BIOANALYTICAL SYSTEMS INC
Form 424B4
May 06, 2011

Filed Pursuant to Rule 424(b)(4)
Registration No. 333-172508
Registration No. 333-173976

PROSPECTUS

Bioanalytical Systems, Inc.

5,506 6% Series A Convertible Preferred Shares
(and 2,753,000 Common Shares underlying the 6% Series A Convertible Preferred Shares)
2,753,000 Warrants
(and 2,753,000 Common Shares underlying the Warrants)

We are offering up to 5,506 6% Series A convertible preferred shares (the "Series A preferred shares") and warrants to purchase up to 2,753,000 common shares to purchasers in this offering. We are also offering up to 2,753,000 of our common shares issuable upon conversion of the Series A preferred shares and 2,753,000 of our common shares issuable upon exercise of the warrants. The Series A preferred shares and warrants will be sold in units for a purchase price equal to $1,000 per unit. Each unit will consist of (1) one Series A preferred share which is convertible into 500 of our common shares at a conversion price of $2.00 per common share, (2) one Class A Warrant to purchase 0.5 of our common shares for every common share underlying the preferred share included in such unit, exercisable at any time after the closing date at an exercise price of $2.00 per common share and (3) one Class B Warrant to purchase 0.5 of our common shares for every common share underlying the preferred share included in such unit, exercisable at any time after the closing date at an exercise price of $2.00 per common share.

Until May 11, 2014, the Series A preferred shares will have a stated dividend rate of 6% per annum, payable quarterly in cash or, at our election and subject to certain conditions described in this prospectus, in our common shares, which are also being offered by this prospectus. Thereafter, each holder of Series A preferred shares will be entitled to receive dividends equal, on an as-if-converted to common shares basis, to and in the same form as dividends actually paid on common shares when, as, and if such dividends are paid on common shares. The Company has never paid dividends on its common shares and does not intend to do so for the foreseeable future. The conversion of the Series A preferred shares and the exercise of the warrants are subject to certain ownership limitations described in this prospectus. If certain conditions described in the prospectus are met, we may, at our option, redeem the Series A preferred shares for cash or require the holders to convert the Series A preferred shares into common shares. For a more detailed description of the Series A preferred shares, the warrants, and our common shares, see the section entitled "Description of Securities" beginning on page 12 of this prospectus.

Our common shares are quoted on the NASDAQ Capital Market under the symbol "BASI." The last reported sale price of our common shares on May 5, 2011 was $2.27 per share. There is no established public trading market for the Series A preferred shares or the warrants being sold in this offering and we do not expect such a market to develop.

We have retained Ladenburg Thalmann & Co. Inc. (the "Placement Agent") to act as our exclusive Placement Agent in connection with this offering and to use its "best efforts" to solicit offers to purchase the units. We intend to enter into a Placement Agency Agreement with the Placement Agent, relating to the units offered by this prospectus. The Placement Agent is not purchasing or selling any of our units pursuant to this prospectus, nor are we requiring any minimum purchase or sale of any specific number of units. Because there is no minimum offering amount required as a condition to the closing of this offering, the actual public offering amount, Placement Agent fees and proceeds to us are not presently determinable and may be substantially less than the maximum amounts set forth below. See "Plan of

Distribution" beginning on page 17 of this prospectus for more information regarding this arrangement.

Investing in our securities involves a high degree of risk. See "Risk Factors" beginning on page 6 of this prospectus for more information.

	Per Unit	Total
Public offering price	$ 1,000.00	$ 5,506,000
Placement Agent fees (1)	$ 82.50	$ 454,245
Proceeds, before expenses, to us (2)	$ 917.50	$ 5,051,755

(1) For the purpose of estimating the Placement Agent's fees, we have assumed that they will receive their maximum commission on all sales made in the offering. The Placement Agent will also be entitled to reimbursement of expenses up to a maximum of 1.2% of the gross proceeds raised in the offering, but in no event more than $60,000.

(2) We estimate total expenses of this offering, excluding the Placement Agent's fees and expenses, will be approximately $250,000. For information concerning our obligation to reimburse the Placement Agent for certain of its expenses see "Plan of Distribution" beginning on page 17 of this prospectus.

We expect that delivery of the units being offered pursuant to this prospectus will be made to purchasers on or about May 11, 2011. In either event, the offering may be closed without further notice to you.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus or the prospectus to which it relates is truthful or complete. Any representation to the contrary is a criminal offense.

LADENBURG THALMANN & CO. INC.

The date of this prospectus is May 6, 2011.

Table of Contents

You should rely only on the information contained in this prospectus. We have not, and the Placement Agent has not, authorized anyone to provide you with information different from that contained in this prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. We are offering to sell, and seeking offers to buy, units only in jurisdictions where offers and sales are permitted. You should assume that the information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of units. Our business, financial condition, results of operations, and prospects may have changed since that date.

Some of the industry and market data contained in this prospectus are based on independent industry publications or other publicly available information that we believe are reliable as of their respective dates, while other information is based on our internal sources.

Cautionary Note Regarding Forward-Looking Statements

This prospectus contains forward-looking statements that are based on current expectations, estimates, forecasts and projections regarding management's beliefs and assumptions about the industry in which we operate. Such statements include, in particular, statements about our plans, strategies and prospects under the headings "Prospectus Summary," "Risk Factors," "Use of Proceeds," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business." When used in this prospectus, the words "anticipate," "believe," "could," "estimate," "expect," "i "may," "plan," "potential," "predict," "project," "should," "will," "would," and similar expressions identify forward-looking st

Forward-looking statements are not a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward-looking statements are based on information available at the time the statements are made and involve known and unknown risks, uncertainties and other factors that may cause actual outcomes and results to differ materially from what is expressed or forecasted in such forward-looking statements.

Except as required by applicable law, we assume no obligation to update any forward-looking statements publicly or to update the reasons why actual results could differ materially from those anticipated in any forward-looking statements, even if new information becomes available in the future.

Prospectus Summary

This summary highlights information about our Company and this offering contained elsewhere in this prospectus and is qualified in its entirety by the more detailed information and financial statements included elsewhere in this prospectus. You should read this entire prospectus carefully, including "Risk Factors", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and related notes included elsewhere in this prospectus, before making an investment decision. In this prospectus, unless otherwise specified or the context otherwise requires, the terms "we", "us", "our", "the Company", or "ours" refer to Bioanalytical Systems, Inc. and consolidated subsidiaries.

About Bioanalytical Systems, Inc.

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

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

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

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.

The contract research services segment provides screening and pharmacological testing, preclinical safety testing, formulation development, regulatory compliance and quality control testing. The following is a description of the services provided by our contract research services segment:

- Product Characterization, Method Development and Validation: Analytical methods, primarily performed in West Lafayette, Indiana, determine potency, purity, chemical composition, structure and physical properties of a compound. Methods are validated to ensure that data generated are accurate, precise, reproducible and reliable and are used consistently throughout the drug development process and in later product support.

- Bioanalytical Testing: We analyze specimens from preclinical and clinical trials to measure drug and metabolite concentrations in complex biological matrices. Bioanalysis is performed at our facilities in Indiana, Oregon and the United Kingdom (“UK”).

- Stability Testing: We test stability of drug substances and formulated drug products and maintain secure storage facilities in West Lafayette, Indiana to establish and confirm product purity, potency and shelf life. We have multiple International Conference on Harmonization validated controlled-climate GMP (Good Manufacturing Practices) systems in place, and the testing capability to complete most stability programs.

- In Vivo Pharmacology: We provide preclinical in vivo sampling services for the continuous monitoring of chemical changes in life, in particular, how a drug enters, travels through, and is metabolized in living systems. Most services are performed in customized facilities in Evansville, Indiana using our robotic Culex® APS (Automated Pharmacology System) system.

- Preclinical and Pathology Services: We provide pharmacokinetic and safety testing in studies ranging from acute safety monitoring of drugs and medical devices to chronic, multi-year oncogenicity studies in our Evansville, Indiana site. Depending on protocol, multiple tissues may be collected to monitor pathological changes.

Our products business is focused on expediting preclinical screening of developmental drugs. We compete in small niches of the multibillion dollar analytical instrument industry. The products business targets unique niches in life science research. We design, develop, manufacture and market state-of-the-art in vivo sampling systems and accessories (including disposables, training and systems qualification), physiology monitoring tools and liquid chromatography and electrochemistry instruments platforms. We offer three (3) principal product lines: Analytical Products, In vivo Sampling Products and Vetronics' Products. The following is a brief description of the products offered:

- Analytical Products: The analytical products consist of our liquid chromatographic and electrochemical instruments with associated accessories. The critical component of these products is the Epsilon® electrochemical platform. This incorporates all the hardware capabilities needed for most electrochemical experiments but can be modified through software development. The market is principally academic institutions and industrial research companies.

- In Vivo Sampling Products: The in vivo sampling products consist of the Culex® family of automated in vivo sampling and dosing instruments. These are used by pharmaceutical researchers to dose animals and collect biological samples (blood, bile, urine, microdialysate, feces or any bio-fluid) from the animals. Since dosing and sample collections are automated, animals are not manually handled, reducing stress on the animals and producing more representative pharmacological data. Behavior and other physiological parameters can also be monitored simultaneously. Compared to manual methods, the Culex® products offer significant reduction in test model use and comparable reduction in labor. The line also includes miniaturized in vivo sampling devices sold to drug developers and medical research centers to assist in the study of a number of medical conditions including stroke, depression, Alzheimer's and Parkinson's diseases, diabetes and osteoporosis.

- Vetronics' Products: The Vetronics' products consist of instruments and related software to monitor and diagnose cardiac function (electro-cardiogram) and measure other vital physiological parameters primarily in cats and dogs in veterinary clinics.

Our Growth Strategy

We believe that the development of innovative new drugs is going through an evolution, evidenced by the significant reduction of expenditures on research and development at several major international pharmaceutical companies, accompanied by increases in outsourcing and investments in smaller start-up companies that are performing the early development work on new compounds. Many of these companies are funded by either venture capital or pharmaceutical investment, or both, and generally do not build internal staffs that possess the extensive scientific and regulatory capabilities to perform the various activities necessary to progress a drug candidate to the filing of an Investigative New Drug ("IND") application with the FDA.

While continuing to maintain and develop our relationships with large pharmaceutical companies, we intend to aggressively promote our services to developing businesses, which will require us to expand our existing capabilities to provide services early in the drug development process, and to consult with clients on regulatory strategy and

compliance leading to their filings. We have recently launched our Enhanced Drug Discovery services as part of this strategy, utilizing our proprietary Culex® technology to provide early experiments in our laboratories that previously would have been conducted in the sponsor's facilities.

We will employ the following key strategies, among others, to achieve our growth goals:

- Expand our CRO business. We will grow our CRO business through increased investment in our people and facilities, and by expanding our network of relationships for new and existing CRO services as follows:

  - Gaining new clients for our existing CRO services from competitors or from internal client functions;
  - Focusing on new markets, such as start-ups, biotechs and generics, for our services;
  - Expanding Culex® automated in vivo sampling and dosing instrument capabilities into the discovery phase of research;
  - Partnering with Phase I clinical units;
  - Evaluating and expanding our capabilities in biologics, and
  - Investigating acquisition candidates that add services we do not currently offer to our markets, or that bring innovation to existing CRO offerings.

- Expand our portfolio of commercially viable, innovative products. We intend to expand our portfolio of value-added products using innovative technologies that are desired in the market. We will utilize our own research and development efforts and existing client relationships to identify and prioritize opportunities that allow us to respond rapidly to the market and shorten the time to market for new products.

Challenges in Executing our Growth Strategy

We face several challenges to the successful implementation of our growth strategy. In addition, our business is subject to numerous risks, which we highlight in the section entitled "Risk Factors" immediately following this prospectus summary. For example, our ability to grow by expanding our CRO business requires that we take business from competitors, identify new clients, expand our scientific capabilities and broaden our geographic presence. Our inability to do any of these could prevent us from successfully implementing our growth strategy. In addition, the success of our business model depends on our ability to correctly identify market needs for new technologies. If we are not successful in identifying market needs or in developing new products to meet those needs, we may not be successful in expanding our products portfolio. We believe that sustained growth at a higher rate will require that we attract additional scientific and business talent. If we are unable to accomplish this, it may negatively impact our ability to grow.

Where You Can Find More Information

Our common shares are quoted on the NASDAQ Capital Market under the symbol “BASI.”.

Our executive offices are located at 2701 Kent Avenue, West Lafayette, Indiana 47906, and our telephone number is 765.463.4527. We make available on our website, www.BASInc.com, our annual reports, quarterly reports, and proxy statements, as well as up- to- date investor presentations. The information on our website is not incorporated by reference into this prospectus, and you should not consider it part of this prospectus.

We have filed registration statements on Form S-1 (Registration Nos. 333-172508 and 333-173976) with the SEC under the Securities Act with respect to the securities offered by this prospectus. This prospectus, which is a part of such registration statements, does not include all of the information contained in the registration statements and their respective exhibits. For further information regarding us and our securities, you should consult the registration statements and their respective exhibits. The registration statements and their respective exhibits, as well as our other reports filed with the SEC, can be inspected and copied at the SEC’s public reference room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information about the operation of the public reference room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains a web site at http://www.sec.gov which contains the Form S-1 and other reports, proxy and information statements and information regarding issuers that file electronically with the SEC.

Statements contained in this prospectus concerning the provisions of any documents are summaries of those documents, and we refer you to the documents filed with the SEC for more information. The registration statements and any of their respective amendments, including exhibits filed as a part of the registration statements or an amendment to the registration statements, are available for inspection and copying as described above.

The Offering

Our common shares are traded on the NASDAQ Capital Market under the symbol “BASI”. On May 5, 2011, the last sale price of our common shares as reported on the NASDAQ Capital Market was $2.27 per share.

Issuer	Bioanalytical Systems, Inc.
Units	Each unit consists of (1) one Series A convertible preferred share which is convertible into 500 common shares; (2) one Class A Warrant to purchase 0.5 of our common shares for every common share underlying the preferred share included in such unit; and (3) one Class B Warrant to purchase 0.5 of our common shares for every common share underlying the preferred share included in such unit.
Unit Price	$1,000 per unit.
Series A Preferred Shares	Each unit includes one Series A preferred share. Each Series A preferred share is convertible at the option of the holder into 500 of our common shares, has a stated value and liquidation preference of $1,000 per share, and is redeemable at the option of the Company so long as certain conditions described in this prospectus are met. The Company also has the right to require the holders to convert the Series A preferred shares in certain circumstances described in this prospectus. Until May 11, 2014, the Series A preferred shares will have a stated dividend rate of 6% per annum, payable quarterly in cash or, subject to certain conditions, in common shares or a combination of cash and common shares, at our election. After May 11, 2014, the Series A preferred shares will participate in any dividends payable upon our common shares on an "as converted" basis. The Series A preferred shares will not have voting rights, except as may be provided by Indiana law. See the section entitled "Description of Series A Preferred Shares" beginning on page 12 of this prospectus.
Dividends and Make-Whole Payment	Until May 11, 2014, each holder of the Series A preferred shares is entitled to receive dividends at the rate of 6% per annum of the stated value for each preferred share held by such holder payable quarterly on January 1, April 1, July 1 and October 1, beginning on the first such date after the original issue date, and on each conversion date. Except in limited circumstances (including a failure to meet the Equity Conditions), we can elect to pay the dividends in cash or in duly authorized, validly issued, fully paid and non-assessable common shares, or a combination thereof. If the Equity Conditions are not met, we must pay the dividends in cash. If the Equity Conditions have been met and we choose to pay the dividends in common shares, the common shares used to pay the dividends will be valued at 90% of the average volume weighted average price of our common shares for the 20 consecutive trading days ending on the trading day immediately prior to the applicable dividend payment date. From and after May 11, 2014, each holder of Series A preferred shares will be entitled to

	receive dividends equal, on an as-if-converted to common shares basis, to and in the same form as dividends actually paid on common shares when, as, and if such dividends are paid on common shares. We have never paid dividends on our common shares and we do not intend to do so for the foreseeable future. In the event a holder converts his, her or its Series A preferred shares prior to May 11, 2014, we must also pay to the holder in cash, or at our option, subject to satisfaction of the Equity Conditions, in common shares valued as described above, or a combination of cash and common shares, with respect to the Series A preferred shares so converted, an amount equal to $180 per $1,000 of the stated value of the Series A preferred shares, less the amount of any dividends paid in cash or in common shares on such Series A preferred shares on or before the date of conversion.
Prohibition on Down Round Financings	As further described in the securities purchase agreement previously filed as an exhibit to the registration statement, for a period of four years from the closing of the offering, without the prior written consent of the subscribers in this offering, the Company shall not be permitted to issue any common shares or common share equivalents at an effective price per share below the conversion price of the Series A preferred shares.
Conversion Price of Series A preferred shares	$2.00 per share, subject to adjustment as described in this prospectus. See the section entitled "Description of Series A Preferred Shares" beginning on page 12 of this prospectus.
Common shares underlying Series A preferred shares	Based on the conversion price of $2.00 per share, each Series A preferred share is convertible into 500 of our common shares and all 5,506 Series A preferred shares offered hereby would be converted into 2,753,000 of our common shares.

Class A Warrant terms	Each unit includes a Class A Warrant to purchase 0.5 of our common shares for every common share underlying the preferred share included in such unit, which equals 50% of the common shares underlying each Series A preferred share. Class A Warrants will entitle the holder to purchase common shares for an exercise price equal to $2.00 per share, subject to adjustment as described in this prospectus. Class A Warrants are exercisable immediately after the date of issuance and expire five years after the date of issuance. See the section entitled "Description of Warrants" beginning on page 14 of this prospectus.
Class B Warrant terms	Each unit includes a Class B Warrant to purchase 0.5 of our common shares for every common share underlying the preferred share included in such unit, which equals 50% of the common shares underlying each Series A preferred share. Class B Warrants will entitle the holder to purchase common shares for an exercise price equal to $2.00 per share, subject to adjustment as described in this prospectus. Class B Warrants are exercisable immediately after the date of issuance and expire one year after the date of issuance. See the section entitled "Description of Warrants" beginning on page 14 of this prospectus.
Common shares outstanding before this offering	4,915,318 shares.
Common shares to be outstanding after this offering including common shares underlying Series A Preferred Shares included in Units	7,668,318 shares, excluding shares issuable upon exercise of the warrants.
Use of Proceeds	Assuming all units are sold, we estimate that the net proceeds to us from this offering will be approximately $4.7 million. We intend to use the net proceeds from this offering for the purchase of laboratory equipment, working capital and general corporate purposes. See "Use of Proceeds."
Limitations on Exercise or Conversion	Notwithstanding anything herein to the contrary, the Company will not permit the conversion of the preferred shares or exercise of the warrants of any holder, if after such conversion or exercise such holder would beneficially own more than 4.99% (or 9.99% as elected by the holder pursuant to the terms of the Series A preferred shares or the warrants, as applicable) of the common shares then outstanding.
Liquidation Preference:	In the event of any liquidation or winding up of the Company, the holders of the Preferred Stock shall be entitled to receive, prior and in preference to the holders of Common Stock and any series of preferred stock ranked junior to the Preferred Stock, an amount (the “Liquidation Amount”) equal to the original purchase price per share of Preferred Stock then held by such holders, plus all accrued but unpaid dividends.
Risk Factors	

You should carefully read and consider the information set forth under "Risk Factors," together with all of the other information set forth in this prospectus, before deciding to invest in the units offered by this prospectus.

The number of common shares outstanding before and after the offering is based on 4,915,318 shares outstanding as of May 1, 2011 and excludes:

- 691,500 common shares issuable upon exercise of options with a weighted average exercise price of $2.64 per share;
- 1,000 common shares reserved for future grants and awards under our equity incentive plans; and
- 2,753,000 common shares issuable upon exercise of warrants to be issued in connection with this offering.

Risk Factors

You should carefully consider the risks described below before making an investment decision. You should also refer to the other information in this prospectus, including our financial statements and the related notes thereto. The risks and uncertainties described below are not the only risks and uncertainties we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations. If any of the following risks actually occur, our business, results of operations and financial condition could suffer. In that event the trading price of our common shares could decline, and you may lose all or part of your investment in the units. The risks discussed below also include forward-looking statements and our actual results may differ substantially from those discussed in these forward-looking statements.

Risks Related to 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. Despite these efforts, we experienced a net loss in fiscal years 2004, 2005, 2006, 2008, 2009 and 2010. Further, our net revenues in 2009 and 2010 when compared to the immediately preceding fiscal year, declined approximately 23.8% and 9.5% respectively. Demand for our services and products may continue to be subject to substantial year-to-year fluctuations as a consequence of industry cyclicality, as well as global economic uncertainty and other factors, and such fluctuations may have a material adverse effect on our financial condition or results of operation. We cannot assure that our efforts will result in any increased profitability, or if our efforts result in profit, that profits will continue, for any meaningful period of time.

We have limited ability to obtain additional financing.

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

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

Certain of the Company’s credit agreements contain certain affirmative and negative covenants including compliance with certain financial ratios. A breach of any of these covenants or our inability to comply with any required financial ratios could result in a default under one or more credit agreements, unless we are able to obtain the necessary waivers or amendments to the credit agreements. Upon the occurrence of an event of default that is not waived, and subject to any appropriate cure periods, the lenders under the affected credit agreements could elect to exercise any of their available remedies, which may include the right to not lend any additional amounts to us or, in certain instances, to declare all outstanding borrowings, together with accrued interest and other fees, to be immediately due and payable. If we are unable to repay the borrowings with respect to such credit facility when due the lenders could be permitted to proceed against their collateral. The election to exercise any such remedy could have a material adverse effect on our business and financial condition.

Unfavorable general economic conditions may materially adversely affect our business.

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

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.

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

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

We operate in a highly competitive industry.

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

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

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

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

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

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

Our activities involve the controlled use of potentially harmful biological materials, as well as hazardous materials, chemicals and various radioactive compounds. We cannot completely eliminate the risk of accidental contamination

or injury from the use, storage, handling or disposal of these materials. In the event of contamination or injury, we could be held liable for damages that result, and any liability could exceed our insurance coverage and ability to pay. Any contamination or injury could also damage our reputation, which is critical to getting new business. In addition, we are subject to federal, state and local laws and regulations governing the use, storage, handling and disposal of these materials and specified waste products. The cost of compliance with these laws and regulations is significant and if changes are made to impose additional requirements, these costs could increase and have an adverse impact on our financial condition and results of operations.

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

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

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

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

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

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

Our Products business depends on our intellectual property.

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

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

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

- inability to develop products that address our customers' needs;
- competitive products with superior performance;
- patent conflicts or unenforceable intellectual property rights;
- demand for the particular product; and
- other factors that could make the product uneconomical.

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

Providing CRO services creates a risk of liability for which we may not be fully indemnified or insured.

In certain circumstances, we seek to manage our liability risk through contractual provisions with clients, requiring us to be indemnified by the clients or covered by the clients' product liability insurance policies. Contractual indemnifications generally do not protect us against liability arising from certain of our own actions, such as negligence or intentional misconduct. We could be materially and adversely affected if we were required to pay damages or bear the costs of defending any claim which is not covered by a contractual indemnification provision or in the event that a party who must indemnify us does not fulfill its indemnification obligations or which is beyond the level of our insurance coverage. 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 not be able to successfully expand our business through acquisitions.

We occasionally review acquisition candidates and acquisitions which we have already made. We have faced substantial problems integrating acquisitions in the past, and if as a part of our growth strategy we decide to undertake

an acquisition, we may not be able to successfully integrate it in order to realize the full benefit of such acquisition. Factors which may affect our ability to grow successfully through acquisitions include:

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

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

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

Privacy regulations could increase our costs or limit our services.

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

We may be affected by health care reform.

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

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

We rely on air transportation to serve our customers.

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

Risks Related to Share Ownership

There is no public market for the Series A preferred shares or warrants to purchase common shares to be sold in this offering.

There is no established public trading market for the Series A preferred shares and warrants being sold in this offering, and we do not expect a market to develop. In addition, we do not intend to apply for listing the Series A preferred shares or warrants on any securities exchange. Without an active market, the liquidity of these securities will be limited.

As a new investor, you will incur substantial dilution as a result of this offering and future equity issuances, and as result, our share price could decline.

The Series A conversion price is substantially higher than the net tangible book value per share of our outstanding common shares. On a pro forma basis, after giving effect to the sale of 5,506 Series A preferred shares in this offering and assuming the conversion of all the Series A preferred shares sold in the offering (and excluding common shares issuable upon exercise of warrants), our net tangible book value as of December 31, 2010 would have been $14,202,634, or $1.85 per share. This represents an immediate dilution in net tangible book value of $0.07 per share to existing shareholders and an immediate dilution in net tangible book value of $0.15 per common share purchased, without giving effect to the potential exercise of warrants offered by this prospectus. In addition to this offering,

subject to market conditions and other factors, it is likely that we will pursue additional capital to finance our operations and the development, manufacture and marketing of other products under development and new product opportunities. Accordingly, we may conduct future offerings of equity or debt securities. The exercise of outstanding options and warrants and future equity issuances, including future public offerings or future private placements of equity securities and any additional shares issued in connection with acquisitions, may result in dilution to investors. In addition, the market price of our common shares could fall as a result of resales of any of these common shares due to an increased number of shares available for sale in the market.

Our share price could be volatile and our trading volume may fluctuate substantially.

The price of our common shares has been and may in the future continue to be extremely volatile, with the sale price fluctuating from a low of $0.60 to a high of $9.39 since December 31, 2005. Many factors could have a significant impact on the future price of our common shares, including:

- our inability to raise additional capital to fund our operations, whether through the issuance of equity securities or debt;
- our failure to successfully implement our business objectives;
- compliance with ongoing regulatory requirements;
- market acceptance of our products;
- technological innovations, new commercial products or drug discovery efforts and preclinical and clinical activities by us or our competitors;
- changes in government regulations;
- general economic conditions and other external factors;
- actual or anticipated fluctuations in our quarterly financial and operating results;
- the degree of trading liquidity in our common shares; and
- our ability to meet the minimum standards required for remaining listed on the NASDAQ Capital Market.

Although we currently meet the listing requirements for the NASDAQ Capital Market, our common shares could be de-listed from the NASDAQ Capital Market and determined to be a "penny stock".

The National Association of Securities Dealers, Inc. has certain standards for the continued listing of a security on the NASDAQ Capital Market. These standards require, among other things, that a listed issuer have either (i) listed securities with a market value of at least $1.0 million and (ii) a bid price of at least $1.00 per share, and either (i) minimum shareholders' equity of $2.5 million, (ii) net income from continuing operations of $500,000 in the most recently completed fiscal year or in two of the three most recently completed fiscal years, or (iii) market value of the listed securities of at least $35.0 million.

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

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

Furthermore, if our common shares were removed from listing with the NASDAQ Capital Market and we are unsuccessful in listing our common shares on another national securities exchange, the shares may be subject to the so-called "penny stock" rules. The SEC has adopted regulations that define a penny stock to be any equity security that has a market price per share of less than $5.00, subject to certain exceptions, such as any securities listed on a national securities exchange. For any transaction involving a penny stock, unless exempt, the rules impose additional sales practice requirements on broker-dealers, subject to certain exceptions. If our common shares were delisted and determined to be a penny stock, a broker-dealer may find it more difficult to trade our common shares and an investor may find it more difficult to acquire or dispose of our common shares on the secondary market. Investors in penny stocks should be prepared for the possibility that they may lose their whole investment.

We have never paid cash dividends and do not intend to do so.

We have never declared or paid cash dividends on our common shares. We currently plan to retain any earnings to finance the growth of our business rather than to pay cash dividends. Payments of any cash dividends in the future will depend on our financial condition, results of operations and capital requirements, as well as other factors deemed relevant by our board of directors.

Use of Proceeds

Assuming all units are sold, we estimate that the net proceeds to us from this offering will be approximately $4.7 million. However, the offering does not specify any minimum sale of any specific number of units as a result of which the net proceeds actually received by us may be considerably less than this estimate. We intend to use up to $1.0 million of the net proceeds from this offering to purchase laboratory equipment in the ordinary course of business and the remainder for working capital and general corporate purposes.

Determination of Offering Price

Some of the factors considered in determining the offering price of the units were the history and prospects of our Company and comparable companies, similar prior offerings of comparable companies, our management, our capital structure, and currently prevailing general conditions in equity securities markets, including current market valuations of publicly traded companies considered comparable to our company. We cannot assure you, however, that the price at which the units, Series A preferred shares, common shares or warrants will sell in the public market after this offering will not be lower than the current offering price or that an active trading market in our units, Series A preferred shares, common shares or warrants will develop and continue after this offering. The conversion price of the Series A preferred shares and the exercise prices for the warrants will depend upon market conditions and will be determined by our Board of Directors after consulting with our Placement Agent for this offering.

Dilution

Our net tangible book value as of December 31, 2010 was $ 9,460,879 or $1.92 per common share. Net tangible book value per share represents total tangible assets less total liabilities, divided by the number of common shares outstanding. After giving effect to the sale of 5,506 Series A preferred shares in this offering and assuming the conversion of all the Series A preferred shares sold in the offering (and excluding common shares issuable upon exercise of warrants), our net tangible book value as of December 31, 2010 would have been $14,202,634, or $1.85 per share. This represents an immediate dilution in net tangible book value of $0.07 per share to existing shareholders and an immediate dilution in net tangible book value of $0.15 per share to investors in this offering. The following table illustrates this calculation.

Series A conversion price			$2.00
Net tangible book value per share as of December 31, 2010	$	1.92	
Dilution per share attributable to this offering	$	(0.07)	
As adjusted tangible book value per share after this offering			$1.85
Dilution per share to new investors in this offering			$0.15

The number of common shares outstanding used for existing shareholders in the table and calculations above is based on 4,915,318 shares outstanding as of December 31, 2010 and excludes:

- 689,500 common shares issuable upon the exercise of options outstanding at December 31, 2010 with a weighted average exercise price of $2.63 per share; and
- 3,000 common shares reserved for future grants and awards under our equity incentive plans as of December 31, 2010.

Dividend Policy

We have not declared or paid cash dividends on our common shares and do not anticipate paying any cash dividends on our common shares in the foreseeable future. We expect to retain future earnings, if any, to fund the development and growth of our business. Our board of directors will determine future dividends on our common shares, if any. The Series A preferred shares included in this offering have a stated dividend rate of 6% per annum as described in the section “Description of Securities”.

Capitalization

The following table sets forth our capitalization as of December 31, 2010:

- on an actual basis; and
- on a pro forma basis to reflect the sale of 5,506 Series A preferred shares in this offering and assuming the conversion of all the Series A preferred shares sold in the offering (and excluding common shares issuable upon exercise of warrants), after deducting the Placement Agent’s fees and other estimated offering related expenses payable by us.

The offering does not specify any minimum purchase or sale of any specific number of units. As a result, our actual total capitalization following completion of the offering may be significantly less than the “Pro forma” total capitalization reflected in the below table.

You should read the information in this table together with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our financial statements and the accompanying notes included elsewhere in this prospectus.

	(Unaudited) December 31, 2010	
	Actual	Pro forma
Cash and cash equivalents	$ 1,238	5,980
Senior Debt	1,460	1,460

Mortgage Debt	7,628	7,628
Shareholders' equity:		
Preferred shares, 1,000,000 shares authorized, none issued and outstanding at December 31, 2010 and pro forma	-	-
Common shares, no par value, 19,000,000 shares authorized, 4,915,318 issued and outstanding as of December 31, 2010 and 7,668,318 issued and outstanding pro forma	1,191	1,879
Additional paid-in capital	13,412	17,466
Accumulated deficit	(3,671)	(3,671)
Accumulated other comprehensive income	84	84
Total shareholders' equity	11,016	15,758
Total capitalization	$ 20,104	$ 24,846

The number of common shares outstanding used for existing shareholders in the table and calculations above is based on 4,915,318 shares outstanding as of December 31, 2010 and excludes:

- 689,500 common shares issuable upon the exercise of options outstanding at December 31, 2010 with a weighted average exercise price of $2.63 per share; and
- 3,000 common shares reserved for future grants and awards under our equity incentive plans as of December 31, 2010.

Description of Securities

This prospectus relates to the sale of units. Each unit includes (1) one Series A preferred share, (2) one Class A Warrant to purchase 0.5 of our common shares for every common share underlying the preferred share included in such unit and (3) one Class B Warrant to purchase 0.5 of our common shares for every common share underlying the preferred share included in such unit. The terms of the Series A preferred shares are described below under the caption "Description of Series A Preferred Shares." The terms of the Class A Warrants and the Class B Warrants are described below under the caption "Description of Warrants."

Authorized Capital

We currently have authority to issue 19,000,000 common shares and 1,000,000 preferred shares. In connection with the offering, we anticipate authorizing 6,000 Series A preferred shares. As of December 31, 2010, we had 4,915,318 common shares issued and outstanding and no preferred shares issued and outstanding.

Description of Common Shares

Voting Rights

Each outstanding common share is entitled to one vote on all matters submitted to a vote of shareholders. There is no cumulative voting.

Dividend and Liquidation Rights

The holders of outstanding common shares are entitled to receive dividends out of assets legally available for the payment of dividends at the times and in the amounts as our board of directors may from time to time determine. The common shares are neither redeemable nor convertible. Holders of our common shares have no preemptive or subscription rights to purchase any of our securities. Upon our liquidation, dissolution or winding up, the holders of our common shares are entitled to receive, pro rata, our assets which are legally available for distribution, after payment of all debts and other liabilities and subject to the prior rights of any holders of preferred shares then outstanding.

We have never paid any cash dividends on our common shares.

Transfer Agent and Registrar

The transfer agent and registrar for our common shares is Computershare Ltd.

Equity Compensation Plans

We have one stock-based compensation plan, the 2008 Stock Option Plan that replaced the 1997 Outside Director Stock Option Plan and the 1997 Employee Stock Option Plan, together referred to herein as the "Stock Plans." As of December 31, 2010, 689,500 options to purchase our common shares were issued and outstanding under the Stock Plans with a weighted-average price of $2.63, and 3,000 of our common shares were reserved for future issuance under the 2008 Stock Option Plan.

Description of Series A Preferred Shares

Our Second Amended and Restated Articles of Incorporation authorize 1,000,000 preferred shares. Our board of directors is authorized, without further shareholder action, to establish various series of preferred shares from time to time and to determine the rights, preferences and privileges of any unissued series including, among other matters, any dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, liquidation preferences, sinking fund terms, the number of shares constituting any such series, and the description thereof and to issue any such shares. Although there is no current intent to do so, our board of directors may, without shareholder approval, issue an additional class or series of preferred shares with voting and conversion rights which could adversely affect the voting power of the holders of the common shares or the Series A preferred shares, except as prohibited by the certificate of designation of preferences, rights and limitations of Series A preferred shares. As of the date of this prospectus, there were no preferred shares designated or outstanding.

In connection with the completion of this offering, we expect our Board of Directors to adopt resolutions which would authorize 6,000 shares of a new class of shares designated 6% Series A Convertible Preferred Shares (the “Series A preferred shares”). The material terms and provisions of the Series A preferred shares are summarized below. For the complete terms of the Series A preferred shares, you should refer to the form certificate of designation of preferences, rights and limitations of 6% Series A convertible preferred shares which is filed as an exhibit to the registration statement of which this prospectus is a part.

Voting Rights

Except as required by law, holders of the Series A preferred shares will not have rights to vote on any matters, questions or proceedings, including the election of directors. However, as long as any Series A preferred shares are outstanding, we will not, without the affirmative vote of the holders of 50.1% or more of the then outstanding Series A preferred shares, (1) alter or change adversely the powers, preferences or rights given to the Series A preferred shares or alter or amend the certificate of designation, (2) authorize or create any class of shares ranking as to dividends, redemption or distribution of assets upon liquidation senior to, or otherwise pari passu with, the Series A preferred shares, (3) amend our articles of incorporation or other charter documents in any manner that adversely affects any rights of the holders of Series A preferred shares, (4) increase the number of authorized Series A preferred shares, or (5) enter into any agreement with respect to any of the foregoing.

Indiana Law

Notwithstanding certain protections in the certificate of designation for holders of Series A preferred shares, Indiana law also provides holders of preferred shares with certain rights. The holders of the outstanding Series A preferred shares will be entitled to vote as a class upon a proposed amendment to the articles of incorporation if the amendment would:

- increase or decrease the aggregate number of authorized shares of the class;
- effect an exchange or reclassification of all or part of the shares of the class into shares of another class;
- effect an exchange or reclassification, or create the right of exchange, of all or part of the shares of another class into shares of the class;
- change the designation, rights, preferences, or limitations of all or part of the shares of the class;
- change the shares of all or part of the class into a different number of shares of the same class;
- create a new class of shares having rights or preferences with respect to distributions or to dissolution that are prior, superior, or substantially equal to the shares of the class;
- increase the rights, preferences, or number of authorized shares of any class that, after giving effect to the amendment, have rights or preferences with respect to distributions or to dissolution that are prior, superior, or substantially equal to the shares of the class;
- limit or deny an existing preemptive right of all or part of the shares of the class; or
- cancel or otherwise affect rights to distributions or dividends that have accumulated but not yet been declared on all or part of the shares of the class.

Redemption

We will have the right to redeem the Series A preferred shares for a cash payment equal to 120% of the stated value of the Series A preferred shares, if the volume weighted average price of our common shares for each of any period of 20 consecutive trading days beginning after the original issue date exceeds 200% of the then effective conversion price. If the optional redemption occurs prior to the three year anniversary of the original issue date, our right to redeem the Series A preferred shares will be subject to the following conditions, referred to as "Equity Conditions": (a) the Company must have timely honored all previously requested or required conversions, if any, (b) the Company must have paid all liquidated damages and other amounts owing to the applicable holder in respect of Series A preferred shares, (c)(i) there must be an effective registration statement pursuant to which the Company may issue conversion shares (and, as applicable, common shares issued in satisfaction of any required make-whole payment (described below) and in lieu of cash payment of dividends) or (ii) with respect to conversions that occur after May 11, 2014, all of the conversion shares may be issued to the holder pursuant to Section 3(a)(9) of the Securities Act of 1933, as amended, and immediately resold without restriction, (d) the Company's common shares must be trading on a "trading market" (as defined in the Certificate of Designation) and all of the common shares issuable pursuant to the terms of the Series A preferred shares and the warrants must be listed or quoted for trading on such trading market (and the Company must believe, in good faith, that trading of the common shares on a trading market will continue uninterrupted for the foreseeable future), (e) there must be a sufficient number of authorized, but unissued and otherwise unreserved, common shares for the issuance of all of the common shares then issuable pursuant to this offering, (f) the issuance of the shares in question to the applicable holder would not violate the beneficial ownership limitations described below, (g) there must not have been a public announcement of a pending or proposed "fundamental transaction" (as defined in the Certificate of Designation) or change of control transaction that has not been consummated, (h) the applicable shareholder must not be in possession of any information provided by the Company that constitutes, or may constitute, material non-public information, and (i) the average daily trading volume for a period of 20 consecutive trading days prior to the applicable date in question must exceed 20,000 shares per trading day (subject to adjustment for forward and reverse share splits, dividends, and the like); provided that clause (g) will not apply after the three-year anniversary of the original issue date of the Series A preferred shares. Holders

of Series A preferred shares will receive 20 trading days prior notice of any redemption and will have the ability to convert the Series A preferred shares into common shares during this notice period, subject to the limitation on conversion described below. There are no restrictions on the repurchase or redemption of shares by the Company while there is any arrearage in the payment of dividends.

Conversion

Subject to certain ownership limitations as described below, the Series A preferred shares are convertible at any time at the option of the holder into our common shares at a conversion ratio determined by dividing the stated value of the Series A preferred shares (or $1,000) by a conversion price of $2.00 per share. Accordingly, each Series A preferred share is convertible into 500 common shares. The conversion price is subject to adjustment in the case of share splits, share dividends, combinations of shares and similar recapitalization transactions.

If the volume weighted average price for 20 trading days during any consecutive 30 trading day period beginning after the original issue date (a "Threshold Period"), exceeds 200% of the then effective conversion price, the Company may deliver a written notice to all holders of Series A preferred shares requiring each holder to convert all or part of such holder's Series A preferred shares plus all accrued but unpaid dividends thereon and all liquidated damages and other amounts due in respect of the Series A preferred shares, into common shares at the then current conversion ratio. The Company may not deliver a forced conversion notice, and such notice shall not be effective if delivered, unless all of the Equity Conditions have been met on each of at least 20 trading days during the applicable Threshold Period and through the trading day after the date that conversion shares issuable pursuant to a forced conversion are actually delivered to the holders pursuant to a forced conversion notice. Any forced conversion notice shall be applied ratably to all of the holders of Series A preferred shares based on each holder's initial purchases of Series A preferred shares, provided that any voluntary conversions by a holder shall be applied against such holder's pro rata allocation, thereby decreasing the aggregate amount forcibly converted if less than all of the Series A preferred shares are forcibly converted.

Subject to limited exceptions, a holder of Series A preferred shares will not have the right to convert, and the Company will not have the right to force such holder to convert, any portion of its Series A preferred shares if the holder, together with its affiliates, would beneficially own in excess of 4.99% (or 9.99% as elected by the holder pursuant to the terms of the certificate of designation) of the number of our common shares outstanding immediately after giving effect to its conversion.

Dividends and Make-Whole Payments

Until May 11, 2014, each holder of the Series A preferred shares is entitled to receive dividends at the rate of 6% per annum of the stated value for each preferred share held by such holder payable quarterly on January 1, April 1, July 1 and October 1, beginning on the first such date after the original issue date, and on each conversion date. Except in limited circumstances (including a failure to meet the Equity Conditions), we can elect to pay the dividends in cash or in duly authorized, validly issued, fully paid and non-assessable common shares, or a combination thereof. If the Equity Conditions are not met, we must pay the dividends in cash. If the Equity Conditions have been met and we choose to pay the dividends in common shares, the common shares used to pay the dividends will be valued at 90% of the average volume weighted average price for the 20 consecutive trading days ending on the trading day immediately prior to the applicable dividend payment date. From and after May 11, 2014, each holder of Series A preferred shares will be entitled to receive dividends equal, on an as-if-converted to common shares basis, to and in the same form as dividends actually paid on common shares when, as, and if such dividends are paid on common shares. We have never paid dividends on our common shares and we do not intend to do so for the foreseeable future.

In the event a holder converts his, her or its Series A preferred shares prior to May 11, 2014, we must also pay to the holder in cash, or at our option, subject to satisfaction of the Equity Conditions, in common shares valued as described above, or a combination of cash and common shares, with respect to the Series A preferred shares so converted, an amount equal to $180 per $1,000 of the stated value of the Series A preferred shares, less the amount of any dividends paid in cash or in common shares on such Series A preferred shares on or before the date of conversion.

Liquidation

The Series A preferred shares would rank, with respect to rights upon liquidation, winding-up or dissolution, (1) senior to common shares, (2) senior to any series of preferred shares ranked junior to the Series A preferred shares, and (3) junior to all existing and future indebtedness of the Company. Further, upon any liquidation, dissolution or winding up of the Company after payment or provision for payment of debts and other liabilities of the Company, and before any distribution or payment is made to the holders of any junior securities, the holders of Series A preferred shares shall first be entitled to be paid out of the assets of the Company available for distribution to its shareholders an amount equal to $1,000 per share, after which any remaining assets of the Company shall be distributed among the holders of the other classes or series of shares in accordance with the Company’s articles of incorporation.

Description of Warrants

The material terms and provisions of the warrants being offered pursuant to this prospectus are summarized below. However, this summary of some provisions of the warrants is not complete. For the complete terms of the warrants, you should refer to the form of the warrants filed as exhibits to the registration statement of which this prospectus is a part.

Each unit includes one Class A Warrant to purchase 0.5 common shares for every common share underlying the preferred share included in such unit and one Class B Warrant to purchase 0.5 common shares for every common share underlying the preferred share included in such unit. Class A Warrants will entitle the holder to purchase common shares for an exercise price equal to $2.00 per share. Subject to certain limitations as described below the

Class A Warrants are exercisable at the option of the holder beginning immediately after the date of issuance and will expire and entitle the holder to a cashless exercise on the fifth anniversary following the date of issuance.

Class B Warrants will entitle the holder to purchase common shares for an exercise price equal to $2.00 per share. Subject to certain limitations as described below, the Class B Warrants are exercisable at the option of the holder immediately after the date of issuance and will expire and entitle the holder to a cashless exercise one year following the date of issuance.

Subject to limited exceptions, a holder of warrants will not have the right to exercise any portion of its warrants if the holder, together with its affiliates, would beneficially own in excess of 4.99% (or 9.99% as elected by the holder pursuant to the terms of the warrant) of the number of our common shares outstanding immediately after giving effect to such exercise.

The exercise price and the number of shares issuable upon exercise of the warrants is subject to appropriate adjustment in the event of recapitalization events, share dividends, share splits, share combinations, reclassifications, reorganizations or similar events affecting our common shares, and also upon any distributions of assets, including cash, shares or other property to our shareholders. The warrant holders must pay the exercise price in cash upon exercise of the warrants unless such holders are utilizing the cashless exercise provisions of the warrants. After the close of business on the applicable expiration date, unexercised warrants will become void.

In addition, in the event we consummate a merger or consolidation with or into another person or other reorganization event in which our common shares are converted or exchanged for securities, cash or other property, or we sell, lease, license or otherwise dispose of all or substantially all of our assets or we or another person acquire 50% or more of our outstanding common shares, then following such event, the holders of the warrants will be entitled to receive upon exercise of the warrants the same kind and amount of securities, cash or property which the holders would have received had they exercised the warrants immediately prior to such fundamental transaction. Any successor to us or surviving entity shall assume the obligations under the warrants.

Upon a holder’s exercise of a warrant, we will issue the common shares issuable upon exercise of the warrant within three business days following our receipt of notice of exercise and payment of the exercise price, subject to surrender of the warrant.

Prior to the exercise of any warrants to purchase common shares, holders of the warrants will not have any of the rights of holders of the common shares purchasable upon exercise, including the right to vote or to receive any payments of dividends on the common shares purchasable upon exercise.

Certain Provisions of the Indiana Business Corporation Law

As an Indiana corporation, we are governed by the Indiana Business Corporation Law, or IBCL. Under specified circumstances, the following provisions of the IBCL may delay, prevent or make more difficult unsolicited acquisitions or changes of control of us. These provisions also may have the effect of preventing changes in our management. It is possible that these provisions could make it more difficult to accomplish transactions which shareholders may otherwise deem to be in their best interest.

Control Share Acquisitions

Under Chapter 42 of the IBCL, an acquiring person or group who makes a "control share acquisition" in an "issuing public corporation" may not exercise voting rights on any "control shares" unless these voting rights are conferred by a majority vote of the disinterested shareholders of the issuing public corporation at a special meeting of those shareholders held upon the request and at the expense of the acquiring person. If control shares acquired in a control share acquisition are accorded full voting rights and the acquiring person has acquired control shares with a majority or more of all voting power, all shareholders of the issuing public corporation have dissenters' rights to receive the fair value of their shares pursuant to Chapter 44 of the IBCL.

Under the IBCL, "control shares" are shares acquired by a person that, when added to all other shares of the issuing public corporation owned by that person or in respect to which that person may exercise or direct the exercise of voting power, would otherwise entitle that person to exercise voting power of the issuing public corporation in the election of directors within any of the following ranges:

- one-fifth or more but less than one-third;
- one-third or more but less than a majority; or
- a majority or more.

A "control share acquisition" means, subject to specified exceptions, the acquisition, directly or indirectly, by any person of ownership of, or the power to direct the exercise of voting power with respect to, issued and outstanding control shares. For the purposes of determining whether an acquisition constitutes a control share acquisition, shares acquired within 90 days or under a plan to make a control share acquisition are considered to have been acquired in the same acquisition.

An "issuing public corporation" means a corporation which has (i) 100 or more shareholders, (ii) its principal place of business or its principal office in Indiana, or that owns or controls assets within Indiana having a fair market value of greater than $1,000,000, and (iii) (A) more than 10% of its shareholders resident in Indiana, (B) more than 10% of its shares owned of record or owned beneficially by Indiana residents, or (C) 1,000 shareholders resident in Indiana.

The provisions described above do not apply if, before a control share acquisition is made, the corporation's articles of incorporation or bylaws, including a bylaw adopted by the corporation's board of directors, provide that they do not apply. Our second amended and restated articles of incorporation and our second amended and restated bylaws do not exclude us from Chapter 42.

Certain Business Combinations

Chapter 43 of the IBCL restricts the ability of a "resident domestic corporation" to engage in any combinations with an "interested shareholder" for five years after the date the interested shareholder became such, unless the combination or the purchase of shares by the interested shareholder on the interested shareholder's date of acquiring shares is approved by the board of directors of the resident domestic corporation before that date. If the combination was not previously approved, then the interested shareholder may effect a combination after the five-year period only if that shareholder receives approval from a majority of the disinterested shareholders or the offer meets specified "fair price" criteria.

For purposes of the above provisions, "resident domestic corporation" means an Indiana corporation that has 100 or more shareholders. "Interested shareholder" means any person, other than the resident domestic corporation or its subsidiaries, who is (1) the beneficial owner, directly or indirectly, of 10% or more of the voting power of the outstanding voting shares of the resident domestic corporation or (2) an affiliate or associate of the resident domestic corporation, which at any time within the five-year period immediately before the date in question, was the beneficial owner, directly or indirectly, of 10% or more of the voting power of the then outstanding shares of the resident domestic corporation.

The definition of "beneficial owner" for purposes of Chapter 43 means a person who, directly or indirectly, owns the subject shares, has the right to acquire or vote the subject shares (excluding voting rights under revocable proxies made in accordance with federal law), has any agreement, arrangement or understanding for the purpose of acquiring, holding or voting or disposing of the subject shares, or holds any "derivative instrument" that includes the opportunity, directly or indirectly, to profit or share in any profit derived from any increase in the value of the subject shares.

The above provisions do not apply to corporations that elect not to be subject to Chapter 43 in an amendment to their articles of incorporation approved by a majority of the disinterested shareholders. That amendment, however, cannot become effective until 18 months after its passage and would apply only to share acquisitions occurring after its effective date. Our second amended and restated articles of incorporation do not exclude us from Chapter 43.

Directors' Duties and Liability

Under Chapter 35 of the IBCL, directors are required to discharge their duties:

- in good faith;
- with the care an ordinarily prudent person in a like position would exercise under similar circumstances; and
- in a manner the directors reasonably believe to be in the best interest of the corporation.

Under the IBCL, a director is not liable for any action taken as a director, or any failure to act, regardless of the nature of the alleged breach of duty (including breaches of the duty of care, the duty of loyalty, and the duty of good faith) unless the director has breached or failed to perform the duties of the director's office and the action or failure to act constitutes willful misconduct or recklessness. This exculpation from liability under the IBCL does not affect the liability of directors for violations of the federal securities laws.

Consideration of Effects on Other Constituents

Chapter 35 of the IBCL also provides that a board of directors, in discharging its duties, may consider, in its discretion, both the long-term and short-term best interests of the corporation, taking into account, and weighing as the directors deem appropriate, the effects of an action on the corporation's shareholders, employees, suppliers and customers and the communities in which offices or other facilities of the corporation are located and any other factors the directors consider pertinent. Directors are not required to consider the effects of a proposed corporate action on any particular corporate constituent group or interest as a dominant or controlling factor. If a determination is made with the approval of a majority of the disinterested directors of the board of directors, that determination is conclusively presumed to be valid unless it can be demonstrated that the determination was not made in good faith after reasonable investigation.

Chapter 35 specifically provides that specified judicial decisions in Delaware and other jurisdictions, which might be looked upon for guidance in interpreting Indiana law, including decisions that propose a higher or different degree of scrutiny in response to a proposed acquisition of the corporation, are inconsistent with the proper application of the business judgment rule under that section.

Mandatory Classified Board of Directors

Under Section 23-1-33-6(c) of the IBCL, a corporation with a class of voting shares registered with the SEC under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), must have a classified board of directors unless the corporation adopts a bylaw expressly electing not to be governed by this provision by the later of July 31, 2009 or 30 days after the corporation's voting shares are registered under Section 12 of the Exchange Act. In accordance with the law and our second amended and restated bylaws, the Board of Directors is divided into three classes: Class I, Class II and Class III, each class having a staggered term of three years. Each year the term of office of one Class expires.

Indemnification

Chapter 37 of the IBCL authorizes every Indiana corporation to indemnify its officers and directors under certain circumstances against liability incurred in connection with proceedings to which the officers or directors are made a party by reason of their relationship to the corporation. Officers and directors may be indemnified where they have acted in good faith, which means, in the case of official action, they reasonably believed the conduct was in the corporation's best interests, and in all other cases, they reasonably believed the action taken was not against the best interests of the corporation, and in the case of criminal proceedings they had reasonable cause to believe the action was lawful or there was no reasonable cause to believe the action was unlawful. Chapter 37 of the IBCL also requires every Indiana corporation to indemnify any of its officers or directors (unless limited by the articles of incorporation

of the corporation) who were wholly successful, on the merits or otherwise, in the defense of any such proceeding against reasonable expenses incurred in connection with the proceeding. A corporation may also, under certain circumstances, pay for or reimburse the reasonable expenses incurred by an officer or director who is a party to a proceeding in advance of final disposition of the proceeding. Chapter 37of the IBCL states that the indemnification provided for therein is not exclusive of any other rights to which a person may be entitled under the articles of incorporation, bylaws or resolutions of the board of directors or shareholders.

Our second amended and restated articles of incorporation and second amended and restated bylaws provide for indemnification, to the fullest extent permitted by the IBCL, of our directors, officers and employees against liability and reasonable expenses that may be incurred by them in connection with proceedings in which they are made a party by reason of their relationship to the company.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers or persons controlling the registrant pursuant to the foregoing provisions, the registrant has been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is therefore unenforceable.

Market for Registrant’s Common Equity and Related Shareholder Matters

Market Information

The following table sets forth the quarterly high and low sales price per share of our common shares for the last two fiscal years and for the first, second and third quarters of fiscal 2011.

	High	Low
Fiscal Year Ended September 30, 2009		
First Quarter	$ 5.13	$ 1.00
Second Quarter	1.82	0.60
Third Quarter	1.81	0.70
Fourth Quarter	1.15	0.60
Fiscal Year Ended September 30, 2010		
First Quarter	$ 2.42	$ 0.81
Second Quarter	1.42	0.65
Third Quarter	1.50	0.74
Fourth Quarter	1.22	0.77
Fiscal Year Ended September 30, 2011		
First Quarter	$ 3.98	$ 0.84
Second Quarter	3.00	1.74
Third Quarter (through May 5, 2011)	2.89	2.00

Shareholders

Our transfer agent is Computershare Ltd. On May 5, 2011, the last reported sale price of our common shares on The NASDAQ Capital Market was $2.27 per share. On February 28, 2011, there were approximately 2,700 holders of record of our common shares.

Plan of Distribution

Ladenburg Thalmann & Co. Inc., which we refer to herein as the Placement Agent, has agreed to act as our exclusive Placement Agent in connection with this offering subject to the terms and conditions of the Placement Agency Agreement dated May 5, 2011. The Placement Agent is not purchasing or selling any units offered by this prospectus nor is it required to arrange the purchase or sale of any specific number or dollar amount of units, but has agreed to use its best efforts to arrange for the sale of all of the units offered hereby. Therefore, we will enter into a purchase agreement directly with investors in connection with this offering and we may not sell the entire amount of units offered pursuant to this prospectus. There can be no assurance that we will sell the entire amount of units pursuant to this prospectus.

Confirmations and definitive prospectuses will be delivered, or otherwise made available, to all purchasers who agree to purchase units, informing the purchasers of the closing date as to such units. Purchasers will also be informed of the date and manner in which they must transmit the purchase price for their units.

On such closing date, the following will occur:

- we will receive funds in the amount of the aggregate purchase price of the units being sold by us on such closing date;
- we will deliver Series A preferred shares and the warrants being sold on such closing date; and
- we will pay the Placement Agent, a Placement Agent fee in accordance with the terms of our Placement Agency Agreement.

We have agreed to pay the Placement Agent a Placement Agent's cash fee equal to 8.25% of the gross proceeds of the offering. The maximum aggregate gross proceeds of the offering is $5,506,000. The additional $994,000 of securities being registered pursuant to this prospectus are for common shares issuable in lieu of cash dividend and make-whole payments on the preferred shares, as described in the section titled "Description of Series A Preferred Shares – Dividends and Make-Whole Payments." We will receive no proceeds from the issuance of such common shares and the Placement Agent shall receive no commission on such issuance. Subject to compliance with FINRA Rule 5110(f)(2)(D), we have also agreed to reimburse the Placement Agent's expenses up to a maximum of 1.2% of the gross proceeds raised in the offering, but in no event more than $60,000

The following table shows the per unit and total Placement Agent's fees we will pay to the Placement Agent in connection with the sale of the shares and warrants offered pursuant to this prospectus assuming the purchase of all of the units offered hereby.

Per unit Placement Agent's fees	$82.50
Maximum offering total	$454,245

Because there is no minimum offering amount required as a condition to the closing in this offering, the actual total offering commissions, if any, are not presently determinable and may be substantially less than the maximum amount set forth above.

Our obligations to issue and sell units to the purchasers is subject to the conditions set forth in the securities purchase agreement, which may be waived by us at our discretion. A purchaser's obligation to purchase units is subject to the conditions set forth in the securities purchase agreement as well, which may be waived by the purchaser. The securities purchase agreement provides that, with certain exceptions, we may not issue or announce the purposed issuance of any common shares for a period of 90 days after the closing of this Offering, and that we may not issue any common shares or common share equivalents at an effective per share price of less than $2.00 per share (subject to adjustment as described in the securities purchase agreement) for a period of four years following the closing of this Offering. The securities purchase agreement also prohibits us, with certain exceptions, from effecting any variable rate transactions (as defined in the securities purchase agreement) or entering into an equity line of credit or an at-the-market offering, whereby we may sell securities at a future determined price, as long as any purchaser holds any of the Warrants.

We have agreed to indemnify the Placement Agent against certain liabilities, including liabilities under the Securities Act of 1933, as amended or the Securities Act. We may also be required to contribute to payments the Placement Agent may be required to make in respect of such liabilities.

We are offering pursuant to this prospectus up to 5,506 of our units, but there can be no assurance that the offering will be fully subscribed. Accordingly, we may sell substantially less than 5,506 of our units, in which case our net proceeds would be substantially reduced and the total Placement Agent fees may be substantially less than the maximum total set forth above.

We estimate the total offering expenses of this offering that will be payable by us, excluding the Placement Agent's fees and expenses, will be approximately $250,000, which includes our registration, legal, accounting and printing costs and various other fees.

The foregoing does not purport to be a complete statement of the terms and conditions of the Placement Agency Agreement and the securities purchase agreement. A copy of the form of securities purchase agreement with the investors is included as an exhibit to the registration statement of which this prospectus forms a part. See "Where You Can Find More Information" on page 3 of this prospectus.

The Placement Agent may be deemed to be an underwriter within the meaning of Section 2(a)(11) of the Securities Act, and any commissions received by it and any profit realized on the resale of the units sold by it while acting as principal might be deemed to be underwriting discounts or commissions under the Securities Act. As an underwriter, the Placement Agent would be required to comply with the Securities Act and the Exchange Act, including, without limitation, Rule 415(a)(4) under the Securities Act and Rule 10b-5 and Regulation M under the Exchange Act. These rules and regulations may limit the timing of purchases and sales of common shares and warrants by the Placement Agent acting as principal. Under these rules and regulations, the Placement Agent:

- may not engage in any stabilization activity in connection with our securities; and
- may not bid for or purchase any of our securities or attempt to induce any person to purchase any of our securities, other than as permitted under the Exchange Act, until it has completed its participation in the distribution.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with our Consolidated Financial Statements and related Notes included elsewhere in this prospectus. Some of the information contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this prospectus may contain forward-looking statements based on management's current expectations and projections about future events. There can be no assurance that actual results, outcomes or business conditions will not differ materially from those expected or projected in such forward-looking statements as a result of various factors, including, among others, trends in the demand for our products and services, trends in the industries that consume our products and services, global economic conditions, especially as they impact our markets, our ability to develop new products and services and other potential risks and uncertainties discussed in the Risk Factors section of this prospectus. The dollar amounts included in this Management's Discussion and Analysis of Financial Condition and Results of Operations are in thousands unless otherwise indicated. References to fiscal years refer to the Company's fiscal year which ends on September 30.

Business Overview

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

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

largest global pharmaceutical companies.

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

Developments within the industries we serve have a direct, and sometimes material, impact on our operations. Currently, many large pharmaceutical companies have major "block-buster" drugs that are nearing the end of their patent protections. This puts significant pressure on these companies both to develop new drugs with large market appeal, and to re-evaluate their cost structures and the time-to-market of their products. Contract research organizations ("CROs") have benefited from these developments, as the pharmaceutical industry has turned to out-sourcing to both reduce fixed costs and to increase the speed of research and data development necessary for new drug applications. The number of significant drugs that have reached or are nearing the end of their patent protection has also benefited the generic drug industry. Generic drug companies provide a significant source of new business for CROs 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 CROs to be unable to develop a flow of projects from a single company. These companies may expend all their available funds and cease operations prior to fully developing a product. Additionally, the funding of these companies is subject to investment market fluctuations, which changes as the risk profiles and appetite of investors change.

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

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

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

Patient Protection and Affordable Care Act

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

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

We have experienced increases in the costs of our health benefit programs in excess of inflation rates, and expect those trends to continue. We are exploring options in plan funding, delivery of benefits and employee wellness in our

continuing effort to obtain maximum benefit for our health care expenditures, while maintaining quality programs for our employees. We do not expect these efforts to have a material financial impact on the Company.

Critical Accounting Policies and Significant Judgments and Estimates

Our management's discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported revenues and expenses during the reporting periods. On an ongoing basis, we evaluate our estimates and judgments, including those related to stock-based compensation and asset impairment and significant judgments and estimates. We base our estimates on historical experience and on various other factors that are believed to be appropriate under the circumstances, the results of which form the basis for making judgments and estimates. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition

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

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

Long-Lived Assets, Including Goodwill

Long-lived assets, such as property and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

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

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

Considerable management judgment is necessary to evaluate the impact of operating and macroeconomic changes and to estimate future cash flows. Assumptions used in our impairment evaluations, such as forecasted sales growth rates and our cost of capital or discount rate, are based on the best available market information. Changes in these estimates or a continued decline in general economic conditions could change our conclusion regarding an impairment of goodwill and potentially result in a non-cash impairment loss in a future period. The assumptions used in our impairment testing could be adversely affected by certain of the risks discussed in “Risk Factors” in this report. At September 30, 2010, remaining recorded goodwill was $1,383, and the net balance of other intangible assets was $84.

Stock-Based Compensation

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

We use the binomial option valuation model to determine the grant date fair value. The determination of fair value is affected by our share price as well as assumptions regarding subjective and complex variables such as expected employee exercise behavior and our expected share 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 share price volatility on our common shares for our expected volatility assumption.

- Expected term. The expected term represents the weighted-average period the stock options are expected to remain outstanding. The expected term is determined based on historical exercise behavior, post-vesting termination patterns, options outstanding and future expected exercise behavior.

- Expected dividends. We assumed that we will pay no dividends.

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

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

Inventories

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

Income Tax Accounting

We use the asset and liability method of accounting for income taxes. We recognize deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. We measure deferred tax assets and liabilities using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. We recognize the effect on deferred tax assets and liabilities of a change in tax rates in income in the period that includes the enactment date. We record valuation allowances based on a determination of the expected realization of tax assets.

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

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

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

We file income tax returns in the U.S., several U.S. states, and the foreign jurisdiction of the United Kingdom. We remain subject to examination by taxing authorities in the jurisdictions in which we have filed returns for years after 2006.

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

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

Results of Operations

Three Months ended December 31, 2010 compared to three months ended December 31, 2009

Service and Product Revenues

Revenues for the fiscal quarter ended December 31, 2010 increased 26.9% to $8,090 compared to $6,377 for the same period last year.

Our Service revenue increased 27.7% to $6,143 in the first quarter of fiscal 2011 compared to $4,811 for the comparable prior year period primarily as a result of higher bioanalytical analysis and toxicology revenues. Volumes of studies and number of samples to assay continued to increase, though pricing still lagged pre-recession levels. An increase in proposal opportunities and in new orders accepted in calendar 2010 has led to an increase in our bioanalytical analysis and toxicology revenues in the first quarter of fiscal 2011.