BIOANALYTICAL SYSTEMS INC
Form 10-K
January 14, 2009

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, 2008.

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<br>WEST LAFAYETTE, INDIANA<br>(Address of principal executive offices) | 47906<br>(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 Global 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. o

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, 2008, the aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant is $19,197,000. As of December 31, 2008, 4,915,318 shares of registrant's common shares were outstanding. No shares of registrant's Preferred Stock were outstanding as of December 31, 2008.

Documents Incorporated by Reference

Portions of the registrant’s definitive proxy statement for its 2009 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 12. 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 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 research to understand the underlying causes of 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 through large biomolecule drug candidates. We believe our scientists have the skills in analytical instrumentation development, chemistry, computer software development, physiology, medicine, and toxicology to make the services and products we provide increasingly valuable to our current and potential clients. Scientists engaged in analytical chemistry, clinical trials, drug metabolism studies, pharmacokinetics and basic neuroscience research at many of the largest global pharmaceutical companies are our principal clients.

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 cradle-to-grave pharmaceutical development services. Our products are also marketed to academic and governmental institutions. Our services and products may have distinctly different customers (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 a larger pool of drug candidates. Clients also demand 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.

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 should lead to more outsourcing. Consolidation may result in short-term disruption in placement of, or progress on, drug development programs as merging companies rationalize their respective drug development pipelines.

Biotechnology Industry and Virtual Drug Company Growth

The biotech industry continues to grow and has introduced many new developmental drugs. Many biotech 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 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 client expectations.

Globalization of the Marketplace

Foreign firms are relying 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, pharmacodynamics and safety testing of the new drug. These safety studies range from acute safety monitoring of drugs and medical devices to chronic, multi-year oncogenicity studies. Bioanalyses of blood sampled under these protocols by our bioanalytical services group provide kinetic, metabolism and dose-ranging data. 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 preclinical development. The Culex® APS, a robotic automated pharmacology system, enables researchers to develop pharmacokinetic profiles of drugs during early screening in rodents quickly and cost effectively. Clients and our bioanalytical services group sometimes use electrochemistry and chromatography products to develop a single, quick, proprietary method to screen drugs in biological samples. Liquid chromatography coupled to mass spectrometry is now a mainstay of our bioanalytical laboratories. We have invested heavily in robotics and mass spectrometry systems over the last ten years.

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.

We no longer perform Phase I clinical studies following the sale of the Baltimore Clinical Pharmacology Research Unit.

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.

Our services include bioavailability testing to monitor the rate and extent to which a drug becomes available in the blood. Bioavailability can also be used to compare the bioequivalence of similar generic and brand name drugs.

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 and 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 $32.9 million for fiscal 2008. 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 necessary 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, and in some cases dominates, unique niches in life science research. We design, develop, manufacture and market state-of-the-art:

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

Revenues from continuing operations for our products segment were $8.8 million for fiscal 2008. The following is a description of the products we offer:

- The Culex® APS robotic automated pharmacology system is used by pharmaceutical researchers to monitor drug concentrations and response as a function of time. Compared to current manual methods, the Culex® offers greater than 80% reduction in test model use and comparable reduction in labor. The Culex® also offers computer-controlled blood sampling protocol, behavioral monitoring, flexibility to collect other biological samples, exceptional cost savings, significant reduction in model stress and expeditious data delivery.

- Bioanalytical separation systems (liquid chromatography) are used to detect and quantify low concentrations of substances by tracking complex chemical, physiological and behavioral effects in biological fluids and tissues from humans and laboratory animal models.

- Specialized chemical analyzers monitor trace levels of organic chemicals, such as neurotransmitters, in biological samples using core electrochemistry, liquid chromatography and enzymology technologies to separate and quantify drugs, xenobiotics, metabolites and other chemicals in blood, cerebrospinal fluid and other biological media.

- epsilon™ is a single liquid chromatography and electrochemistry instrument control platform for the separation systems and chemical analyzers noted above.

- A line of miniaturized in vivo sampling devices sold to drug developers and medical research centers, assist in the study of a number of medical conditions including stroke, depression, Alzheimer's and Parkinson's diseases, diabetes and osteoporosis.

- Vetronics small animal diagnostic electro-cardiogram and vital signs monitors are used primarily 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 14% 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. We believe that smaller companies are more inclined to establish a consistent, long-term, strategic relationship, but realize that they may be poorly funded. We have adapted by increasing our focus on a larger number of specialist service buyers at large and small clients and by engaging in more active and more diversified business development efforts.

Pfizer is our largest client. Pfizer accounted for approximately 7.4% and 5.8% of our total revenues from continuing operations in fiscal 2008 and 2007, respectively. Pfizer accounted for 10.0% and 5.5% of total trade accounts receivable from continuing operations at September 30, 2008 and 2007, respectively.

There can be no assurance that our business will not continue to be dependent on continued relationships with Pfizer 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

Capitalizing on our long history of innovation and technical excellence, our current sales and marketing plan targets 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 with the goal of increasing that number through fiscal 2009.

Sales, marketing and technical supports are based in the corporate headquarters located in West Lafayette, Indiana. We also maintain offices in Evansville, Indiana; McMinnville, Oregon; and Warwickshire, UK.

We have a network of 14 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. International growth is planned through stronger local promotion to support our distributor network.

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. In the past year, 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.

We cannot provide any assurance that we will be able to realize all or most of the net revenues included in backlog or estimate the portion expected to be filled in the current year. 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 sciences research laboratories, we continue to serve that product niche today. We target underserved markets not addressed by larger capital equipment manufacturers. While we must sometimes compete on price with our products, we mainly compete on its overall value proposition, providing equipment that enables our customers to attain premium scientific laboratory information, on a reasonable operating investment. We continually invest in the refinement of our products, and in new product opportunities that meet our operating objectives.

- The Culex® APS robotic automated pharmacology system is used by pharmaceutical researchers to monitor drug concentrations and response as a function of time. Compared to current manual methods, the Culex® offers greater than 80% reduction in test model use and comparable reduction in labor. The Culex® also offers computer-controlled blood sampling protocol, behavioral monitoring, flexibility to collect other biological samples, exceptional cost savings, significant reduction in model stress and expeditious data delivery.

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Government Regulation

We are subject to various regulatory requirements designed to ensure the quality and integrity of our data and products. These regulations are governed 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 five times: twice in West Lafayette, once each in the UK, Oregon, and Evansville locations. Of the five FDA audits, three were without findings. The UK facility was found to be compliant with GLP and GCP. There were no material adverse findings in any of these audits.

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 2008, our laboratory operations were fully in compliance with 21 CFR Part 11, in our analytical, bioanalytical, toxicology, lab information management, and document management systems. All of these systems were also 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 the current fiscal year, September 30, 2008. Management’s assessment and report on internal controls over financial reporting is included in Item 8 and 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 2008 and 2007, we spent $781 and $881, 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 includes 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 have 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, 2008, we had 281 full-time employees and 30 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, 2008. 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 | 68 | Director, President and Chief Executive Officer |
| Michael R. Cox | 61 | Vice President, Finance; Chief Financial and Administrative Officer; Treasurer |
| Edward M. Chait, Ph.D. | 66 | Executive Vice President; Chief Business Officer |

| | | |
|---|---|---|
| Jon Brewer | 47 | Vice President, Sales and Marketing |
| Craig S. Bruntlett, Ph.D. | 59 | Senior Vice President, Sales Development |
| Lina L. Reeves-Kerner | 57 | Vice President, Human Resources |

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 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.

Edward M. Chait, Ph.D. had been Executive Vice President, Chief Scientific Officer since August 2005. In October 2007, he relinquished that position and became Chief Business Officer, responsible for operations across the Company's products and services. Prior to joining the Company, from August 2003, Dr. Chait served as the Chief Executive Officer of Spectral Genomics, Inc., a developer of products and services related to molecular genetics and diagnostics enabling the identification of the causal factors of disease at the genetic level. From 2001 to 2003, Dr. Chait served as the Chief Executive Officer of PharmaCore, Inc., a small-molecule drug discovery company providing molecular building blocks, custom organic synthesis and GMP services to biotechnology and pharmaceutical companies. From 1991 to 2001, Dr. Chait was Senior Vice President in charge of Business Development for Intergen Company, a private biotech manufacturing and research products company. Since 2002, Dr. Chait has also served as an advisor to the Purdue Cancer Center, a National Cancer Center designated basic-research cancer center. From 1968 to 1991, Dr. Chait held positions of increasing responsibility in marketing and business development at DuPont in instrument and life science products. Dr. Chait has a Ph.D. in chemistry from Purdue. As of November 7, 2008, Mr. Chait has resigned his position as Chief Business Officer of the Company.

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.

Craig S. Bruntlett, Ph.D. has been Senior Vice President of Sales development 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

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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.

The Global Credit Crisis and Market Downturn has probably 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 threatens the stability of the global economy and has adversely impacted consumer confidence and spending. We believe this global credit crisis has also had a negative impact on 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 Global Market, our common stock could be de-listed from the NASDAQ Global Market.

The National Association of Securities Dealers, Inc. has established certain standards for the continued listing of a security on The NASDAQ Global Market. These standards require, among other things, that a listed issuer have either (i) listed securities with a market value of at least $35 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.

During the current economic slowdown, the NASDAQ has temporarily suspended the stock price/market capitalization de-listing procedures. These rules will be reinstated on April 20, 2009. NASDAQ has not indicated any further suspension of those requirements beyond that date.

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 investors:

- 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 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 end of the 2008 fiscal year on September 30, 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. If this condition continues, our business could suffer.

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.

In particular, since September 30, 2008, we experienced substantial turnover in our marketing and business development teams. Specifically, our Senior Vice President and Chief Business Officer , our Vice President of Business Development and several of our leading sales team are no longer with the Company. We are currently rebuilding our sales organization. There is no assurance that our efforts will be successful.

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 create 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:

- 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 slow our growth.

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 may rely on credit facilities to provide working capital to support the operations of business. We regularly evaluate alternative financing sources; however we have no other agreements or arrangement in place at this time. 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 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

Our common stock is traded on the NASDAQ Global Market under the symbol "BASi." The following table sets forth the quarterly high and low sales price per share of our common stock from October 1, 2006 through September 30, 2008.

| | High | Low |
|---|---|---|
| Fiscal Year Ended September 30, 2007 | | |
| First Quarter | $ 5.74 | $ 4.98 |
| Second Quarter | 7.36 | 5.25 |
| Third Quarter | 7.80 | 6.60 |
| Fourth Quarter | 7.82 | 6.54 |
| | | |
| 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 |

Holders

There were approximately 2,700 holders of record of our common stock as of December 31, 2008.

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 stock option plans that allow 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 | 704 | $ 6.13 | 382 |
| Equity compensation plans not approved by security holders (1) | 50 | $ 5.14 | — |
| Total | 754 | $ 6.06 | 382 |

(1) Includes option to purchase 25 shares at $4.57 granted to Michael R. Cox on April 1, 2004, and 25 shares at $5.69 granted to Edward M. Chait on August 1, 2005. Each of these grants is fully vested and expires after 10 years.

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 Selected Consolidated Financial Data and 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 involve risks and uncertainties which are discussed in Item 1A, Risk Factors. Our actual results could differ materially from those discussed in the forward-looking statements. (Amounts in thousands unless otherwise indicated.)

Overview

The business of Bioanalytical Systems, Inc. is largely dependent on the level of pharmaceutical and biotech 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.

Since the end of the fiscal year on September 30, 2008, we have observed a trend whereby many drug development companies have reduced their spending on CRO services. We believe that this change was in connection with the global economic and credit market situations. The outcome of these factors and their impact on our future performance are not known at this time.

Although the past year has not seen large mergers in either the pharmaceutical or CRO industries, consolidation continues at a smaller pace in the CRO sector. We believe that consolidation of the CRO sector will continue to be a factor in our markets. As consolidation continues in the CRO sector, competition among remaining companies continues to be more intense.

Research services are capital intensive. The investment in equipment and facilities to serve our markets is substantial and continuing. While our physical facilities are excellent 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.

Results of Operations

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

| | Year Ended September 30, | |
|---|---|---|
| | 2008 | 2007 |
| Service revenue | 79.0% | 76.9% |
| Product revenue | 21.0 | 23.1 |
| Total revenue | 100.0% | 100.0% |
| | | |
| Cost of service revenue (a) | 69.7 | 70.9 |
| Cost of product revenue (a) | 39.0 | 42.5 |
| Total cost of revenue | 63.2 | 64.4 |
| | | |
| Gross profit | 36.8 | 35.6 |
| | | |
| Total operating expenses | 30.1 | 26.9 |
| | | |
| Operating income | 6.7 | 8.7 |
| | | |
| Other expense | (2.3) | (2.2) |
| | | |
| Income from continuing operations before income taxes | 4.4 | 6.5 |
| | | |
| Income tax expense | 3.2 | 2.6 |
| | | |
| Net income from continuing operations | 1.2% | 3.9% |

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

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2008 Compared to 2007

Service and Product Revenues

Revenues for the year ended September 30, 2008 increased 4.9% to $41,697 compared to $39,753 for the year ended September 30, 2007.

Our Service revenue increased 7.7% to $32,921 compared to $30,559 for the prior year primarily as a result of strong increases in bioanalytical and pharmaceutical analysis revenues. Our bioanalytical analysis revenues increased $1,992 (a 12.3% increase over fiscal 2007), with improvements at the West Lafayette and the UK facilities. The revenue increases from the UK facility are mainly due to increased volume when compared to the prior year. The West Lafayette facility experienced a higher sample assay volume and an increase in immunochemistry revenues of nearly $700 over the prior year. Pharmaceutical analysis revenues increased $276, or 15.9% over fiscal 2007, as enhanced sales efforts have aided in business growth for this group. Toxicology revenues also contributed to the year over year increase with a $232, or 2.1%, increase. Study delays and cancellations contributed to the lower growth rate for the toxicology group.

Sales in our Products segment decreased 4.6% from $9,194 to $8,776 when compared to the same period in the prior year. The majority of that decrease stems from our Vetronics business of $438 primarily because a contract with a long-time client was not renewed in fiscal 2008. Sales of our Culex automated in vivo sampling systems declined 4.3% to $4,680 from $4,892 mainly due to the sales of fewer units. Finally, the sales of our more mature analytical products also declined $141, or 4.1%, from fiscal 2007.

Costs of Revenues

Cost of revenues for the year ended September 30, 2008 was $26,364 or 63.2% of revenue compared to $25,585, or 64.4% of revenue for the comparable prior period.

Cost of Service revenue as a percentage of Service revenue decreased to 69.7% in the current fiscal year from 70.9% in the comparable period last year. This decrease occurred because a significant portion of our costs of productive capacity in the Service segment are fixed. Thus, increases in revenue do not generate proportionate increases in costs. This decrease occurred even though an additional charge of $160 was incurred in the third quarter of the current fiscal year to cover the net costs of performing a study for a client to recreate data that was not properly archived.

Costs of Product revenue as a percentage of Product revenue in the current fiscal year decreased from 42.5% to 39.0%. The decrease in the percentage was mainly due to a decrease in our periodic charges for inventory obsolescence of $265. This was the result of higher charges last fiscal year for products that were discontinued.

Operating Expenses

Selling expenses for the year ended September 30, 2008 increased by 40.6% to $3,912 from $2,782 for the year ended September 30, 2007. This increase was primarily driven by expanded sales efforts and new hires in both our West Lafayette and UK facilities along with increased marketing and advertising efforts. Also, accelerated amortization of $143, related to the impairment of assets in fiscal 2008, added to the increase. The impairment of certain patents, licenses and trademarks reflected a management decision to no longer support these assets as active since they have no related revenue-generating products.

Research and development expenses for the year ended September 30, 2008 decreased 11.4% to $781 from $881 for the year ended September 30, 2007. This decrease is primarily a result of costs related to the commercialization of our pharmacokinetics and pharmacodynamics services being considered as cost of services; whereas in the first quarter of the prior fiscal year, they were considered research and development expenses. These were partially offset by higher spending for operating supplies and outside consultants used in our continued effort on the development of a new product funded by an NIH grant.

General and administrative expenses for the current year increased 14.1% to $7,822 from $6,855 for the prior year. The increase is mainly due to the following: 1) expenses for attracting and hiring new management personnel in our West Lafayette and UK facilities; 2) an increase in stock compensation expense with the new option grants in the first and fourth quarters of fiscal 2008; 3) currency losses; 4) an increase in building rent expense for our new UK facility; 5) increased travel related expenses; and 6) expenses related to SOX 404 compliance.

Other Income/Expense

Other income (expense), net, was $(971) for the year ended September 30, 2008 as compared to $(891) in the year ended September 30, 2007. This increase is due to borrowings on our line of credit, causing higher interest expense and lower interest income year over year. In fiscal 2007, we did not borrow on our line of credit.

Income Taxes

Our effective tax rate for continuing operations for the year ended September 30, 2008 was 72.8% compared to 39.4% for the prior year period. The main difference stems from taxes on slightly higher domestic income in fiscal 2008 from which we could not deduct the current loss from our UK facility as well as the additional expense for uncertain tax positions. In fiscal 2007, our UK facility was profitable.

We computed our income taxes using an effective tax rate of 41.5% on domestic earnings for the year ended September 30, 2008. We did not provide income taxes on foreign earnings due to the availability of net operating loss carryforwards 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 they assumed certain liabilities related to the CPRU. As a result, we have exited the market for Phase I first-in-human clinical studies. Should AP USA and Algorithme fail to meet their lease commitments, 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 and exhibits 2.1 and 10.1 to the current report on Form 8-K filed on July 7, 2008.

Accordingly, in the consolidated statements of operations and cash flows, we have segregated the results of the CPRU as discontinued operations for the current and prior fiscal years. The loss from discontinued operations reflects the results of operations of the CPRU through the sale date adjusted for changes in estimates used to calculate the loss on disposal. The remaining estimated cash expenditures related to this unit are recorded as current liabilities of discontinued operations, since they are expected to be 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.

In the fourth quarter of fiscal 2008, we adjusted estimates from the sale date that were included in the loss on disposal for actual expenses incurred. This resulted in a $43 increase to the loss on disposal.

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, 2008, we had cash and cash equivalents of $335 compared to $2,837 at September 30, 2007.

Net cash provided by continuing operating activities was $3,959 for the year ended September 30, 2008, compared to $3,823 for the year ended September 30, 2007. In addition to earnings from continuing operations, an increase in accounts payable of $969 and an increase in deferred income taxes liability added $907. Non-cash charges to operations of $3,013 for depreciation and amortization and $592 for employee stock option expense increased our expenses, but did not consume cash. These were offset by an increase in accounts receivable of $1,510. While our receivables vary depending on where we stand in our mix of contracts, we believe that our new procedures instituted in the prior fiscal year in billings and collections contributed to the current positive cash flow from continuing operations.

Investing activities used $1,711 in fiscal 2008 mainly due to capital expenditures. Our principal investments were for laboratory equipment replacements and upgrades in our West Lafayette, Oregon and UK facilities, new building improvements in the UK related to relocating to new space, construction costs in our Evansville facility to convert an area for higher revenue studies and general building and information technology infrastructure expenditures at all sites.

Financing activities used $2,071 in the current fiscal year as compared to $1,095 used for fiscal 2007. The main use of cash in fiscal 2008 was to repay the balance of our subordinated debt, approximately $4,500, as well as other long term debt and capital lease payments of $1,029, partially offset by $1,400 of new long-term debt and $2,023 net borrowings from our line of credit. In fiscal 2007, we did not borrow from the line of credit and repaid $1,174 in long term debt and capital leases.

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 the year ended September 30, 2008, cash used in operating activities for discontinued operations of $3,361 is mainly from the loss on operations. The $669 provided by investing activities for discontinued operations during the current fiscal year is mainly due to the $850 of cash proceeds from the sale partially offset by capital expenditures.

Capital Resources

Property and equipment spending totaled $3.2 million and $0.9 million in fiscal 2008 and 2007, respectively. The increase in capital expenditures in fiscal 2008 is the result of the 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. Expenditures in fiscal 2007 were primarily for the purchase of laboratory equipment. 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 amended our revolving line of credit (“the Agreement”) in October 2007, reducing our line of credit to $5 million from $6 million as we did not have qualifying assets sufficient to borrow the higher amount and were paying fees on amounts we could not use. We also have three mortgage notes payable to another bank aggregating $9.2 million. Borrowings under these 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 these 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 below. These credit agreements contain cross-default provisions with our mortgages or other borrowings. Details of each debt issue are discussed below.

Our Agreement limits outstanding borrowings to the “borrowing base,” as defined in the Agreement, up to a maximum available amount of $5,000. As of September 30, 2008, we had $4,448 of available total borrowing capacity of which $2,023 is outstanding. Borrowings bear interest at a variable rate based on the London Interbank Offer Rate (LIBOR) or a base rate determined by the lender’s prime rate plus an applicable margin, as defined in the agreement. The applicable margin for borrowings under the line of credit ranges from 0.00% to 0.50% for base rate borrowings and 1.50% to 3.00% for LIBOR borrowings, subject to adjustment based on the average availability under the line of credit. We also pay commitment fees on the unused portions of the line of credit ranging from 0.20% - 0.30%. All interest and fees are paid monthly. The line of credit is a revolver against which we apply cash receipts, and draw cash as needed. The line of credit is committed until December, 2009.

On December 18, 2007, we entered into a new mortgage with Regions Bank (“Regions”) under which Regions loaned us $1,400 under a term loan maturing December 18, 2010. Interest on the loan is equal to LIBOR plus 215 basis points and requires monthly payments of approximately $9 plus interest, currently at 6.1%. The outstanding balance on this loan at September 30, 2008 was $1,322. The loan is collateralized by real estate at the Company’s West Lafayette and Evansville, Indiana locations. Regions holds additional mortgage debt on these facilities as discussed below. We used a portion of the proceeds of the loan and existing cash on hand to repay our subordinated debt of approximately $4,500 during the first fiscal quarter. We entered into an interest rate swap agreement with respect to this loan to fix the interest rate at 6.1%. We only entered into this derivative transaction to hedge interest rate risk of this debt obligation and not to speculate on interest rates. The fair value of the swap is not material to the financial statements.

We have three outstanding mortgages with Regions on our facilities in West Lafayette and Evansville, Indiana, which total $7,884. Two of the mortgages mature in November 2012 with an interest rate fixed at 7.1%, while the other matures in February of 2011 due to a renewal completed in February of 2008 for an additional three years at an interest rate of 5.61%. See Note 7 to the Consolidated Financial Statements for additional information.

The covenants in our revolving line of credit require that we maintain certain ratios of interest-bearing indebtedness to EBITDA and net cash flow to debt servicing requirements, which may restrict the amount we can borrow to fund future operations, acquisitions and capital expenditures. Additionally, 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 Agreement and the Regions loans both contain cross-default provisions. At September 30, 2008, we were in breach of our tangible net worth requirement, which was subsequently waived and the requirement amended as of December 19, 2008.

The following table summarizes the cash payments under our contractual term debt and lease obligations at September 30, 2008 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.

| | 2009 | 2010 | 2011 | 2012 | 2013 | After 2013 | Total |
|---|---|---|---|---|---|---|---|
| Mortgage notes payable | $ 491 | $ 524 | $ 2,727 | $ 306 | $ 5,158 | $ — | $ 9,206 |
| Capital lease obligations | 720 | 650 | 366 | 279 | 148 | — | 2,163 |
| Operating leases | 466 | 420 | 411 | 408 | 405 | 3,257 | 5,367 |
| FIN 48 liability | 473 | — | — | — | — | — | 473 |
| | $ 2,150 | $ 1,594 | $ 3,504 | $ 993 | $ 5,711 | $ 3,257 | $ 17,209 |

A $1 million letter of credit securing the Baltimore, MD lease expired in January 2008 and was not renewed.

We anticipate spending approximately $2.0 million in fiscal 2009 on capital assets, primarily laboratory equipment which will be financed using capital leases.

Based on current business activities, we believe cash generated from operations and amounts available under our existing credit facilities will be sufficient to fund working capital and capital expenditure requirements for the foreseeable future and through September 30, 2009.

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 for $143 related to certain patents, licenses and trademarks that have no revenue generating products.

Goodwill and other indefinite lived intangible assets, collectively referred to as "indefinite lived assets," are tested annually for impairment, and are tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. At September 30, 2008, recorded goodwill was $1,855, and the net balance of other intangible assets was $144.

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 $592 and $304 during the fiscal years ended September 30, 2008 and 2007, 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 2008 and 2007 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 fiscal 2009 as well as 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.

Additionally, in accordance with Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109 (“FIN 48”), which we adopted effective October 1, 2007, when warranted, we maintain a reserve for uncertain tax positions. Under FIN 48, 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.

On October 1, 2007, we recorded a $183 additional liability for uncertain income tax positions for a total liability of $240, which was accounted for as a reduction to retained earnings, for the cumulative effect change of adopting FIN 48. Upon further analysis of our opening liability accounts, we determined that our recorded liability on October 1, 2007 was $102 greater than our FIN 48 liability for uncertain tax positions. Accordingly, we revised our original adjustment and recorded a reduction in tax liability and increase in retained earnings to properly record our estimate of FIN 48 exposure. During the fiscal year ended September 30, 2008, we recorded $259 for additional exposure on uncertain tax positions and $26 as a reduction of uncertain tax positions, thus increasing our reserve for uncertain income tax positions at September 30, 2008 to $473. 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. We record interest and penalties accrued in relation to uncertain income tax positions as a component of income tax expense. 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 liabilities on such earnings have not been recorded.

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

We adopted the following pronouncement for periods beginning October 1, 2007.

Effective October 1, 2007, we adopted the provisions of FIN 48. This authoritative interpretation clarified and standardized the manner by which companies are required to account for uncertain income tax positions. Under the guidance of FIN 48, 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. In order to adjust our estimated liability of $240 at October 1, 2007, we recorded a $102 reduction in tax liability for uncertain income tax positions, which was accounted for as an increase to retained earnings, for the cumulative effect change of adopting FIN 48. The adoption amount was adjusted from our first quarter filing as explained in our Critical Accounting Policies for income tax accounting above.

ITEM 7A – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 8-FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Consolidated Financial Statements

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

| | As of September 30, 2008 | 2007 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $ 335 | $ 2,837 |
| Accounts receivable | | |
| Trade | 6,705 | 6,674 |
| Unbilled revenues and other | 2,653 | 2,565 |
| Inventories | 2,184 | 1,977 |
| Deferred income taxes | 516 | 897 |
| Refundable income taxes | 1,283 | 774 |
| Prepaid expenses | 639 | 776 |
| Current assets of discontinued operations | 629 | — |
| Total current assets | 14,944 | 16,500 |
| | | |
| Property and equipment, net | 23,135 | 22,927 |
| Goodwill | 1,855 | 1,855 |
| Intangible assets, net | 144 | 304 |
| Debt issue costs | 177 | 211 |
| Other assets | 92 | 240 |
| | | |
| Total assets | $ 40,347 | $ 42,037 |
| | | |
| Liabilities and shareholders' equity | | |
| Current liabilities: | | |
| Accounts payable | $ 2,209 | $ 1,589 |
| Accrued expenses | 2,061 | 3,056 |
| Customer advances | 4,032 | 4,115 |
| Income tax accruals | 473 | 56 |
| Revolving line of credit | 2,023 | — |
| Current portion of capital lease obligation | 720 | 510 |
| Current portion of long-term debt | 491 | 4,821 |
| Current liabilities of discontinued operations | 41 | — |
| Total current liabilities | 12,050 | 14,147 |
| | | |
| Capital lease obligation, less current portion | 1,443 | 1,138 |
| Long-term debt, less current portion | 8,715 | 7,861 |
| Deferred income taxes | 344 | 337 |
| | | |
| 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, 2008 and 4,909 at September 30, 2007 December, 2007 | 1,191 | 1,189 |
| Additional paid-in capital | 12,561 | 11,957 |
| Retained earnings | 4,173 | 5,560 |
| Accumulated other comprehensive loss | (130) | (152) |
| | | |
| Total shareholders' equity | 17,795 | 18,554 |
| | | |
| Total liabilities and shareholders' equity | $ 40,347 | $ 42,037 |

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, | |
|---|---|---|
| | 2008 | 2007 |
| Service revenue | $ 32,921 | $ 30,559 |
| Product revenue | 8,776 | 9,194 |
| Total revenue | 41,697 | 39,753 |
| | | |
| Cost of service revenue | 22,941 | 21,676 |
| Cost of product revenue | 3,423 | 3,909 |
| Total cost of revenue | 26,364 | 25,585 |
| | | |
| Gross profit | 15,333 | 14,168 |
| Operating expenses: | | |
| Selling | 3,912 | 2,782 |
| Research and development | 781 | 881 |
| General and administrative | 7,822 | 6,855 |
| Loss on sale of property and equipment | 24 | 165 |
| Total operating expenses | 12,539 | 10,683 |
| | | |
| Operating income | 2,794 | 3,485 |
| | | |
| Interest income | 29 | 87 |
| Interest expense | (1,006) | (981) |
| Other income | 6 | 3 |
| Income from continuing operations before income taxes | 1,823 | 2,594 |
| | | |
| Income taxes | 1,328 | 1,022 |
| Net income from continuing operations | $ 495 | $ 1,572 |
| | | |
| Discontinued Operations (Note 5) | | |
| Loss from discontinued operations before income taxes | $ (2,811) | $ (1,095) |
| Loss on disposal | (474) | — |
| Tax benefit | 1,301 | 449 |
| Net loss from discontinued operations after income taxes | $ (1,984) | $ (646) |
| | | |
| Net income (loss) | $ (1,489) | $ 926 |
| | | |
| Basic net income (loss) per share: | | |
| Net income per share from continuing operations | $ 0.10 | $ 0.32 |
| Net loss per share from discontinued operations | (0.40) | (0.13) |
| Basic net income (loss) per share | $ (0.30) | $ 0.19 |
| Diluted net income (loss) per share: | | |
| Net income per share from continuing operations | $ 0.10 | $ 0.32 |
| Net loss per share from discontinued operations | (0.40) | (0.13) |
| Diluted net income (loss) per share | $ (0.30) | $ 0.19 |

| | | |
|---|---|---|
| Weighted common shares outstanding: | | |
| Basic | 4,914 | 4,909 |
| Diluted | 4,968 | 4,960 |

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 Number | Common shares Amount | Additional paid-in-capital | Retained earnings | Accumulated other comprehensive loss | Total shareholders' equity |
|---|---|---|---|---|---|---|
| Balance at October 1, 2006 | 4,892 | 1,182 | 11,677 | 4,634 | (89) | 17,404 |
| Comprehensive income: | | | | | | |
| Net income | — | — | — | 926 | — | 926 |
| Other comprehensive loss: | | | | | | |
| Foreign currency translation adjustments | — | — | — | — | (63) | (63) |
| Total comprehensive income | | | | | | 863 |
| Stock compensation | — | — | 208 | — | — | 208 |
| Exercise of stock options | 17 | 7 | 72 | — | — | 79 |
| Balance at September 30, 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: | | | | | | |
| 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 FIN 48 cumulative adjustment | — | — | — | 102 | — | 102 |
| Balance at September 30, 2008 | 4,915 | $ 1,191 | $ 12,561 | $ 4,173 | $ (130) | $ 17,795 |

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, | |
|---|---|---|
| | 2008 | 2007 |
| Operating activities: | | |
| Net income (loss) | $ (1,489) | $ 926 |
| Adjustments to reconcile net income (loss) to net cash provided by continuing operating activities: | | |
| Net loss from discontinued operations, including loss on disposal | 1,984 | 646 |
| Depreciation and amortization | 3,013 | 3,319 |
| Employee stock compensation expense | 592 | 208 |
| Bad debt expense | 58 | (119) |
| Loss on sale of property and equipment | 24 | 165 |
| Deferred income taxes | 388 | (472) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (1,510) | (535) |
| Inventories | (207) | (7) |
| Refundable income taxes | (509) | 114 |
| Prepaid expenses and other assets | 151 | (93) |
| Accounts payable | 969 | (277) |
| Accrued expenses | 433 | 103 |
| Customer advances | 62 | (155) |
| Net cash provided by continuing operating activities | 3,959 | 3,823 |
| Investing activities: | | |
| Capital expenditures | (1,713) | (810) |
| Proceeds from sale of property and equipment | 2 | 625 |
| Net cash used by continuing investing activities | (1,711) | (185) |
| | | |
| Financing activities: | | |
| Payments of long-term debt | (4,876) | (702) |
| Borrowings on long-term debt | 1,400 | — |
| Payments on revolving line of credit | (14,285) | — |
| Borrowings on revolving line of credit | 16,308 | — |
| Payments on capital lease obligations | (632) | (472) |
| Net proceeds from the exercise of stock options | 14 | 79 |
| Net cash used by continuing financing activities | (2,071) | (1,095) |
| | | |
| Cash flow of discontinued operations: | | |
| Cash used by operating activities | (3,361) | (895) |
| Net cash provided (used) by investing activities | 669 | (68) |
| Net cash used by discontinued operations | (2,692) | (963) |
| | | |
| Effect of exchange rate changes | 13 | (390) |
| | | |
| Net (decrease) increase in cash and cash equivalents | (2,502) | 1,190 |
| Cash and cash equivalents at beginning of year | 2,837 | 1,647 |
| Cash and cash equivalents at end of year | $ 335 | $ 2,837 |

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 $83 and $27 at September 30, 2008 and 2007, respectively.

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

| | 2008 | 2007 |
|---|---|---|
| Opening balance | $ 27 | $ 270 |
| Charged to expense | 137 | 94 |
| Accounts written off | (2) | (54) |
| Recoveries | (79) | (283) |
| Ending balance | $ 83 | $ 27 |

Our cash and cash equivalents, accounts receivable, accounts payable and certain other accrued liabilities are all short-term in nature and their carrying amounts approximate fair value. We have borrowings with fixed rates for up to three years. The carrying value of our fixed rate debt also approximates its fair value.

(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 $2,752 in fiscal 2008 and $3,153 in fiscal 2007. Expenditures for maintenance and repairs are expensed as incurred.

Property and equipment, net, as of September 30, 2008 and 2007 consisted of the following:

| | 2008 | 2007 |
|---|---|---|
| Land and improvements | $ 497 | $ 453 |
| Buildings and improvements | 21,318 | 20,745 |
| Machinery and equipment | 20,456 | 21,048 |
| Office furniture and fixtures | 992 | 1,306 |
| Construction in progress | 149 | 79 |
| | 43,412 | 43,631 |
| Less: accumulated depreciation | (20,277) | (20,704) |
| Net property and equipment | $ 23,135 | $ 22,927 |

(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.

Goodwill and other indefinite lived intangible assets, collectively referred to as "indefinite lived assets," are tested annually for impairment, and more frequently if events and circumstances indicate that the asset might be impaired.

An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. At September 30, 2008, recorded goodwill was $1,855, and the net balance of other intangible assets was $144.

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.

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.

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 carrying amount of goodwill at both September 30, 2008 and 2007 was $1,855. The components of intangible assets subject to amortization are as follows:

| | | September 30, 2008 | |
|---|---|---|---|
| | Weighted average life (years) | Gross Carrying Amount | Accumulated Amortization |
| FDA compliant facility | 10 | $ 302 | $ 158 |
| Methodologies | 5 | 180 | 180 |
| Volunteer database | 5 | — | — |
| Customer relationships | 5 | 359 | 359 |
| | | $ 841 | $ 697 |

| | | September 30, 2007 | |
|---|---|---|---|
| | Weighted average life (years) | Gross Carrying Amount | Accumulated Amortization |
| FDA compliant facility | 10 | $ 402 | $ 171 |
| Methodologies | 5 | 180 | 171 |
| Volunteer database | 5 | 326 | 280 |
| Customer relationships | 5 | 359 | 341 |
| | | $ 1,267 | $ 963 |

Amortization expense for intangible assets for fiscal years ended September 30, 2008 and 2007 was $215 and $170 respectively. The following table provides information regarding estimated amortization expense for the next five fiscal years:

| | |
|---|---|
| 2009 | $ 30 |
| 2010 | 30 |
| 2011 | 30 |
| 2012 | 30 |
| 2013 | 24 |

(h) Advertising Expense

We expense advertising costs as incurred. Advertising expense was $201 and $35 for the years ended September 30, 2008 and 2007, respectively. The increase stems primarily from increased sales, marketing and promotional efforts in fiscal 2008.

(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, in accordance with Financial Accounting Standard No. 123 (Revised). 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, 2008 and 2007 was $592 and $304 with related tax benefits of $154 and $96, respectively.

(j) Income Taxes

In accordance with Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109 ("FIN 48"), which we adopted effective October 1, 2007, when warranted, we maintain a reserve for uncertain tax positions. Under FIN 48, 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 audits. Accordingly, if such resolutions are favorable, we would reduce the carrying value of our reserve.

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.

(k) New Accounting Pronouncements

We adopted the following pronouncement for periods beginning October 1, 2007.

Effective October 1, 2007, we adopted the provisions of FIN 48. This authoritative interpretation clarified and standardized the manner by which companies are required to account for uncertain income tax positions. Under the guidance of FIN 48, 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. On October 1, 2007, we recorded a $102 reduction in tax liability for uncertain income tax positions, which was accounted for as an increase to retained earnings, for the cumulative effect change of adopting FIN 48. The adoption amount was adjusted from our first quarter filing. See Note 8 for additional detail.

(l) 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. 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.

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, | |
|---|---|---|
| | 2008 | 2007 |
| Basic net income per share from continuing operations: | | |
| Net income applicable to common shareholders | $ 495 | $ 1,572 |
| Weighted average common shares outstanding | 4,914 | 4,909 |
| Basic net income per share from continuing operations | $ 0.10 | $ 0.32 |
| Diluted net income per share from continuing operations: | | |
| Diluted net income applicable to common shareholders | $ 495 | $ 1,572 |
| Weighted average common shares outstanding | 4,914 | 4,909 |
| Dilutive stock options/shares | 54 | 51 |
| Diluted weighted average common shares outstanding | 4,968 | 4,960 |
| | | |
| Diluted net income per share from continuing operations | $ 0.10 | $ 0.32 |

At September 30, 2008 and 2007, we had 700 and 564 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:

| | 2008 | 2007 |
|---|---|---|
| Raw materials | $ 1,748 | $ 1,480 |
| Work in progress | 234 | 273 |
| Finished goods | 202 | 224 |
| | $ 2,184 | $ 1,977 |

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 the current and prior fiscal periods. The loss from discontinued operations reflects the operating loss of the CPRU through the sale date adjusted for changes in estimates used to calculate the loss on disposal. The remaining estimated cash expenditures related to this unit are recorded as current liabilities of discontinued operations, since they are expected to be paid in 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. The CPRU was previously included in our Services segment.

In the fourth quarter of fiscal 2008, we adjusted estimates from the sale date that were included in the loss on disposal for actual expenses incurred. This resulted in a $43 increase to the loss on disposal.

Condensed Statements of Operations from Discontinued Operations

| (in thousands) | Year Ended September 30, | |
|---|---|---|
| | 2008 | 2007 |
| Net Sales | $ 2,192 | $ 5,492 |
| Loss before income taxes and disposal | (2,811) | (1,095) |
| Loss on disposal | (474) | — |
| Loss from operations before tax benefit | (3,285) | (1,095) |
| Income tax benefit | 1,301 | 449 |
| Net loss | $ (1,984) | $ (646) |

Summary Balance Sheet of Discontinued Operations

| (in thousands) | 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, 2008 and 2007 was $3,884 and $2,739, respectively. Accumulated amortization on capital leases at September 30, 2008 and 2007 was $1,338 and $825, respectively. Amortization of assets acquired through capital leases is included in depreciation expense.

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, 2008 are as follows:

| | Principal | Interest | Total |
|---|---|---|---|
| 2009 | $ 720 | $ 248 | $ 968 |
| 2010 | 650 | 176 | 826 |
| 2011 | 366 | 113 | 479 |
| 2012 | 279 | 63 | 342 |
| 2013 | 148 | 12 | 160 |
| | $ 2,163 | $ 612 | $ 2,775 |

We lease office space and equipment under noncancelable operating leases that terminate at various dates through 2013, with the new UK building lease expiring in 2023. Certain of these leases contain renewal options. Total rental expense under these leases was $1,609 and $2,265 in fiscal 2008 and 2007, 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. For the final quarter of 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, 2008 are as follows:

| | |
|---|---|
| 2009 | $ 466 |
| 2010 | 420 |
| 2011 | 411 |
| 2012 | 408 |
| 2013 | 405 |
| After 2013 | 3,257 |
| | $ 5,367 |

[Remainder of page intentionally left blank.]

7. DEBT ARRANGEMENTS

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

| | 2008 | 2007 |
|---|---|---|
| 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. | $ 4,294 | $ 4,445 |
| Mortgage note payable to a bank, payable in monthly principal and interest installments of $19. The net interest rate is 5.61%. Collateralized by underlying property. Due February, 2011. | 1,623 | 1,735 |
| 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. | 1,967 | 2,025 |
| Note payable to a bank, payable in monthly principal and interest installments of $9. Currently, the net interest rate is 6.1%. Collateralized by West Lafayette and Evansville properties. Due December, 2010. | 1,322 | — |
| Convertible subordinated 6% notes payable due January 1, 2008. Interest payable in arrears on the 15th of January and July after June 1, 2005. | — | 4,000 |
| Subordinated 10% notes payable due October 1, 2007. | — | 477 |
| | $ 9,206 | $ 12,682 |
| Less current portion | 491 | 4,821 |
| | $ 8,715 | $ 7,861 |

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

| | |
|---|---|
| 2009 | $ 491 |
| 2010 | 524 |
| 2011 | 2,727 |
| 2012 | 306 |

| | |
|---|---|
| 2013 | 5,158 |
| | $ 9,206 |

Cash interest payments of $872 and $869 were made in 2008 and 2007, respectively.

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. Interest on the loan is equal to LIBOR plus 215 basis points and requires monthly payments of approximately $9 plus interest, currently at 6.1%. The loan is collateralized by real estate at the Company's West Lafayette and Evansville, Indiana locations. Regions also holds the mortgage debt on these facilities as described previously. We used a portion of the proceeds of the loan and existing cash on hand to repay our subordinated debt of approximately $4,500 during the first quarter of the current fiscal year. We entered into an interest rate swap agreement with respect to this loan to fix the interest rate at 6.1%. We only entered into this derivative transaction to hedge interest rate risk of this debt obligation and not to speculate on interest rates. The fair value of the swap is not material to the financial statements.

Subordinated Debt

In connection with an acquisition in fiscal 2003, we issued 10% subordinated notes of $1.8 million. The outstanding principal on these notes was $477 at September 30, 2007. We made the final principal payment of $477, which was included in current portion of long-term debt at September 30, 2007, and interest payment of $48 in October, 2007.

In connection with another acquisition in fiscal 2003, we issued $4.0 million of 6% convertible notes payable, including $500 payable to a current director of the Company. The remaining outstanding principal on these notes was $4,000 at September 30, 2007. We made the final principal payment of $4,000, which was included in current portion of long-term debt at September 30, 2007, in January, 2008.

Revolving Line of Credit

Through December 31, 2009, we have a revolving line of credit ("Agreement"), with another commercial bank, which we use for working capital and other purposes. Borrowings under the Agreement are 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 has agreed to restrict advances to subsidiaries, limit additional indebtedness and capital expenditures as well as to comply with certain financial covenants outlined in the Agreement. The Agreement contains cross-default provisions with our mortgages or other borrowings.

Our Agreement limits outstanding borrowings to the "borrowing base," as defined in the Agreement, up to a maximum available amount of $5,000. As of September 30, 2008, we had $4,448 of available total borrowing capacity of which $2,023 was outstanding. Borrowings bear interest at a variable rate based on either (a) the London Interbank Offer Rate (LIBOR) or (b) a base rate determined by the bank's prime rate, in either case, plus an applicable margin, as defined in the Agreement. The applicable margin for borrowings under the line of credit ranges from 0.00% to 0.50% for base rate borrowings and 1.50% to 3.00% for LIBOR borrowings, subject to adjustment based on the average availability under the line of credit. We also pay commitment fees on the unused portions of the line of credit ranging from 0.20% - 0.30%. All interest and fees are paid monthly.

The covenants in our revolving line of credit require that we maintain certain ratios of interest-bearing indebtedness to EBITDA and net cash flow to debt servicing requirements, which may restrict the amount we can borrow to fund future operations, acquisitions and capital expenditures. Additionally, 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 Agreement and the Regions loans both contain cross-default provisions. At September 30, 2008, we were in breach of our tangible net worth requirement, which was subsequently waived and the requirement amended as of December 19, 2008.

8. INCOME TAXES

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

| | 2008 | 2007 |
|---|---|---|
| Long-term deferred tax liabilities: | | |
| Tax over book depreciation | $ 770 | $ 495 |
| Lower tax basis on assets of acquired company | 428 | (101) |
| Domestic net operating loss carryforward | (641) | — |
| Stock options expense | (213) | (57) |
| Total long-term deferred tax liabilities | $ 334 | $ 337 |
| | | |
| Current deferred tax assets: | | |
| Inventory pricing | $ 128 | $ 176 |
| Accrued compensation and vacation | 244 | 410 |
| Accrued expenses and other - net | 73 | 184 |
| Foreign tax credit carryover | 71 | 120 |
| Deferred gain on sale/leaseback | — | 7 |
| Foreign net operating loss | 540 | 326 |
| Total current deferred tax assets | $ 1,056 | $ 1,223 |
| | | |
| Valuation allowance for deferred tax assets | (540) | (326) |
| | | |
| Net deferred tax assets | $ 516 | $ 897 |
| | | |
| Net deferred tax (assets) liabilities | $ (172) | $ (560) |

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

| | 2008 | 2007 |
|---|---|---|
| Current: | | |
| Federal | $ (505) | $ 875 |
| State | 144 | 224 |
| Foreign | — | (15) |
| Total Current | $ (361) | $ 1,084 |
| | | |
| Deferred: | | |
| Federal | $ 341 | $ (453) |
| State | 45 | (58) |
| Foreign | 2 | — |
| Total deferred | $ 388 | $ (511) |
| | | |
| | $ 27 | $ 573 |

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

| | 2008 | 2007 |
|---|---|---|
| Statutory federal income tax rate | 34.0% | 34.0% |
| Increases (decreases): | | |
| Nondeductible expenses | 5.0 | 4.4 |
| Tax benefit of foreign sales | 0.0 | (0.4) |
| State income taxes, net of federal tax benefit | 10.0 | 4.2 |
| Nontaxable foreign (gains) losses | 12.4 | (5.3) |
| FIN 48 | 12.8 | 0.0 |
| Other | (1.4) | 2.5 |
| | 72.8% | 39.4% |

We have not provided any U.S. income taxes on the undistributed earnings of our UK subsidiary based upon our determination that such earnings will be indefinitely reinvested. In the event these earnings are later distributed to the U.S., such distributions could result in additional U.S. tax that may be offset, at least in part by associated foreign tax credits.

In fiscal 2008 and 2007, our foreign operations generated income (loss) before income taxes of ($666) and $405 respectively. We have foreign net operating loss carryforwards of $1,020 that have an indefinite life under current UK tax law. Payments made in 2008 and 2007 for income taxes amounted to $186 and $984, respectively.

Effective October 1, 2007, we adopted the provisions of FIN 48. This authoritative interpretation clarified and standardized the manner by which we are required to account for uncertain income tax positions. Under the guidance of FIN 48, 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. On October 1, 2007, we recorded a $183 additional liability for uncertain income tax positions, which was accounted for as a reduction to retained earnings, for the cumulative effect change of adopting FIN 48. Upon further analysis of our opening liability accounts. we determined that our recorded liability on October 1, 2007 was $102 greater than our exposure for uncertain tax positions. Accordingly. we revised our original adjustment and recorded a reduction in tax liability of $285 and increase in retained earnings to properly record our adoption of FIN 48. Management has determined this adjustment is not material from amounts reflected in our Form 10-Q's filed for the periods ending December 31, 2007, March 31, 2008 and June 30, 2008. Accordingly, we have presented below a pro-forma table below reflecting the originally reported and adjusted balances had the FIN 48 original entry been posted correctly.

| | Q1 2008 | Q2 2008 | Q3 2008 |
|---|---|---|---|
| Refundable income taxes | $ 144 | $ 243 | $ 967 |
| Income tax accruals | 240 | 240 | 240 |
| | | | |
| Net tax receivable as originally reported | (96) | 3 | 727 |
| Net tax receivable as adjusted | 189 | 288 | 1,012 |
| | | | |
| Retained earnings as originally reported | 5,361 | 5,224 | 4,838 |
| Retained earnings as adjusted | 5,646 | 5,509 | 5,123 |

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

| | 2008 |
|---|---|
| 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 |

The current year increase in our unrecognized tax liability is related to certain state income tax issues. 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 audits. Accordingly, if such resolutions are favorable, we would reduce the carrying value of our reserve. We recognize interest and/or penalties related to income tax matters in income tax expense. We did not have any amounts accrued for interest and penalties at September 30, 2008. 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 2004.

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, 2008, 382 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:

| | 2008 | 2007 |
|---|---|---|
| Risk-free interest rate | 3.74% | 4.65% |
| Dividend yield | 0.00% | 0.00% |
| Volatility of the expected market price of the Company's common stock | 44.00%-59.00% | 44.00%-63.00% |
| Expected life of the options (years) | 7.0 | 7.0 |

A summary of our stock option activity and related information for the years ended September 30, 2008 and 2007, 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, 2006 | 404 | $ 4.98 | | | |
| Exercised | (17) | $ 4.48 | | | |
| Granted | 305 | $ 6.98 | $ 3.58 | | |
| Terminated | (77) | $ 4.91 | | | |
| Outstanding - September 30, 2007 | 615 | $ 6.00 | $ 3.51 | 7.9 | $ 909 |
| | | | | | |
| 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 |
| | | | | | |
| Exercisable at September 30, 2008 | 305 | $ 5.37 | $ 3.31 | 6.2 | $ 37 |

A summary of non-vested options for the year ended September 30, 2008 is as follows:

| | Number of Shares | Weighted-Average Grant Date Fair Value |
|---|---|---|
| Non-vested options at October 1, 2007 | 418 | $ 3.71 |
| Granted | 189 | $ 3.67 |
| Vested | (131) | $ 3.54 |

| | | |
|---|---|---|
| Forfeited | (27) | $ 3.60 |
| Non-vested options at September 30, 2008 | 449 | $ 3.62 |

We received $14 and $79 from the exercise of qualified employee stock options in fiscal 2008 and 2007, respectively, for which no tax benefit was recognized. The aggregate intrinsic value of those shares exercised were $12 and $10, for the years ended September 30, 2008 and 2007, respectively. As of September 30, 2008, our total unrecognized compensation cost related to non-vested stock options was $1,057 and is expected to be recognized over a weighted-average service period of 1.51 years.

The following table summarizes outstanding and exercisable options as of September 30, 2008 (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 | 157 | 4 .65 | $ 4 .35 | 138 | $ 4 .33 |
| $ 4.59 - 5.74 | 252 | 8 .25 | $ 5 .28 | 92 | $ 5 .53 |
| $ 5.75 - 8.79 | 345 | 8 .73 | $ 7 .41 | 75 | $ 7 .10 |

11. 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 2008 and 2007. Contribution expense was $293 and $301 in fiscal 2008 and 2007, respectively.

[Remainder of page intentionally left blank.]

12. 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, | |
|---|---|---|
| | 2008 | 2007 |
| Revenue: | | |
| Service | $ 32,921 | $ 30,559 |
| Product | 8,776 | 9,194 |
| | $ 41,697 | $ 39,753 |
| | | |
| Operating income from continuing operations: | | |
| Service | $ 2,139 | $ 2,815 |
| Product | 655 | 670 |
| | $ 2,794 | $ 3,485 |
| | | |
| Corporate Expenses | 971 | 891 |
| | | |
| Income from continuing operations before income taxes | $ 1,823 | $ 2,594 |

[Remainder of page intentionally left blank.]

| | Years Ended September 30, | |
|---|---|---|
| | 2008 | 2007 |
| Identifiable assets: | | |
| Service | $ 23,594 | $ 23,979 |
| Product | 9,771 | 9,258 |
| Corporate | 6,353 | 8,800 |
| | $ 39,718 | $ 42,037 |
| | | |
| Goodwill, net: | | |
| Service | $ 1,481 | $ 1,481 |
| Product | 374 | 374 |
| | $ 1,855 | $ 1,855 |
| | | |
| Intangible assets, net: | | |
| Service | $ 144 | $ 304 |
| Product | — | — |
| | $ 144 | $ 304 |
| | | |
| Depreciation and amortization: | | |
| Service | $ 2,653 | $ 3,083 |
| Product | 360 | 236 |
| | $ 3,013 | $ 3,319 |
| | | |
| Capital Expenditures: | | |
| Service | $ 1,505 | $ 691 |
| Product | 208 | 119 |
| | $ 1,713 | $ 810 |

(b) Geographic Information

| | Years Ended September 30, | |
|---|---|---|
| | 2008 | 2007 |
| Sales to External Customers: | | |
| North America | $ 35,866 | $ 33,928 |
| Pacific Rim | 650 | 700 |
| Europe | 4,671 | 4,562 |
| Other | 510 | 563 |
| | $ 41,697 | $ 39,753 |
| | | |
| Long-lived Assets: | | |
| North America | $ 24,170 | $ 24,729 |
| Europe | 1,233 | 808 |
| | $ 25,403 | $ 25,537 |

(c) Major Customers

In 2008 and 2007, Pfizer accounted for approximately 7.4% and 5.8%, respectively, of our total revenues from continuing operations and 10.0% and 5.5% of total trade accounts receivable from continuing operations at September 30, 2008 and 2007, respectively.

13. 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.

Included in fiscal 2007 operating expenses is approximately $360 of severance costs for former officers of the Company as agreed upon on September 28, 2007 in connection with their resignations. Approximately $88 was paid to each of Dr. and Mrs. Kissinger on October 5, 2007, with the remaining paid in six equal installments November 2007 through April 2008.

14. CONSOLIDATED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following is a summary of the unaudited quarterly results of operations for fiscal years 2008 and 2007 (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 |
|---|---|---|---|---|
| 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) |
| | | | | |
| 2007 | | | | |
| Total Revenue | $ 9,880 | $ 9,397 | $ 10,865 | $ 9,611 |
| Gross Profit (a) | 3,635 | 2,895 | 4,083 | 3,555 |
| Net income from continuing operations (a) | 781 | 16 | 567 | 208 |
| Basic net income per share from continuing operations(a) | 0.16 | 0.00 | 0.12 | 0.04 |
| Diluted net income per share from continuing operations(a) | 0.16 | 0.00 | 0.12 | 0.04 |

(a) Amounts have been retrospectively adjusted for our change in the fourth quarter of 2007 from the last-in, first-out method of inventory accounting to the first-in, first-out method.

## MANAGEMENT'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS AND INTERNAL CONTROL

The management of Bioanalytical Systems, Inc. ("BASI") has prepared, and is responsible for, BASI's consolidated financial statements and related footnotes. These consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles.

BASI's management is responsible for establishing and maintaining effective internal control over financial reporting and for assessing the effectiveness of internal control over financial reporting. The purpose of this system of internal accounting controls over financial reporting is to provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with management's authorization and are properly recorded, and that accounting records may be relied upon for the preparation of accurate and complete consolidated financial statements. The design, monitoring and revision of internal accounting control systems involve, among other things, management's judgment with respect to the relative cost and expected benefits of specific control measures.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

During the preparation of the consolidated financial statements for the year ended September 30, 2008, we identified a difference in the amounts of deferred and refundable income taxes in our books and records as compared to the amounts included in our income tax returns. To verify the amount and the nature of the difference, we elected to delay the filing of our annual report on Form 10-K. We concluded that the difference was related to an overstatement of our unrecognized tax liability and the related error in recording our liability for uncertain tax positions upon our adoption of FIN 48 on October 1, 2007. The failure to identify this difference and resulting error in adopting FIN 48 through our normal financial statement preparation process caused us to conclude that we had a material weakness in our accounting for income taxes and that our internal controls over financial reporting were not effective as of September 30, 2008. To prevent a recurrence of similar errors in future years, we plan to implement in 2009 commercially available software that will accurately maintain and track the differences between financial reporting and tax return reporting.

BASI's management concluded that its internal control over financial reporting as of September 30, 2008 was not effective and adequate to accomplish the objectives described above. Management's assessment was based upon the criteria in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. BASI's consolidated financial statements have been audited by an independent registered public accounting firm, Crowe Horwath LLP, as stated in their report which is included elsewhere herein.

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.

By: /s/ Richard M. Shepperd

Richard M. Shepperd
President and Chief Executive Officer

By: /s/ Michael R. Cox

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

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, 2008 and 2007, 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, 2008 and 2007, 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, 2009

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 under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in 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, 2008, 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

During the fourth quarter of fiscal 2008, we migrated the financial accounting for Bioanalytical projects for our West Lafayette Bioanalytical services from an internally developed system to our enterprise resource management system ("ERP"). This migration was the final major business unit to implement our ERP system initiated in fiscal 2005. We believe our ERP system significantly reduces our risk of a material error in our financial statements.

During the preparation of the consolidated financial statements for the year ended September 30, 2008, we identified a difference in the amounts of deferred and refundable income taxes in our books and records as compared to the amounts included in our income tax returns. To verify the amount and the nature of the difference, we elected to delay the filing of our annual report on Form 10-K. We concluded that the difference was related to an overstatement of our unrecognized tax liability and the related error in recording our liability for uncertain tax positions upon our adoption of FIN 48 on October 1, 2007. The failure to identify this difference and resulting error in adopting FIN 48 through our normal financial statement preparation process caused us to conclude that we had a material weakness in our accounting for income taxes and that our internal controls over financial reporting were not effective as of September 30, 2008. To prevent a recurrence of similar errors in future years, we plan to implement in 2009 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 the fourth quarter of fiscal 2008 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. Based on this evaluation, our management concluded that our internal control over financial reporting was not effective as of September 30, 2008 due to the difference identified in the amounts of deferred and refundable income taxes in our books and records as compared to the amounts included in our income tax returns. To verify the amount and the nature of the difference, we elected to delay the filing of our annual report on Form 10-K. We concluded that the difference was related to an overstatement of our unrecognized tax liability and the related error in recording our liability for uncertain tax positions upon our adoption of FIN 48 on October 1. 2007. The failure to identify this error through our normal financial statement preparation process caused us to conclude that we had a material weakness in our accounting for income taxes and that our internal controls over financial reporting were not effective as of September 30. 2008. To prevent a recurrence of similar errors in future years, we plan to implement in 2009 commercially available that will accurately maintain and track the difference between financial reporting and tax return 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.

For additional information, please see "Management's Report on Consolidated Financial Statements and Internal Control" included in this Annual Report.

ITEM 9B-OTHER INFORMATION

As previously discussed in Note 7, we were in breach of our tangible net worth ratio requirement as part of the covenants in our loan agreements with National City Bank as of September 30, 2008. As of December 19, 2008, the bank had waived the breach and amended this requirement as evidenced in Exhibit 10.9 filed with this report 10-K.

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, 2008. Except as indicated in the following paragraphs, the principal occupations of these persons has 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 2009 Annual Meeting.

| Name | Age | Position |
|---|---|---|
| William E. Baitinger | 75 | Director |
| David W. Crabb | 55 | Director |
| Leslie B. Daniels | 61 | Director |
| Larry S. Boulet | 62 | Director |
| Richard M. Shepperd | 68 | 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.

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.

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 the immediate past Chairman of the Board. He holds a Bachelor of Science degree in Accounting from Indiana State University.

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 and Leslie B. Daniels 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 26 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. (incorporated by reference to Exhibit 3.2 to Form 10-Q for the quarter ended March 31, 2007). |
| (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 (filed herewith). |
| 10.10 | 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). |
| 10.11 | Loan Agreement between Bioanalytical Systems, Inc. and Union Planters Bank, dated October 29, 2002 (incorporated by reference to Exhibit 10.15 of Form 10-K for the fiscal year ended September 30, 2002). |
| 10.12 | Real Estate Mortgage and Security Agreement between Bioanalytical Systems, Inc. and Union Planters Bank, dated October 29, 2002 (incorporated by reference to Exhibit 10.16 of Form 10-K for the fiscal year ended September 30, 2002). |
| 10.13 | Real Estate Mortgage and Security Agreement between Bioanalytical Systems, Inc. and Union Planters Bank, dated October 29, 2002 (incorporated by reference to Exhibit 10.17 of Form 10-K for the fiscal year ended September 30, 2002). |
| 10.14 | Term Loan Promissory Note made by Bioanalytical Systems, Inc. in favor of Union Planters Bank, dated October 29, 2002 (incorporated by reference to Exhibit 10.18 of Form 10-K for the fiscal year ended September 30, 2002). |
| 10.15 | Promissory Note made by Bioanalytical Systems, Inc. in favor of Union Planters Bank, dated October 29, 2002 (incorporated by reference to Exhibit 10.19 of Form 10-K for the fiscal year ended September 30, 2002). |
| 10.16 | Form of Grant of non-qualified stock options dated August 1, 2005 to Edward M. Chait (*) (incorporated by reference to Exhibit 10.24 to Form 10-K for the fiscal year ended September 30, 2005). |
| 10.17 | 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). |

10.18 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).

10.19 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).

| Number | Description of Exhibits |
|---|---|
| 10.20 | First Amendment to Lease by and between 300 W. Fayette Street, LLC and Bioanalytical Systems, Inc., entered into on May 20, 2007 (incorporated by reference to Exhibit 10.3 to Form 10-Q for the fiscal quarter ended June 30, 2007). |
| 10.21 | Lease Agreement by and between 300 W. Fayette Street, LLC and Bioanalytical Systems, Inc., entered into on May 20, 2007 (incorporated by reference to Exhibit 10.4 to Form 10-Q for the fiscal quarter ended June 30, 2007). |
| 10.22 | Severance Agreement and Release of All Claims, dated September 28, 2007, between Candice B. Kissinger and Bioanalytical Systems, Inc. (*) (incorporated by reference to Exhibit 10.1 to Form 8-K filed October 4, 2007) |
| 10.23 | Severance Agreement and Release of All Claims, dated September 28, 2007, between Peter T. Kissinger, PhD. and Bioanalytical Systems, Inc. (*) (incorporated by reference to Exhibit 10.2 to Form 8-K filed October 4, 2007) |
| 10.24 | License Agreement, dated September 28, 2007, between Phlebotics, Inc. and Bioanalytical Systems, Inc. (incorporated by reference to Exhibit 10.3 to Form 8-K filed October 4, 2007). |
| 10.25 | 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). |
| 10.26 | 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). |
| 10.27 | 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). |
| 10.28 | 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). |
| 10.29 | Severance Agreement and Release of All Claims between Edward M. Chait and Bioanalytical Systems, Inc., dated November 7, 2008 (filed herewith). |
| 10.30 | 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). |
| 10.31 | Form of Bioanalytical Systems, Inc. 2008 Director and Employee Stock Option Plan (*) (filed herewith). |

10.32 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).

10.33 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).

10.34 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).

| Number | | Description of Exhibits |
|---|---|---|
| | 10.35 | Employee Incentive Stock Option Agreement between Jon Brewer and Bioanalytical Systems, Inc., dated October 1, 2008 (filed herewith). |
| | 10.36 | Employee Incentive Stock Option Agreement between Anthony S. Chilton and Bioanalytical Systems, Inc., dated December 1, 2008 (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.<br>(Registrant) |
| Date: January 13, 2009 | By: /s/ Richard M. Shepperd<br>Richard M. Shepperd<br>President and Chief Executive Officer |
| Date: January 13, 2009 | By: /s/ Michael R. Cox<br>Michael R. Cox<br>Vice President, Finance and Administration,<br>Chief Financial Officer and Treasurer |

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

| Signature | Capacity | Date |
|---|---|---|
| /s/ Richard M. Shepperd<br>Richard M. Shepperd | President and Chief Executive Officer (Principal Executive Officer) | January 13, 2009 |
| /s/ Michael R. Cox<br>Michael R. Cox | Vice President, Finance and Administration, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer) | January 13, 2009 |
| /s/ William E. Baitinger<br>William E. Baitinger | Director | January 13, 2009 |
| /s/ David W. Crabb<br>David W. Crabb | Director | January 13, 2009 |
| /s/ Leslie B. Daniels<br>Leslie B. Daniels | Director | January 13, 2009 |
| /s/ Larry S. Boulet<br>Larry S. Boulet | Director | January 13, 2009 |