarizes the cash payments under our contractual term debt and other obligations at September 30, 2009 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 7, Debt Arrangements.

	2010	2011	2012	2013	2014	After 2014	Total
Notes payable	$ 524	$ 2,727	$ 306	$ 5,158	$ —	$ —	$ 8,715
Capital lease obligations	826	479	342	159	—	—	1,806
Operating leases	434	424	421	405	402	2,918	5,004
Uncertain tax positions	473	—	—	—	—	—	473
	$ 2,257	$ 3,630	$ 1,069	$ 5,722	$ 402	$ 2,918	$ 15,998

We anticipate spending approximately $1.0 million in fiscal 2010 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. During 2008, we recorded an impairment charge of $143 related to certain patents, licenses and trademarks that have no revenue generating products.

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 three reporting units are West Lafayette/Oregon, Evansville and the UK 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 most 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 using the assumptions detailed in the table below. As a result of this test, we recorded a $472 impairment loss equal to the total value of the UK goodwill. We performed our annual impairment test for all other reporting units at September 30, 2009. Using the following assumptions, which are more conservative than our internal forecasts and operating plans, the fair value of our West Lafayette/Oregon reporting unit is greater than the carrying value by approximately $1,600:

	Reporting Unit	
	West Lafayette/Oregon	UK
Discount rate	22.0%	20.0%
Revenue growth rate in fiscal 2010	1.5%	27.0%
Revenue growth rate each year after fiscal 2010	3.0%	18.0%
Operating expense reduction in fiscal 2010	18.1%	17.0%
Operating expense increase each year after fiscal 2010	1.0%	9.0%

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 and are consistent with our internal forecasts and operating plans. 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, 2009, remaining recorded goodwill was $1,383, and the net balance of other intangible assets was $114.

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 $570 and $592 during the fiscal years ended September 30, 2009 and 2008, 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 2009 and 2008 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 8 to the consolidated financial statements, we use the asset and liability method of accounting for income taxes.

We maintain a reserve for uncertain tax positions, according to ASC 740, Income Taxes. Under ASC 740, 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.

At the end of fiscal 2008 a $473 liability for uncertain income tax positions existed under ASC 740. This reserve is classified as a current liability in the consolidated balance sheet based on when we expect each of the items to be settled. Interest and penalties are included in this reserve. See Note 8 for additional information.

Any changes in the liability for uncertain tax positions would impact our effective tax rate. Over the next twelve months, it is reasonably possible that the uncertainty surrounding our reserve for uncertain income tax positions, which relate to certain state income tax issues, will be resolved upon the conclusion of state tax audits. Accordingly, if such resolutions are favorable, we would reduce the carrying value of our reserve.

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 April 2009, the FASB issued an accounting pronouncement under ASC 825-10-50 extending the disclosure requirements regarding the fair value of financial instruments. ASC 825-10-50 requires disclosures in interim reporting periods and in financial statements for annual reporting periods regarding the fair value of all financial instruments for which it is practicable to estimate that value, whether recognized or not on the company's balance sheet. ASC 825-10-50 requires entities to disclose the methods and significant assumptions used to estimate the fair value of financial instruments and describe changes in methods and significant assumptions, in both interim and annual financial statements. ASC 825-10-50 is effective for interim reporting periods ending after June 15, 2009 (the quarter ended June 30, 2009 for the Company). The adoption of ASC 825-10-50 has resulted in increased disclosures in our consolidated financial statements.

In May 2009, the FASB issued a new accounting standard on the accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued (“subsequent events”). The standard sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that occur for a potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. This standard is effective for interim and annual periods ending after June 15, 2009. The adoption of this standard did not have a material impact on our consolidated financial statements. We have evaluated subsequent events through January 13, 2010, the date of issuance of our consolidated financial statements.

In June 2009, the FASB issued a new standard on the FASB Accounting Standards Codification, or ASC. This standard was issued to establish the FASB ASC as the source of authoritative accounting principles recognized by the FASB in the preparation of financial statements in conformity with generally accepted accounting principles, or GAAP. Essentially, the GAAP hierarchy will be modified to only include 2 levels – authoritative and non-authoritative. This standard is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of the FASB ASC has resulted in increased disclosures in our consolidated financial statements.

In October 2009, the FASB issued Accounting Standards Update (“ASU”) 2009-13, which amends ASC Topic 605, Revenue Recognition. ASU 2009-13 revises the current accounting treatment 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 first fiscal year that begins after June 15, 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 evaluating this authoritative guidance to determine any potential impact that it may have on our consolidated financial statements.

ITEM 7A – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

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ITEM 8-FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Consolidated Financial Statements

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, 2009	2008
Assets		
Current assets:		
Cash and cash equivalents	$ 870	$ 335
Accounts receivable		
Trade	3,996	6,705
Unbilled revenues and other	1,684	2,653
Inventories	1,847	2,184
Deferred income taxes	—	516
Refundable income taxes	544	1,283
Prepaid expenses	622	639
Current assets of discontinued operations	—	629
Total current assets	9,563	14,944
Property and equipment, net	21,282	23,135
Deferred income taxes	12	—
Goodwill	1,383	1,855
Intangible assets, net	114	144
Debt issue costs	145	177
Other assets	86	92
Total assets	$ 32,585	$ 40,347
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	$ 1,997	$ 2,209
Accrued expenses	2,113	2,061
Customer advances	2,863	4,032
Income tax accruals	473	473
Revolving line of credit	1,759	2,023
Current portion of capital lease obligation	650	720
Current portion of long-term debt	524	491
Current liabilities of discontinued operations	—	41
Total current liabilities	10,379	12,050
Capital lease obligation, less current portion	792	1,443
Long-term debt, less current portion	8,191	8,715
Fair value of interest rate swaps	103	—
Deferred income taxes	—	344
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, 2009 and 2008December, 2007	1,191	1,191
Additional paid-in capital	13,131	12,561
Retained earnings	(1,290)	4,173
Accumulated other comprehensive income (loss)	88	(130)
Total shareholders' equity	13,120	17,795
Total liabilities and shareholders' equity	$ 32,585	$ 40,347

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,	
	2009	2008
Service revenue	$ 24,158	$ 32,921
Product revenue	7,626	8,776
Total revenue	31,784	41,697
Cost of service revenue	20,959	22,941
Cost of product revenue	3,221	3,423
Total cost of revenue	24,180	26,364
Gross profit	7,604	15,333
Operating expenses:		
Selling	3,296	3,912
Research and development	762	781
General and administrative	7,674	7,846
Impairment loss	472	—
Total operating expenses	12,204	12,539
Operating income (loss)	(4,600)	2,794
Interest income	2	29
Interest expense	(1,063)	(1,006)
Other income	1	6
Income (loss) from continuing operations before income taxes	(5,660)	1,823
Income taxes (benefit)	(197)	1,328
Net income (loss) from continuing operations	$ (5,463)	$ 495
Discontinued Operations (Note 5)		
Loss from discontinued operations before income taxes	$ —	$ (2,811)
Loss on disposal	—	(474)
Tax benefit	—	1,301
Net loss from discontinued operations after income taxes	$ —	$ (1,984)
Net loss	$ (5,463)	$ (1,489)
Basic net income (loss) per share:		
Net income (loss) per share from continuing operations	$ (1.11)	$ 0.10
Net loss per share from discontinued operations	—	(0.40)
Basic net loss per share	$ (1.11)	$ (0.30)
Diluted net income (loss) per share:		

Net income (loss) per share from continuing operations	$ (1.11)	$ 0.10
Net loss per share from discontinued operations	—	(0.40)
Diluted net loss per share	$ (1.11)	$ (0.30)
Weighted common shares outstanding:		
Basic	4,915	4,914
Diluted	4,915	4,968

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

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

	Common shares		Additional paid-in-	Retained	Accumulated other comprehensive	Total shareholders'
	Number	Amount	capital	earnings	Income (loss)	equity
Balance at October 1, 2007	4,909	1,189	11,957	5,560	(152)	18,554
Comprehensive loss:						
Net income from continuing operations	—	—	—	495	—	495
Net loss on discontinued operations	—	—	—	(1,984)	—	(1,984)
Other comprehensive income (loss):						
Foreign currency translation adjustments	—	—	—	—	22	22
Total comprehensive loss						(1,467)
Stock compensation	—	—	592	—	—	592
Exercise of stock options	6	2	12	—	—	14
Adoption of ASC 740 cumulative adjustment	—	—	—	102	—	102
Balance at September 30, 2008	4,915	$ 1,191	$ 12,561	$ 4,173	$ (130)	$ 17,795
Comprehensive loss:						
Net loss from continuing operations	—	—	—	(5,463)	—	(5,463)
Other comprehensive income (loss):						
Foreign currency translation adjustments	—	—	—	—	218	218
Total comprehensive loss						(5,245)
Stock compensation	—	—	570	—	—	570
Balance at September 30, 2009	4,915	$ 1,191	$ 13,131	$ (1,290)	$ 88	$ 13,120

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,	
	2009	2008
Operating activities:		
Net loss	$ (5,463)	$ (1,489)
Adjustments to reconcile net loss to net cash provided by continuing operating activities:		
Net loss from discontinued operations, including loss on disposal	—	1,984
Depreciation and amortization	2,645	3,013
Goodwill impairment charge	472	—
Employee stock compensation expense	570	592
Bad debt expense	(2)	58
Loss on interest rate swap	103	—
Loss on sale of property and equipment	37	24
Deferred income taxes	160	388
Changes in operating assets and liabilities:		
Accounts receivable	3,680	(1,510)
Inventories	338	(207)
Refundable income taxes	739	(509)
Prepaid expenses and other assets	49	151
Accounts payable	(212)	969
Accrued expenses	52	433
Customer advances	(1,169)	62
Net cash provided by continuing operating activities	1,999	3,959
Investing activities:		
Capital expenditures	(834)	(1,713)
Proceeds from sale of property and equipment	—	2
Net cash used by continuing investing activities	(834)	(1,711)
Financing activities:		
Payments of long-term debt	(491)	(4,876)
Borrowings on long-term debt	—	1,400
Payments on revolving line of credit	(19,052)	(14,285)
Borrowings on revolving line of credit	18,788	16,308
Payments on capital lease obligations	(721)	(632)
Net proceeds from the exercise of stock options	—	14
Net cash used by continuing financing activities	(1,476)	(2,071)
Cash flow of discontinued operations:		
Cash provided (used) by operating activities	588	(3,361)
Net cash provided by investing activities	—	669
Net cash provided (used) by discontinued operations	588	(2,692)
Effect of exchange rate changes	258	13
Net increase (decrease) in cash and cash equivalents	535	(2,502)

Cash and cash equivalents at beginning of year		335		2,837
Cash and cash equivalents at end of year	$	870	$	335

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 for continuing operations was $110 and $83 at September 30, 2009 and 2008, respectively.

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

	2009	2008
Opening balance	$ 83	$ 27
Charged to expense, net	39	58
Accounts written off	(12)	(2)
Ending balance	$ 110	$ 83

(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 for continuing operations was $2,609 in fiscal 2009 and $2,752 in fiscal 2008. Expenditures for maintenance and repairs are expensed as incurred.

Property and equipment, net, as of September 30, 2009 and 2008 consisted of the following:

	2009	2008
Land and improvements	$ 490	$ 497
Buildings and improvements	21,298	21,318
Machinery and equipment	20,462	20,456
Office furniture and fixtures	972	992
Construction in progress	40	149
	43,262	43,412
Less: accumulated depreciation	(21,980)	(20,277)
Net property and equipment	$ 21,282	$ 23,135

(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 and intangibles with indefinite lives are 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 rate 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 three reporting units are West Lafayette/Oregon, Evansville and the UK 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 most 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 using the assumptions detailed in the table below. As a result of this test, we recorded a $472 impairment loss equal to the total value of the UK goodwill. We performed our annual impairment test for all other reporting units at September 30, 2009. Using the following assumptions, which are slightly below our internal forecasts and operating plans, the fair value of our West Lafayette/Oregon reporting unit is greater than the carrying value.

	Reporting Unit	
	West Lafayette/Oregon	UK
Discount rate	22.0%	20.0%
Revenue growth rate in fiscal 2010	1.5%	27.0%
Revenue growth rate each year after fiscal 2010	3.0%	18.0%
Operating expense reduction in fiscal 2010	18.1%	17.0%
Operating expense increase each year after fiscal 2010	1.0%	9.0%

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 and are consistent with our internal forecasts and operating plans. 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, 2009, remaining recorded goodwill was $1,383, and the net balance of other intangible assets was $114.

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

	2009	2008
Opening balance	$ 1,855	$ 1,855
UK impairment charge	(472)	—
Ending balance	$ 1,383	$ 1,855

On June 30, 2008, we sold the operating assets of our Clinical Pharmacology Research Unit located in Baltimore, Maryland. As a result of this sale (more fully described in Note 5), we expensed the remaining $47 unamortized balance of the intangible assets of this unit in fiscal 2008.

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Also, in fiscal 2008, the intangible assets amortization expense includes an accelerated amount of $143 for the write off of certain patents, licenses and trademarks. This acceleration reflects a management decision to no longer support certain assets as active patents, licenses and trademarks since they had no related revenue-generating products.

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

	September 30, 2009		
	Weighted average life (years)	Gross Carrying Amount	Accumulated Amortization
FDA compliant facility	10	$ 302	$ 188

	September 30, 2008		
	Weighted average life (years)	Gross Carrying Amount	Accumulated Amortization
FDA compliant facility	10	$ 302	$ 158

Amortization expense for intangible assets for fiscal years ended September 30, 2009 and 2008 was $30 and $215 respectively. As mentioned above, the large decline in amortization expense from fiscal 2008 to fiscal 2009 is the result of fiscal 2008 accelerated amortization of $143 for the write off of certain patents, licenses and trademarks as well as the $47 amortization related to the intangible assets of the CPRU unit in Baltimore. The following table provides information regarding estimated amortization expense for the next five fiscal years:

2010	$ 30
2011	30
2012	30
2013	24
2014	—

(h) Advertising Expense

We expense advertising costs as incurred. Advertising expense was $219 and $201 for the years ended September 30, 2009 and 2008, 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 9. 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 9. Stock-based compensation expense for employee stock options for the years ended September 30, 2009 and 2008 was $570 and $592 with related tax benefits of $0 and $154, respectively.

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(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. Over the next twelve months, it is reasonably possible that the uncertainty surrounding our reserve for uncertain income tax positions, which relate to certain state income tax issues, will be resolved upon the conclusion of state tax litigation. Accordingly, if such resolutions are favorable, we would reduce the carrying value of our reserve.

(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 April 2009, the FASB (Financial Accounting Standards Board) issued an accounting pronouncement under ASC 825-10-50 extending the disclosure requirements regarding the fair value of financial instruments. ASC 825-10-50 requires disclosures in interim reporting periods and in financial statements for annual reporting periods regarding the fair value of all financial instruments for which it is practicable to estimate that value, whether recognized or not on the company's balance sheet. ASC 825-10-50 requires entities to disclose the methods and significant assumptions used to estimate the fair value of financial instruments and describe changes in methods and significant assumptions, in both interim and annual financial statements. ASC 825-10-50 is effective for interim reporting periods ending after June 15, 2009 (the quarter ended June 30, 2009 for the Company). While the adoption of ASC 825-10-50 impacts our disclosures, it did not have an impact on our consolidated financial position or results of operations.

In May 2009, the FASB issued a new accounting standard on the accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued (“subsequent events”). The standard sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that occur for a potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. This standard is effective for interim and annual periods ending after June 15, 2009. The adoption of this standard did not have a material impact on our consolidated financial statements.

In June 2009, the FASB issued a new standard on the FASB Accounting Standards Codification, or ASC. This standard was issued to establish the FASB ASC as the source of authoritative accounting principles recognized by the FASB in the preparation of financial statements in conformity with generally accepted accounting principles, or GAAP. Essentially, the GAAP hierarchy was modified to only include 2 levels – authoritative and non-authoritative. This standard is effective for financial statements issued for interim and annual periods ending after September 15, 2009. While the adoption of the FASB ASC impacted our disclosures, it did not have an impact on our consolidated financial position or results of operations.

In October 2009, the FASB issued Accounting Standards Update (“ASU”) 2009-13, which amends ASC Topic 605, Revenue Recognition. ASU 2009-13 revises the current accounting treatment 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 first fiscal year that begins after June 15, 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 evaluating this authoritative guidance to determine any potential impact that it may have on our consolidated financial statements.

(l) Fair Value

The Company adopted the provisions of the Fair Value Measurements and Disclosure Topic effective for interim reporting periods ending after June 15, 2009 as required by the FASB ASC. This Topic defines fair value, establishes a consistent framework for measuring fair value and expands 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 long-term debt is equal to their carrying values due to the variable nature of their interest rates. See Note 7 for further discussion of the fair value of our interest rate swap.

(m) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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, deferred tax valuations, depreciation, impairment charges and stock compensation. Our actual results could differ from those estimates.

3. INCOME (LOSS) PER SHARE

We compute basic income (loss) per share using the weighted average number of common shares outstanding. We compute diluted income (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. Shares issuable upon exercise of options were excluded from the computation of loss per share for the fiscal year ended September 30, 2009 as they are anti-dilutive.

[Remainder of page intentionally left blank.]

The following table reconciles our computation of basic income (loss) per share from continuing operations to diluted income (loss) per share from continuing operations:

	Years Ended September 30,	
	2009	2008
Basic net income (loss) per share from continuing operations:		
Net income (loss) applicable to common shareholders	$ (5,463)	$ 495
Weighted average common shares outstanding	4,915	4,914
Basic net income (loss) per share from continuing operations	$ (1.11)	$ 0.10
Diluted net income (loss) per share from continuing operations:		
Diluted net income (loss) applicable to common shareholders	$ (5,463)	$ 495
Weighted average common shares outstanding	4,915	4,914
Dilutive stock options/shares	—	54
Diluted weighted average common shares outstanding	4,915	4,968
Diluted net income (loss) per share from continuing operations	$ (1.11)	$ 0.10

At September 30, 2009 and 2008, we had 620 and 700 shares, respectively, issuable upon exercise of stock options that are not included in our outstanding share calculation as they are anti-dilutive.

4. INVENTORIES

Inventories at September 30 consisted of the following:

	2009	2008
Raw materials	$ 1,732	$ 1,897
Work in progress	131	268
Finished goods	271	202
	$ 2,134	$ 2,367
Obsolescence reserve	(287)	(183)
	$ 1,847	$ 2,184

5. DISCONTINUED OPERATIONS

On June 30, 2008, we completed a transaction with Algorithme Pharma USA Inc. ("AP USA") and Algorithme Pharma Holdings Inc. ("Algorithme") whereby we sold the operating assets of our Baltimore Clinical Pharmacology Research Unit (“CPRU”). In exchange, we received cash of $850, and they assumed certain liabilities related to the CPRU, including our obligations under the lease for the facility in which the CPRU operated. As a result of this sale, we have exited the Phase I first-in-human clinical study market. We remain contingently liable for $800 annually through 2015 for future financial obligations under the lease should AP USA and Algorithme fail to meet their lease commitment.

Accordingly, in the accompanying consolidated statements of operations and cash flows we have segregated the results of the CPRU as discontinued operations for fiscal 2008. The loss from discontinued operations reflects the operating loss of the CPRU. The CPRU was previously included in our Services segment.

Condensed Statements of Operations from Discontinued Operations

(in thousands)	Year Ended September 30, 2009	2008
Net Sales	$ —	$ 2,192
Loss before income taxes and disposal	—	(2,811)
Loss on disposal	—	(474)
Loss from operations before tax benefit	—	(3,285)
Income tax benefit	—	1,301
Net loss	$ —	$ (1,984)

Summary Balance Sheet of Discontinued Operations

(in thousands)	September 30, 2009	September 30, 2008
Receivables, net of allowance for doubtful accounts	$ —	$ 346
Other current assets	—	283
Total assets	$ —	$ 629
Accounts payable, accrued liabilities and other liabilities	—	41
Equity	—	588
Total liabilities and equity	$ —	$ 629

6. LEASE ARRANGEMENTS

The total amount of equipment capitalized under capital lease obligations as of September 30, 2009 and 2008 was $3,884. Accumulated amortization on capital leases at September 30, 2009 and 2008 was $1,981 and $1,338, respectively. Amortization of assets acquired through capital leases is included in depreciation expense.

During fiscal 2009, we did not acquire any new equipment through capital lease arrangements. We acquired equipment totaling $1,145 through capital lease arrangements during the year ended September 30, 2008. Future minimum lease payments on capital leases at September 30, 2009 are as follows:

	Principal	Interest	Total
2010	$ 650	$ 176	$ 826
2011	366	113	479
2012	279	63	342
2013	147	12	159
2014	—	—	—
	$ 1,442	$ 364	$ 1,806

We lease office space and equipment under noncancelable operating leases that terminate at various dates through 2013, with the UK building lease expiring in 2023. Certain of these leases contain renewal options. Total rental expense under these leases was $485 and $1,609 in fiscal 2009 and 2008, respectively. The decrease in rental expense in the current year is primarily due to the sale of our CPRU unit on June 30, 2008 as described in Note 5. Beginning in the fourth quarter of fiscal 2008, we did not have the building lease payments for the CPRU unit.

Future minimum lease payments for the following fiscal years under operating leases at September 30, 2009 are as follows:

2010	$ 434
2011	424
2012	421
2013	405
2014	402
After 2014	2,918
	$ 5,004

[Remainder of page intentionally left blank.]

7. DEBT ARRANGEMENTS

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

	2009	2008
Mortgage note payable to a bank, payable in monthly principal and interest installments of $40 until June 1, 2010 when it adjusts under the terms of the note. Interest is fixed at 7.1% for three years beginning June 1, 2007. Collateralized by underlying property. Due November, 2012.	$ 4,117	$ 4,294
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.	1,489	1,623
Mortgage note payable to a bank, payable in monthly principal and interest installments of $17 until June 1, 2010, when it adjusts under the terms of the note. Interest is fixed at 7.1% for three years beginning June 1, 2007. Collateralized by underlying property. Due November, 2012.	1,897	1,967
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.	1,212	1,322
	$ 8,715	$ 9,206
Less current portion	524	491
	$ 8,191	$ 8,715

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

2010	$ 524
2011	2,727
2012	306
2013	5,158
	$ 8,715

Cash interest payments of $917 and $872 were made in 2009 and 2008, respectively.

Mortgages and note payable

On December 18, 2007, we entered into a loan agreement with Regions Bank (“Regions”) under which Regions loaned us $1,400 under a term loan maturing December 18, 2010. The outstanding balance on this loan at September 30, 2009 was $1,212. Interest on the loan is equal to LIBOR plus 215 basis points. Monthly payments are $9 plus interest. The loan is collateralized by real estate at our West Lafayette and Evansville, Indiana locations. Regions also holds approximately $7,500 of additional mortgage debt on these facilities. We entered into interest rate swap agreements

with respect to two of these loans to fix the interest rate at 6.1%. We entered into these derivative transactions to hedge interest rate risk of this debt obligation and not to speculate on interest rates. 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 $103 at September 30, 2009 and $0 at September 30, 2008, which was recorded in our condensed consolidated financial statements as interest expense and a long term liability. 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 two years without payment by us. Upon expiration of the swaps, the net fair value recorded in the consolidated financial statements is expected to be zero.

The covenants in our loan agreements with Regions require us to maintain certain ratios including a fixed charge coverage ratio and total liabilities to tangible net worth ratio. 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 December 31, 2008 and March 31, 2009, we were not in compliance with our fixed charge coverage ratio. On February 17, 2009, Regions waived our violation of our fixed charge coverage ratio covenant through March 31, 2009. On May 18, 2009, Regions amended the computations and requirements for the fixed charge coverage ratios through December 31, 2009. After that date, the computations and requirements for the fixed charge coverage ratio will revert to those in the original agreement. The amended computations are less restrictive to us. At September 30, 2009, we were in compliance with the amended fixed charge covenant ratio. Based on projections for fiscal 2010, we expect to be in breach of the Regions covenants once the computations and requirements revert to the original agreement after December 31, 2009. On January 7, 2010, Regions waived our expected violation of the fixed charge coverage ratio covenant through December 31, 2009. On January 13, 2010, Regions amended the computations and requirements for the fixed charge coverage ratios through fiscal year 2010.

Revolving Line of Credit

Through December 31, 2009, we had a revolving line of credit (“Agreement”), with National City, which we used for working capital and other purposes. Borrowings under the Agreement 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. Under the Agreement, the Company agreed to restrict advances to subsidiaries, limit additional indebtedness and capital expenditures and comply with certain financial covenants outlined in the Agreement.

The covenants in the Agreement required that we maintain certain ratios of interest-bearing indebtedness to EBITDA and net cash flow to debt servicing requirements. The Agreement also contained cross-default provisions with the Regions loans.

On July 17, 2009, we executed a Fourth Amendment to the Amended and Restated Credit Agreement with National City. In fiscal 2009, prior to the Fourth Amendment, we had been operating in breach of the fixed charge coverage ratio and tangible net worth covenants. Under the amended Agreement, National City reduced the maximum available amount from $5,000 to $3,000 and agreed to waive our violations of the fixed charge coverage ratio covenant and the tangible net worth covenant through June 30, 2009. National City also agreed to amend the computations and requirements for the fixed charge coverage ratios and the tangible net worth ratio through December 31, 2009. As of September 30, 2009, we were in compliance with the amended computations. On December 31, 2009, we executed a Fifth Amendment to the Amended and Restated Credit Agreement with PNC Bank, as successor by merger to National City, extending the maturity date of the line of credit until January 15, 2010.

At September 30, 2009, we had $3,000 of total borrowing capacity from the National City line of credit, of which $1,759 was outstanding.

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 National City line of credit that expires on January 15, 2010. The initial term of the Credit Agreement expires on January 31, 2011. Borrowings bear interest at an annual rate equal to Citibank’s Prime Rate plus five percent (5%), or 8.25% as of January 13, 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. The covenants in the Credit Agreement require that we maintain a minimum tangible net worth of $9,500, which may restrict the amount we can borrow to fund future operations, acquisitions and capital expenditures. The Credit Agreement also contains cross-default provisions with the Regions loans and any future EGC loans.

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8. INCOME TAXES

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

	2009	2008
Long-term deferred tax assets:		
Tax over book depreciation	$ (842)	$ (770)
Lower tax basis on assets of acquired company	(418)	(428)
Domestic net operating loss carryforward	1,440	641
Stock compensation expense	363	213
Foreign net operating loss	1,293	—
Foreign tax credit carryover	119	—
AMT credit carryover	13	—
Total long-term deferred tax assets	$ 1,968	$ (344)
Current deferred tax assets:		
Inventory pricing	$ 186	$ 128
Accrued compensation and vacation	240	244
Accrued expenses and other – net	—	73
Foreign tax credit carryover	—	71
Foreign net operating loss	(1)	540
Total current deferred tax assets	$ 425	$ 1,056
Valuation allowance for deferred tax assets	(2,381)	(540)
Net deferred tax assets	$ 12	$ 172

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

	2009	2008
Current:		
Federal	$ (345)	$ (505)
State	(11)	144
Foreign	(1)	—
Total Current	$ (357)	$ (361)
Deferred:		
Federal	$ 118	$ 341
State	41	45
Foreign	1	2
Total deferred	$ 160	$ 388
	$ (197)	$ 27

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

	2009	2008
Statutory federal income tax rate	(34 .0)%	34 .0%
Increases (decreases):		
Nondeductible expenses	2 .6	5 .0
State income taxes, net of federal tax benefit	(5 .4)	10 .0
Nontaxable foreign (gains) losses	2 .5	12 .4
Uncertain tax positions	—	12 .8
Valuation allowance	32 .9	—
Other	(2 .1)	(1 .4)
	(3 .5)%	72 .8%

We have not provided any U.S. income taxes benefit on the accumulated losses of our UK subsidiary. In fiscal 2009 and 2008, our foreign operations generated losses before income taxes of $2,293 and $669, respectively. We have foreign net operating loss carryforwards of $4,040 that have an indefinite life under current UK tax law. Payments made in 2009 and 2008 for income taxes amounted to $1 and $186, 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.

At September 30, 2009, we had domestic net operating loss carryforwards of approximately $3,242 for federal and $3,968 for state, which expire from September 30, 2028 through 2029. 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 the end of fiscal 2008, a $473 liability for uncertain income tax positions existed under ASC 740.

A reconciliation of the total amounts of unrecognized tax liability at September 30, 2008 and 2009 is as follows:

Beginning of year balance, October 1, 2007	$ 240
Increases to tax positions in current year	259
Increases to tax positions in prior years	—
Decreases to tax positions in prior years	(26)
Decreases due to lapse of statute of limitations	—
End of year balance, September 30, 2008	$ 473
Increases to tax positions in current year	—
Increases to tax positions in prior years	—
Decreases to tax positions in prior years	—
Decreases due to lapse of statute of limitations	—

End of year balance, September 30, 2009	$	473

Over the next twelve months, it is reasonably possible that the uncertainty surrounding our reserve for uncertain income tax positions will be resolved upon the conclusion of state tax litigation. Accordingly, if such resolutions are favorable, we would reduce the carrying value of our reserve. Interest and penalties are included in this reserve. 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.

9. 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, 2009, 336 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:

	2009	2008
Risk-free interest rate	2.89%	3.74%
Dividend yield	0.00%	0.00%
Volatility of the expected market price of the Company's common stock	55.00%-77.00%	44.00%-59.00%
Expected life of the options (years)	8.0	7.0

A summary of our stock option activity and related information for the years ended September 30, 2009 and 2008, 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, 2007	615	$ 6.00			
Exercised	(6)	$ 4.94			
Granted	189	$ 6.40	$ 3.67		
Terminated	(44)	$ 6.74			
Outstanding - September 30, 2008	754	$ 6.06	$ 3.50	7.7	$ 39
Outstanding - October 1, 2008	754	$ 6.00			
Exercised	-	$ -			
Granted	60	$ 4.07	$ 2.73		
Terminated	(194)	$ 6.74			
Outstanding - September 30, 2009	620	$ 5.97	$ 3.36	7.4	$ -
Exercisable at September 30, 2009	321	$ 6.13	$ 3.41	6.4	$ -

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A summary of non-vested options for the year ended September 30, 2009 is as follows:

	Number of Shares	Weighted-Average Grant Date Fair Value
Non-vested options at October 1, 2008	449	$ 3.62
Granted	60	$ 2.73
Vested	(16)	$ 5.35
Forfeited	(194)	$ 3.69
Non-vested options at September 30, 2009	299	$ 3.30

We received $14 from the exercise of qualified employee stock options in fiscal 2008, for which no tax benefit was recognized. The aggregate intrinsic value of those shares exercised was $12. No options were exercised in fiscal 2009. As of September 30, 2009, our total unrecognized compensation cost related to non-vested stock options was $453 and is expected to be recognized over a weighted-average service period of 1.22 years.

The following table summarizes outstanding and exercisable options as of September 30, 2009 (in thousands except per share amounts):

Range of Exercise Prices	Shares Outstanding	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Shares Exercisable	Weighted-Average Exercise Price
$ 2.80 - 4.58	123	5 .56	$ 4 .17	93	$ 4 .38
$ 4.59 - 5.74	192	7 .96	$ 5 .09	42	$ 5 .34
$ 5.75 - 8.79	305	7 .68	$ 7 .25	186	$ 7 .18

10. 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 2009 and 2008. Contribution expense was $296 and $293 in fiscal 2009 and 2008, respectively.

11. 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. As a result of the

sale of our CPRU described in Note 5, the segment information reflects only the operating results by segment for continuing operations.

(a) Operating Segments

	Years Ended September 30,	
	2009	2008
Revenue:		
Service	$ 24,158	$ 32,921
Product	7,626	8,776
	$ 31,784	$ 41,697
Operating (loss) income from continuing operations:		
Service	$ (3,884)	$ 2,139
Product	(716)	655
	$ (4,600)	$ 2,794
Corporate Expenses	1,060	971
Income (loss) from continuing operations before income taxes	$ (5,660)	$ 1,823

	Years Ended September 30,	
	2009	2008
Identifiable assets:		
Service	$ 19,102	$ 23,594
Product	8,046	9,771
Corporate	5,437	6,982
	$ 32,585	$ 40,347
Goodwill, net:		
Service	$ 1,009	$ 1,481
Product	374	374
	$ 1,383	$ 1,855
Intangible assets, net:		
Service	$ 114	$ 144
Product	—	—
	$ 114	$ 144
Depreciation and amortization:		
Service	$ 2,377	$ 2,653
Product	268	360
	$ 2,645	$ 3,013
Capital Expenditures:		
Service	$ 698	$ 1,505
Product	136	208
	$ 834	$ 1,713

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(b) Geographic Information

	Years Ended September 30,	
	2009	2008
Sales to External Customers:		
North America	$ 28,656	$ 35,866
Pacific Rim	661	650
Europe	2,215	4,671
Other	252	510
	$ 31,784	$ 41,697
Long-lived Assets:		
North America	$ 22,472	$ 24,170
Europe	550	1,233
	$ 23,022	$ 25,403

(c) Major Customers

In 2009 and 2008, Pfizer accounted for approximately 7.0% and 7.4%, respectively, of our total revenues from continuing operations and 3.2% and 10.0% of total trade accounts receivable from continuing operations, respectively.

12. RELATED PARTY TRANSACTIONS

On January 1, 2008, we paid the remaining principal balance of $500 in cash of the 6% subordinated convertible note payable to one of our directors.

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13. CONSOLIDATED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following is a summary of the unaudited quarterly results of operations for fiscal years 2009 and 2008 (in thousands except per share amounts). As a result of the sale of our CPRU described in Note 5, the quarterly financial data only reflects the operating results for continuing operations.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2009				
Total Revenue	$ 8,076	$ 7,066	$ 8,121	$ 8,521
Gross Profit	2,047	872	2,135	2,550
Net loss from continuing operations	(1,584)	(1,831)	(632)	(1,416)
Basic net loss per share from continuing operations	(0.32)	(0.37)	(0.13)	(0.29)
Diluted net loss per share from continuing operations	(0.32)	(0.37)	(0.13)	(0.29)
2008				
Total Revenue	$ 10,565	$ 10,301	$ 11,447	$ 9,384
Gross Profit	4,086	3,959	4,316	2,972
Net income (loss) from continuing operations	587	432	407	(931)
Basic net income (loss) per share from continuing operations	0.12	0.09	0.08	(0.19)
Diluted net income (loss) per share from continuing operations	0.12	0.09	0.08	(0.19)

14. SUBSEQUENT EVENTS

We evaluated subsequent events through January 13, 2010, the date our consolidated financial statements were issued. On December 31, 2009, we executed a Fifth Amendment to the Amended and Restated Credit Agreement with PNC Bank, as successor by merger to National City Bank, extending the maturity date of the line of credit to January 15, 2010. On January 13, 2010, we entered into a new revolving line of credit agreement with Entrepreneur Growth Capital (EGC), which we use for working capital and other purposes, to replace the National City line of credit that expires on January 15, 2010. See Note 7 for additional information. On January 7, 2010, Regions waived our expected violation of the fixed charge coverage ratio at December 31, 2009. On January 13, 2010 Regions amended the computations and requirements of the fixed charge coverage ratios through our fiscal year 2010.

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

15. 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. Revenues for fiscal 2009 declined approximately 24% or $10 million from our prior fiscal year due to a lower volume of new bookings, and the delaying and canceling by sponsors of projects previously booked. The lower sales volume and a decrease in our operating expenses of approximately 3% created a net loss of $5.5 million and a decline in cash flow from operations from approximately $4 million in fiscal 2008 to $2 million in fiscal 2009. We experienced a 10% increase in revenue in the second half versus the first half of fiscal 2009 as the volume of bookings slowly improved late in the year. To improve cash flow and reduce our break-even level, we implemented cost controls starting in the second quarter of fiscal 2009. 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 cost control measures resulted in the reduction of operating expenses, excluding goodwill impairment, by approximately 25% ($1.6 million) in the second half of fiscal 2009 compared to the first half of the year. In addition, we reduced our capital expenditures by 51% ($900) in fiscal 2009.

In fiscal 2010, we will continue to monitor and address the impact that the challenging economy is having on our company and industry. In fiscal 2010, we expect to see slow but continued improvement in the volume of new bookings. 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 2010, our results of operations could be adversely affected. We have replaced our revolving line of credit, which was set to expire in January 2010, with a new line of credit with similar borrowing capacity from Entrepreneur Growth Capital (EGC). We have also amended the financial covenants of our Regions debt to be more favorable to the Company. 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, lease and tax obligations of approximately $2.3 million in fiscal 2010. We anticipate receiving a tax refund of approximately $375 in the third quarter of fiscal 2010. 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 2010 operations and debt obligations.

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, 2009 and 2008, and the related consolidated statements of operations, shareholders' equity and comprehensive income (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, 2009 and 2008, 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 13, 2010

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, 2009, including those procedures described below, we, including our Chief Executive Officer and our Chief Financial Officer, determined that those controls and procedures were effective.

Changes in Internal Controls

In fiscal 2009, we initiated an improved process of tracking our tax liabilities, have added layers of review and are investigating commercially available software that will accurately maintain and track the differences between financial reporting and tax return reporting.

Except as noted above, 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 2009 that have materially affected or are reasonably likely to materially affect our 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 transaction-level material weakness in the design and operating effectiveness of controls related to income taxes. Based on this evaluation, we concluded that we did not maintain effective internal control over financial reporting as of September 30, 2009. We determined that our company's accounting staff does not have sufficient technical accounting knowledge relating to accounting for income taxes which could result in a misstatement of account balances that would result in a reasonable possibility that a material misstatement to our financial statements may not be prevented or detected on a timely basis.

We intend to take appropriate and reasonable steps to make the necessary improvements to remediate the material weakness. We will develop an enhanced tax provision model to capture, summarize and consolidate tax provision data

to facilitate the preparation of our income tax provision and provide additional training of accounting staff related directly to accounting for income taxes. We intend to consider the results of our remediation efforts and related testing as part of our fiscal 2010 assessment of the effectiveness of our internal control over financial reporting.

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 temporary 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, 2009, with the additions of David L. Omachinski and John B. Landis, Ph.D., who were elected to the Board on October 8, 2009 and November 12, 2009, respectively. 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 2010 Annual Meeting.

Name	Age	Position
William E. Baitinger	76	Chairman
Larry S. Boulet	63	Director
David W. Crabb	56	Director
Leslie B. Daniels	62	Director
John B. Landis, Ph.D.	56	Director
David L. Omachinski	57	Director
Richard M. Shepperd	69	Director, President and Chief Executive Officer

William E. Baitinger has served as a director of the Company since 1979. Mr. Baitinger was Director of Technology Transfer for the Purdue Research Foundation from 1988 until 2000. In this capacity he was responsible for all licensing and commercialization activities from Purdue University. He currently serves as Special Assistant to the Vice President for Research at Purdue University. Mr. Baitinger has a Bachelor of Science degree in Chemistry and Physics from Marietta College and a Master of Science degree in 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. Previously he had served as Chief Resident of Internal Medicine and on the Medicine and Biochemistry faculty of Indiana University. He was appointed Vice Chairman for Research for the department and later Assistant Dean for Research. Dr. Crabb serves on several editorial boards and on the Board of Indiana Alcohol Research Center. 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.

John B. Landis, Ph.D. was elected as a director of the Company on November 12, 2009. 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.

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.

Richard M. Shepperd was elected President and Chief Executive Officer of the Company in September 2006, and in May 2007, agreed to extend his term until December 2009. Mr. Shepperd served for two years prior to joining the Company with Able Laboratories, Inc., of Cranbury, New Jersey ("Able") as its Chief Restructuring Officer and Director of Restructuring. Able was formerly a generic pharmaceutical manufacturing company which filed a voluntary petition for bankruptcy on July 18, 2005 following the loss of FDA approval for its product line. Mr. Shepperd's duties for Able included exercising executive authority over all operational and restructuring activities of Able, which included advising its Board, creditors committee and courts regarding strategies to maintain and realize the most value from the company's assets. Able was not affiliated with the Company. For the two years prior to serving with Able, Mr. Shepperd served as an independent management consultant for various businesses. In that capacity, he advised these businesses on developing strategies to improve their financial health and maximize the assets of those organizations.

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, William E. Baitinger, David W. Crabb, Leslie B. Daniels and David Omachinski are the members of the Audit Committee. The Board of Directors has determined that each of Mr. Daniels and Mr. Boulet 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:

Number		Description of Exhibits
(2)	2.1	Asset Purchase Agreement, dated June 30, 2008, by and among Bioanalytical Systems, Inc., BASi Maryland, Inc., Algorithme Pharma USA Inc. and Algorithme Pharma Holdings Inc (incorporated by reference to Exhibit 2.1 of Form 8-K filed July 7, 2008).
(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 (filed herewith).
(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	Bioanalytical Systems, Inc. 1997 Employee Incentive Stock Option Plan, as amended January 24, 2004 (*) (incorporated by reference to Appendix A to definitive Proxy Statement filed January 28, 2003 SEC File No. 000-23357).
	10.2	Form of Bioanalytical Systems, Inc. 1997 Employee Incentive Stock Option Agreement (*) (incorporated by reference to Exhibit 10.27 to Registration Statement on From S-1, Registration No. 333-36429).
	10.3	1997 Bioanalytical Systems, Inc. Outside Director Stock Option Plan, as amended January 24, 2004 (*) (incorporated by reference to Appendix B to definitive Proxy Statement filed January 28, 2003 SEC File No. 000-23357).
	10.4	Form of Bioanalytical Systems, Inc. 1997 Outside Director Stock Option Agreement (*) (incorporated by reference to Exhibit 10.29 to Registration Statement on Form S-1, Registration No. 333-36429).
	10.5	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).
	10.6	

Amended and Restated Credit Agreement by and between Bioanalytical Systems, Inc., and National City Bank, executed January 4, 2005 (incorporated by reference to Exhibit 10.5 of Form 8-K filed January 10, 2005).

Number	Description of Exhibits
10.7	Amended and Restated General Security Agreement by and between Bioanalytical Systems, Inc. and National City Bank executed January 4, 2005 (incorporated by reference to Exhibit 10.7 of Form 8-K filed January 10, 2005).
10.8	Second Amendment to Amended and Restated Credit Agreement by and between Bioanalytical Systems, Inc. and National City Bank executed October 24, 2007 (incorporated by reference to Exhibit 10.3 of Form 10-Q for the first fiscal quarter ended December 31, 2007).
10.9	Waiver letter, dated December 19, 2008, from National City Bank regarding the Second Amendment to Amended and Restated Credit Agreement by and between Bioanalytical Systems, Inc. and National City Bank (incorporated by reference to Exhibit 10.9 to Form 10-K for the fiscal year ended September 30, 2008).
10.10	Fourth Amendment to Amended and Restated Credit Agreement between Bioanalytical Systems, Inc. and National City Bank, executed July 17, 2009 (incorporated by reference to Exhibit 10.1 to Form 8-K filed July 17, 2009).
10.11	Replacement Promissory Note by and between Bioanalytical Systems, Inc. and National City Bank, executed July 17, 2009 (incorporated by reference to Exhibit 10.2 to Form 10-Q for the fiscal quarter ended June 30, 2009).
10.12	Replacement Subsidiary Guaranty by and between Bioanalytical Systems Inc. and National City Bank, executed July 17, 2009 (incorporated by reference to Exhibit 10.3 to Form 10-Q for the fiscal quarter ended June 30, 2009).
10.13	Replacement Promissory Note by and between Bioanalytical Systems, Inc. and National City Bank, executed January 4, 2005 (incorporated by reference to Exhibit 10.6 of Form 8-K filed January 10, 2005).
10.14	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).
10.15	Employment Agreement by and among Bioanalytical Systems, Inc. and Richard M. Shepperd, entered into on May 18, 2007 (*) (incorporated by reference to Exhibit 10.1 to Form 10-Q for the fiscal quarter ended June 30, 2007).
10.16	Option Agreement by and among Bioanalytical Systems, Inc. and Richard M. Shepperd, entered into on May 18, 2007 (*) (incorporated by reference to Exhibit 10.2 to Form 10-Q for the fiscal quarter ended June 30, 2007).
10.17	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).
10.18	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).

10.19 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).

10.20 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).

Number	Description of Exhibits
10.21	Severance Agreement and Release of All Claims between Edward M. Chait and Bioanalytical Systems, Inc., dated November 7, 2008 (incorporated by reference to Exhibit 10.29 to Form 10-K for the fiscal year ended September 30, 2008).
10.22	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).
10.23	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).
10.24	Assignment and Assumption of Office Lease, dated June 30, 2008, between Bioanalytical Systems, Inc. and AP USA Algorithme Pharma USA Inc (incorporated by reference to Exhibit 10.1 of Form 8-K filed July 7, 2008).
10.25	Employment Agreement between Jon Brewer and Bioanalytical Systems, Inc., dated October 1, 2008 (incorporated by reference to Exhibit 10.1 to Form 8-K filed September 26, 2008).
10.26	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).
10.27	Employee Incentive Stock Option Agreement between Jon Brewer and Bioanalytical Systems, Inc., dated October 1, 2008 (incorporated by reference to Exhibit 10.35 to Form 10-K for the fiscal year ended September 30, 2008).
10.28	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).
10.29	Waiver letter, dated February 17, 2009, from Regions Bank (incorporated by reference to Exhibit 10.7 to Form 10-Q for the fiscal quarter ended December 31, 2008).
10.30	Amendment to Employment Agreement, dated January 12, 2009, by and among Bioanalytical Systems, Inc. and Richard M. Shepperd (incorporated by reference to Exhibit 10.1 to Form 8-K filed January 14, 2009).
10.31	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).
10.32	Fifth Amendment to Amended and Restated Credit Agreement between Bioanalytical Systems, Inc. and PNC Bank, as successor by merger to National City Bank, executed December 31, 2009 (incorporated by reference to Exhibit 10.1 to Form 8-K filed January 7, 2010).
10.33	Waiver letter, dated January 7, 2010, from Regions Bank (filed herewith).

	10.34	Third amendment to Loan Agreement between Bioanalytical Systems, Inc. and Regions Bank, dated January 13, 2010 (filed herewith).
	10.35	Loan and Security Agreement by and between Bioanalytical Systems, Inc., and Entrepreneur Growth Capital LLC, executed January 13, 2010 (filed herewith).
(14)	14	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/ Richard M. Shepperd
Richard M. Shepperd
President and Chief Executive Officer

Date: January 13, 2010

By: /s/ Michael R. Cox
Michael R. Cox
Vice President, Finance and Administration,
Chief Financial Officer and Treasurer

Date: January 13, 2010

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.

Signature	Capacity	Date
/s/ Richard M. Shepperd Richard M. Shepperd	Director, President and Chief Executive Officer (Principal Executive Officer)	January 13, 2010
/s/ Michael R. Cox Michael R. Cox	Vice President, Finance and Administration, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	January 13, 2010
/s/ William E. Baitinger William E. Baitinger	Chairman	January 13, 2010
/s/ Larry S. Boulet Larry S. Boulet	Director	January 13, 2010
/s/ David W. Crabb David W. Crabb	Director	January 13, 2010
/s/ Leslie B. Daniels Leslie B. Daniels	Director	January 13, 2010
/s/ John B. Landis, Ph.D. John B. Landis, Ph.D.	Director	January 13, 2010
/s/ David L. Omachinski David L. Omachinski	Director	January 13, 2010

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