Annual Report 2009

In February, 2010 Strategic Diagnostics Inc. began doing business as SDIX. The new SDIX name and logo, shown on the front cover, were designed to better reflect the Company's evolution as a biotechnology company. The new name also aligns the company name with its website address and NASDAQ listing, making the company easier to connect with and find.

Dear Shareholders,

In last year's letter, I described our Company as organizing for success, and shared a perspective that for a business to succeed, it must have a true focus on a strategy that aligns with both the business' competencies and with markets that provide viable opportunity. Applying that perspective to SDIX, I went on say that our success will require us to continue to rationalize our four product businesses by aligning the majority of our resources to the opportunities provided in life sciences and food safety industries. 2009 was positioned as year of renewal and rebuilding as we worked to focus the organization to consistently deliver value to our customers, results to our shareholders and opportunity to our employees.

A year later, I write to tell you that 2009 was indeed a year of renewal and transition at SDIX. We devoted significant effort to building our business and financial foundations, aligning resources and investment in our two focus markets and changing the way we engage with our customers. And, as I will describe, we are positioned to see the results of those efforts.

Of course, 2009 presented its challenges. We continued to see the effects of the overall economy on our business, and as a result revenues were down slightly from 2008, primarily driven by slowing business for our AG and Water Quality product lines. The Food Safety market, while making headlines and gaining attention in Washington, was nevertheless slow to rebound from a very difficult 2008. Revenues for our Food Pathogens products were flat year over year, although the market was showing signs of recovery as 2009 came to a close. On a more positive note, our Life Sciences revenue increased 4% in 2009 to $14.3 million, mainly as as a result of bookings improvement in the second half of the year. Most notably, sales of bulk antibody products increased 10% for the year, a strong indication that the overbuying by our IVD customers in 2007 has run its course. While we expect the IVD business to always have some variation in buying patterns, we believe that the actions we have taken to secure contracts with customers and the quality processes we have established will allow this business to be more consistent going forward. Revenues from customers using the Company's GAT™ platform increased 8%, as we continue to see an expanded set of customers reaching out to SDIX and the GAT™ platform to create novel biomolecules against their most challenging targets.

While we are not yet delivering the revenue growth we intend, we believe that we have scaled our operations to achieve profitability while investing appropriately to drive growth in the future. During the year we made significant changes to our operating systems to eliminate errors, reduce redundancy and drive efficiency. This included the consolidation of our Dallas operation into our Delaware facility and a reduction in resources at our European office. Investments in non-core businesses were reduced or significantly scaled while we increased investment in R&D, marketing and sales in our two focused markets. Today we have a stronger financial foundation and better alignment to our future direction. Specific results from these efforts include a reduction in net loss for 2009 to $1.7M, a significant change from last year. An even better barometer of the business model were the fourth quarter results, where we achieved a small net loss of $65,000 on only $6.2M in revenue, nearly reaching breakeven for the quarter. In addition to the changes in our investments, our operating units continue to drive efficiency and eliminate waste, recording a 1% improvement in gross margins for the year. In addition to the improvements in cost structure, the teams across the Company worked to build a quality system that reflects the needs of our customers and the goals of our business. Early in the year, the efforts of the entire team were recognized as we received ISO 9000:2000 certification for all of SDIX's facilities.

As we exited 2009 and began the 2010 year we announced a name change for Strategic Diagnostics Inc. Our new name, SDIX, and our new logo are designed to better reflect the Company's evolution from its historical beginnings as an industrial diagnostics products and antibody production company to the Company we are becoming: a biotechnology company, with all of our core capabilities and expanded expertise in developing and delivering a full suite of innovative immuno-solutions to the Life Science and Food Safety markets.

Our Life Science strategic plan has begun to unfold. In the first phase of the plan it is our intention to leverage the core competencies the Company has developed over years, together with the GAT™ technology, to position ourselves to customers as a "fully integrated immunosolutions" partner for the Pharmaceutical, Biopharmaceutical and Life Science research markets. Working from our success as one of the largest commercial manufacturers of customized antibodies in the United States, we are expanding our capabilities to serve customers at every stage of their antibody and assay design, development and production programs, from antibody design, production, and purification to immunoassay design, optimization, manufacturing, and commercialization. This repositioning of our offerings is helping us to move from a background supplier of antibodies to a partner in the research, development and deployment of our customers' end products. This transition, along with a strengthening of our sales and marketing team, is opening up opportunities for us to work with leading companies in the Life Science market. Today we are doing business with the eight largest global IVD companies and over 14 of the largest and most progressive Pharmaceutical and Biopharmaceutical companies in the world. We have recently added two experienced marketing professionals to the Life Science team, and in the second half of 2009 expanded our sales coverage and added a scientific expert to our sales organization to work directly with customer applications. Collectively these changed have put us on a good path to future success.

The following are a few accomplishments from the Life Science business in 2009:

- SDIX entered into significant biomarker discovery collaboration with the Fred Hutchinson Cancer Center (FHCC) in December 2009. We will provide the FHCC a collection of cancer antigen antibodies made with our GAT™ technology for use in a broad study of pre-diagnosis markers for cancer. SDIX will provide technical assistance to the Paul Lampe lab during the study and will have commercial rights to substantial discoveries that may result from this work.
- SDIX was engaged for most of 2009 with an emerging biomarker platform company in testing feasibility of SDIX GAT™ antibodies as the content for specific biomarker discovery products. The feasibility work completed successfully in the 3rd quarter and we and the other company are now engaged in further partnership discussions for development of new products.
- SDIX was selected once again by Science Applications International Corporation - Frederick (SAIC-F) to develop monoclonal antibodies for the National Cancer Institute's "Clinical Proteomic Technologies for Cancer" initiative. The SDIX monoclonal antibodies will serve as reference reagents for the scientific cancer community. SDIX was selected for a third consecutive time as the key monoclonal antibody provider. We are proud to be the only antibody company to be selected for all three rounds of work that the SAIC has put out to bid.

On the Food Safety side, the key market message for our business is "Simply Accurate", which articulates what we hear from many of our customers regarding our products. While simple in use, the sophistication of our solutions is the result of the depth of assay development and application knowledge that exists within SDIX. For nearly 20 years the scientists at SDIX have been developing leading edge immunoassays and related reagent chemistry to specifically detect critical molecules in a variety of end markets. The application of these capabilities has resulting in an expanding portfolio of SDIX Food Safety solutions under the RapidChek® and RapidChek® SELECT™ brand names. Some of these solutions include our patented bacteria phage technology which enhances the specificity and timeliness of results for our customers. The Food Safety team has been actively involved with regulatory bodies in the United States and Europe to expand the validation of our products to increase market acceptance and penetration. The team is also engaged with many food industry groups, working collaboratively on the development of new methods and technologies to further enhance the industry's ability to produce safe food in a cost effective manner. In the second half of 2009, we hired Glenn Maloney back to SDIX as our Food Safety Sales manager. Glenn is an industry veteran who worked for SDIX for several years before moving on to one of the largest Food Safety companies in the market. Glenn came back to SDIX because of his belief in our products and the desire to help SDIX grow. While the Food Safety market is still challenged due to the economy and some consolidation in the industry, SDIX has continued to expand its business relationships and worked to stage for business growth as the markets recover.

Achievements from this ongoing focus are results such as:

- SDIX was chosen by the AOAC, a leading independent research institute in the food testing market, as one of eight companies to take part in an emergency program to validate candidate methods for Salmonella testing in peanut butter.
- April the US Patent Office issued SDIX our first patent on the use of Bacteriophage. This patent provides SDIX with a proprietary position in the broad use of "Phage" as a selective agent in the food marketplace and in applications outside of food pathogens.
- SDIX was one of the first companies to fully validate a test solution for 375g composite beef samples. SDI's RapidChek E. coli O157 solutions was able to reliably detect E. coli O157:H7 in 375g composite beef trim samples in 10-12 hours and in as few as 18 hours for 375g composite ammoniated beef samples.
- Launched an expanded distribution agreement with DuPont's QUALCOMM division. This new agreement now includes SDI's proprietary RapidChek® SELECT™ products outside the USA.
- Our new and improved RapidChek® E. coli O157 (including H7) System launched in the second half of 2009 has earned Performance-Tested Methods certification from the AOAC Research Institute for testing composite samples of raw beef including ground beef and boneless beef trim.

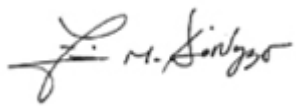
Our remaining businesses in AG (testing for Genetic Modifications) and Environmental (Water Quality and Remediation) continue to be important sources of revenue and profit for the Company. While we are not making significant investments in these two product lines, we continue to work on ensuring the businesses are properly focused and delivering results. In the AG markets we continue to work with existing distributors around the world to provide important products to our customers. In the Environmental business, the same is true with particular emphasis on developing our distribution relationships in the Asia Pacific region where the demand for water quality testing continues to grow. In 2009, we made an

investment in the redesign of our DeltaTox® portable water analyzer and announced near the end of the year that the product was released for sale. We have seen strong demand for this new generation product, which position it for growing sales in the coming quarters.

Key to our long term success has been the development of our team at SDIX. During the year we filled several positions in the company including new leaders in Human Resources, Life Science marketing and Food Safety sales. We also finalized two successful recruiting efforts to bring onboard a new CFO and a new CSO. Mid-way through 2009, Kevin Bratton joined the SDIX team as Vice President of Finance and Chief Financial Officer. Kevin brings with him over 35 years of experience in all phases of multi-national financial operations across the healthcare, biotech, and technology industries. More recently, Dr. Klaus Lindpaintner joined SDIX as Vice President of Research and Development and Chief Scientific Officer. Prior to joining SDI, Dr. Lindpaintner was with F.Hoffmann-La Roche Ltd. and most recently served as Director of the "Roche Molecular Medicine Laboratories" at the company's headquarters in Basel, Switzerland. In addition to the individuals who work directly for the Company, we have also expanded the competencies of the SDIX board of directors. Tom Bologna and Dave Wurzer joined the SDIX board early in 2010, bringing with them a wealth of life science and business leadership skills. Mr. Bologna is currently CEO and a member of the Board of Directors at Orchid Cellmark, a DNA testing company. Mr. Wurzer is currently Managing Director of Investments at Connecticut Innovations. Collectively these changes and additions to the team at SDIX provide us additional strength to build our successful future.

Overall, 2009 was a solid year in a very difficult economy. Significant progress was made to focus the Company for growth: we made strong additions to our leadership team, streamlined processes and scaled operations to improve efficiency and refined our marketing strategies and channel alignment which have begun to show progress with new customer wins and growing bookings. We enter 2010 with some momentum in our businesses, a refreshed team, a clear focus and the drive to win in our markets. With our business model solidified, we are all focused on the key aspect of driving growth in our markets with particular emphasis on building our Food Safety business and driving expansion of our Life Science market success. I want to thank each shareholder of SDIX for your investment in our Company and the continued support as we work to deliver successful financial results.

Sincerely,



Francis M. DiNuzzo
President and Chief Executive Officer

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

FORM 10-K

(Mark One)

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

For the Fiscal Year Ended December 31, 2009

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

For the Transition Period From _____ to _____

Commission File No. 000-22400

STRATEGIC DIAGNOSTICS INC.
(Exact name of Registrant as specified in its charter)

Delaware	**56-1581761**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer identification no.)
111 Pencader Drive Newark, Delaware	**19702**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (302) 456-6789

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.01 par value	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer ☐	Accelerated Filer ☐	Non-Accelerated Filer ☐ (Do not check if a smaller reporting company)	Smaller Reporting Company ☒

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of the common stock held by non-affiliates of the Registrant was $17,970,578, calculated by using the number of shares outstanding and the closing price of the common stock on June 30, 2009 (the last business day of the Registrant's most recently completed second fiscal quarter).

As of March 22, 2010 there were 20,795,126 shares outstanding of the Registrant's common stock, par value $0.01 per share.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement (the "Definitive Proxy Statement") to be filed no later than April 30, 2010 with the Securities and Exchange Commission relative to the Company's 2010 Annual Meeting of Stockholders are incorporated by reference into Part III of this Report.

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Item 1. Business

Overview

Strategic Diagnostics Inc., now doing business as SDIX ("SDIX" or the "Company"), is a biotechnology company with a core mission of developing, commercializing, and marketing innovative, effective, and proprietary products, and solutions that preserve and enhance the quality of human health and wellness. The Company serves the pharmaceutical, biotechnology, diagnostics, food safety and environmental markets.

In February 2010, the Company announced it would be doing business as SDIX. The SDIX name and logo were introduced to better reflect the Company's evolution from its historical beginnings as an industrial diagnostics products and antibody production company to the company it is today, with all of its core capabilities and expanded expertise in developing and delivering a full suite of innovative immuno-solutions. The new name also aligned the Company's name with its website address and NASDAQ listing, making the Company easier to find and connect to.

SDIX is a customer-centric organization. Our goals are to consistently deliver increased value to our customers through products and services that facilitate business results, reduce costs, and help manage risk. SDIX sales professionals focus on delivering a quantifiable "return on investment" to their customers, demonstrating to them how to reduce time and total costs associated with applications for which the Company's products are used. In addition, the Company believes its tests and immuno-solutions provide high levels of accuracy and reliability, delivering more actionable results to the customer compared to alternative products.

The Company is focused on sustaining profitable growth by leveraging its expertise in antibodies and immuno-technologies to successfully develop proprietary products and services that enhance the competitive advantage of our customers.

The Company believes that our competitive position has been enhanced through the combination of talent, technology, and resources resulting from the business development activities we have pursued since our inception. The Company has achieved meaningful economies of scale for the products it offers through the utilization of its facilities in Newark, Delaware for the manufacture of test kits and antibodies and its facilities located in Windham, Maine for the manufacture of antibodies.

The Company's Life Sciences product portfolio includes a full suite of integrated immuno-solution capabilities including assay design, development, and production. These capabilities combined with its proprietary Genomic Antibody Technology™ ("GAT™") are being used today to help discover the mechanisms of disease, facilitate the development of new drugs, and provide the means for rapid diagnosis.

The Company's Food Safety portfolio includes immunoassays which represent advanced technology for rapid, cost-effective, easy-to-use, and accurate detection of food pathogens. SDIX's RapidChek® and SELECT ™ test kits are experiencing growing adoption for the detection of pathogens such as *E. coli, Salmonella* and *Listeria* in the production, processing, and manufacturing of food and beverages.

SDIX has been developing antibodies which advance our customers' immuno-based work for 20 years. By applying its core competencies of creating proprietary, high-quality antibodies and assay development solutions, the Company has produced sophisticated testing and reagent systems that are responsive to each customer's analytical information needs.

The Company segregates its business into two areas: Life Sciences and Kit Products, which are described below.

Life Sciences

SDIX is a leading provider of a wide range of life sciences products and services, including custom antibodies, pre-made catalog antibodies, in vitro diagnostic-grade antibodies, proprietary critical reagent products, associated bio-processing services, and custom assay design and development services. The Company's products and services are sold to, and often embedded in other commercial products used by a wide range of customers including pharmaceutical, biotechnology and diagnostic companies, and major biomedical research centers both domestically and internationally. The Company is fully integrated to deliver a wide range of services encompassing its customers' immuno-solution needs from antigen design and antibody development through large scale production and post production bio-processing and immunoassay design and development. Customer service, innovation, and expertise are the foundation of the Company's competitive advantage. The Company's Certified Good Manufacturing Practices (cGMP) and ISO9001:2008 accredited facilities employ sophisticated production processes that are reliable and deliver high quality to its customers, and its Sandy Drive and Maine facilities are certified and accredited by the Association for the Assessment and Accreditation of Laboratory Animal Care ("AAALAC"), the highest standard in laboratory animal care. The Company is licensed by the U.S. Department of Agriculture.

GAT™. Innovation is a key element of the Company's Life Science strategy for establishing and maintaining sustainable differentiation in key markets. The study of gene and protein functionality has created a growing demand for antibody reagents; commercially available antibodies exist to less than 10% of the human proteome. GAT™ was developed to address this growing need for high quality reagents in the Life Science industry. GAT™ products and services utilize sophisticated bioinformatics and immunization strategies to produce high value antibody reagents and biomolecules. SDIX's application of powerful proprietary algorithms provides GAT™ the ability to "dial in" the precise gene or protein sequence to produce a recombinant protein inside the host animal that in turn elicits an immune response to the encoded protein. This "specificity by design" approach generates antibodies that recognize the conformational epitopes on the native protein. The ability of any antibody to recognize a protein's naturally folded state has the potential to expand a biomolecule's utility to advance platforms like flow cytometry. A recognized advantage is the technology's ability to produce reagents against traditionally difficult cellular targets, such as highly conserved and transmembrane proteins.

Immunoassay Technology. An immunoassay is an analytical test that uses antibodies to detect the presence of a target in a complex biological sample with high degrees of sensitivity, precision and accuracy. Immunoassays play a central role in the detection and quantitation of proteins associated with disease diagnosis, prognosis and progression, and therapeutic toxicity, efficacy and outcome. The Company's scientists are experts in the design and development of antibodies and immunoassays. The Company's scientific expertise with multiple immunoassay formats, coupled with a thorough understanding of the needs of markets and specific customer applications, has allowed the Company to develop a diverse array of immunoassay products. Recent activities by Company scientists have been focused on developing multiplexed immunoassay tests employing the Company's genomic antibodies in the field of biomarker discovery, especially relating to cancer research.

Industrial BioDetection Tests

The Company's detection technologies allow industrial customers to rapidly and cost-effectively identify the presence of adulterants, such as chemical toxins, biological pathogens and other contaminants, that can compromise human or environmental safety, and/or financially impact efficiencies of production processes. Many of the Company's products are in the form of single use test devices, sample prep materials and reagents, thus creating recurring revenue opportunities. Specific industry applications include:

- **Food and Beverage Manufacturing:** Systems for high efficiency testing for the identification of pathogens and toxins in food, water and the manufacturing environment.
- **Water Utilities:** Drinking water facilities test for chemical toxins and pathogens. Wastewater treatment facilities manage pollution control by monitoring efficiency maintenance in biological processing systems, specifically testing for influent and effluent toxic chemicals and pesticides.
- **Environmental Management:** On-site testing systems to increase the speed and accuracy of environmental remediation of soil and ground water pollutants.
- **Agriculture and Agro-science:** Systems for the detection, identity preservation, and quantification testing of genetically modified organisms, and test systems for feed and grain safety testing, including for the presence of mycotoxins.

By leveraging its expertise in immunology, proteomics, bio-luminescence and other bio-reactive technologies with innovative application and production capabilities, the Company is able to provide sophisticated diagnostic testing and reagent systems to a diverse customer base serving multiple vertical markets.

Bacteriophage Technology. Bacteriophage, or phage, are viruses that infect bacteria. They are highly specific for the type of bacteria that they infect and do not infect any other living cell from any other organism including animal, plant, fungus or yeast. Because lytic bacteriophage specifically kill their bacterial hosts and not other living cells, purified preparations of phage have been used medicinally to treat bacterial infections of plants and animals, including humans. The use of bacteriophage as a human therapeutic attests to the biological specificity and safety of these viruses. In the last two years, the U.S. Food and Drug Administration ("FDA") has approved the use of bacteriophage products for direct application to ready-to-eat foods for reduction of *Listeria* bacteria based on the determination that phage are "generally recognized as safe" ("GRAS").

The Company is applying its bacteriophage technology in its test kit products for the detection of bacterial food pathogens, including its *Salmonella* SELECT ™ product. The Company has been awarded a U.S. patent claiming the use of bacteriophage to control competing and cross-reacting bacteria, thereby reducing false positive and negative results and improving analytical test performance.

The Company has also filed patent applications claiming the use of specific lytic bacteriophage to control contaminating bacteria in large scale industrial fermentation processes such as ethanol and lysine production. The Company believes that the use of bacteriophage is a significant improvement over the use of antibiotics and may have an impact on yield and cost associated with the production of ethanol from feedstock.

Bioluminescence Technology. The Company's Microtox® and DeltaTox® tests use a specific strain of luminescent bacteria as biosensors of toxicity, especially in water samples. These bacteria, when exposed to certain chemicals, undergo a chemical reaction resulting in the emission of visible light. Light output is inversely proportional to the toxicity of the sample being tested.

SDIX's solutions include the instrumentation, reagents and technology necessary to employ testing. The Company has developed proprietary technology to analyze the results and calculate toxicity according to industry standard and regulatory methods. These solutions are highly reliable and offer significantly greater precision than other commonly applied measures of toxicity employing small numbers of living organisms (e.g., fish). The Company's products, reagent kits, instruments and software provide for rapid and inexpensive assessment of toxicity in multiple applications including approved regulatory methods in many countries worldwide.

Life Sciences Products and Services

The Life Sciences market is experiencing growth due to the expansion of research in the genomic era into understanding of the role of proteins in biology and medicine. According to Frost & Sullivan and other market researchers, the global market for antibody-based reagents and tools in 2008 was approximately $1.8 billion with estimated growth in the range of 5-7%. Custom reagent development and production account for approximately $450 million with an estimated 10-12% growth rate and premade reagent products comprised approximately $1.4 billion with an estimated growth rate in the 5-7% range. Customers in these markets regard the Company as a leader in the design, development and production of critical tools used to target, differentiate, quantify, and profile the vast number of proteins related to human health. The Company links its historical expertise in immunotools and immunoassays with the speed and agility of its proprietary GAT™ platform. Post-genomics drug development is a rapidly emerging sector for proteomic immunotools. Within this market, investment has largely shifted from discovery activities into more information-rich integrated development activities. Within the past two years, the Company has supplied 14 of the top 20 pharmaceutical and biopharmaceutical companies with proteomic immunotools to further their drug development programs as well as initial clinical candidates for monoclonal antibody therapeutics. The Company produces antibodies to targets and biomarkers of interest allowing customers to quickly assess the feasibility, efficacy and safety of compounds in their developmental pipelines.

Protein biomarkers as predictive, prognostic, diagnostic, and reporters of activity throughout the drug discovery and development workflow have created increased needs for protein identification and quantitation tools. The Company sees rapid advances in the use of antibodies as tools to measure biomarkers. BCC Research ['Biomarkers: The Expanding Global Market'] projects market size for the entire biomarker services industry to be at $13 billion by 2012. The biomarker assay testing market has a proven record of revenue generation. The market was $612 MM in 2007 and is estimated to have an annual growth rate of 23.5% and this estimate is based solely on assays and products that are currently available. Currently, high-quality biomarker assays exist for less than 500 proteins (across all species), a fraction (1-2%) of the total number of proteins encoded by the genomes of key species (e.g., human and rodent). Customers in these markets view the Company as a key provider of critical antibody reagents and immunoassay design and development.

The Company's experience in antibody generation and immunoassay design together with its proprietary GAT™ platform puts it in a strong position to address these needs. In 2009, SDIX was selected for a third consecutive time through an open Request for Proposal by Science Applications International Corporation ("SAIC") in cooperation with the National Cancer Institute to generate a library of monoclonal reagents against cancer biomarkers. These antibodies will become part of a reference set of validated tools for researchers. The Company also has a portfolio of catalog antibodies made using its GAT™ platform available for sale online. Within the past year, many new customers have benefitted from these oncology-focused research reagents. In many cases, a singular product has been selected by a client to become a critical testing reagent in long term projects, precipitating the transition of a per-unit sale into a critical reagent supply agreement. These antibodies are now a resource for the Company to assess application in novel platforms, assays, and multiplex applications.

The Company is a supplier to many major manufacturers of antibody-based diagnostic tests. The Company maintains regulatory compliance, industrial scale and efficiencies, and requisite quality systems to assure a secure supply of critical reagents to its partners. The Company provides proprietary reagents as well as large scale Original Equipment Manufacturer (OEM) production of custom antibodies.

Kit Products

Food Safety Products

The Company's food safety product line includes enrichment media and rapid tests to detect food pathogens, including *E. coli* O157 (including H7), *Listeria* and *Salmonella*. The Company is a leader in tests for targeted traits in genetically engineered plants, tests to detect Genetically Modified (GM) traits in grain, seeds, food ingredients and food fractions and tests to detect naturally occurring fungi in grains (mycotoxins).

Food Pathogen Testing

Pathogen specific testing is an increasingly important part of microbiology testing performed in the global food industry. The worldwide market for pathogen tests and media is estimated to be between $850 million and $1 billion according to independent studies and the Company's own market research. According to several independent studies, the market for pathogen tests grew at a rate of 5 to 7% in 2009 and this growth rate is expected to continue for the next several years. Growth in pathogen testing is driven primarily by regulatory changes, customer testing trends, industry consolidation, and globalization of the world's food supply.

Since 2001, the Company has invested in the development and market introduction of products for the detection of pathogenic microorganisms in food. In 2002, the Company introduced its first test method for the pathogen *E. coli* O157 (including H7). The RapidChek® *E. coli* O157:H7 test strips and proprietary media system have received ongoing market acceptance in the United States. In 2005, the Company was notified that its RapidChek® *E. coli* O157:H7 assay had been selected as the assay method of choice for the National School Lunch Program for screening raw and frozen beef for the organism. The National School Lunch Program is a federally-assisted meal program that operates in over 97,000 public and non-profit private schools and residential childcare institutions. The United Stated Department of Agriculture ("USDA") is responsible for determining that the meat produced for the National School Lunch Program is safe. In addition, the RapidChek® test for detection of *E. coli* O157:H7 was selected by the Food Safety Inspection Service ("FSIS"), the public health agency in the USDA, as an approved methodology for screening of the organism in raw beef samples. The FSIS section of the USDA conducted a rigorous evaluation of rapid methods that are currently on the market for screening pathogens, including polymerase chain reaction, and automated/manual immunoassays and benchmarked kit performance against the current USDA traditional cultural method. The RapidChek® *E. coli* O157:H7 method was evaluated and determined to be the "best in class" against the other immunological methods tested. RapidChek® has been included in the USDA Microbiological Laboratory Guidelines as one of only two immunoassays that are recognized for use in screening raw beef for *E. coli* O157 (including H7). The Company believes that the acceptance of its method by the agencies regulating food safety has increased sales as producers seek to use methods that have been evaluated by the regulatory agencies. The RapidChek® *E. coli* O157:H7 test system has also received international recognition with regulatory approvals in Canada (Canadian Food Inspection Agency) and Australia (Australian Quarantine and Inspection Service). In 2009, the Company received AOAC Research Institute Performance Tested Method certification for improvements made to the RapidChek *E. coli* O157 test method including validation of the testing of composite 375g ground beef and beef trim sample.

In June 2004, the Company launched its test for detection of *Listeria*. This test system received AOAC Research Institute ("AOAC", "AOAC-RI") approval for both food and environmental samples, in contrast to several competitive methods on the market that have AOAC approval for food samples only. As a result of new regulations enacted by the USDA in 2003, environmental samples account for approximately 80% of all *Listeria* testing. The *Listeria* test incorporates the use of a proprietary enrichment procedure that provides results in 40 hours, which is 8-12 hours faster than most other methods on the market. In addition, the proprietary enrichment system does not require a transfer step, providing significant labor savings compared to other methods on the market. As with all pathogen systems, food companies require internal evaluations prior to adoption. In these evaluations, the Company's *Listeria* test system demonstrated superior performance and improvements in efficiency and productivity compared to most competitive methods on the market. As a result of improvements in performance and cost-in-use, the Company has had the *Listeria* product adopted by a number of very large food processors.

In August 2006, the Company launched its new RapidChek® SELECT™ *Salmonella* test with AOAC-RI approval at the International Association of Food Protection Meeting in Calgary, Canada. This novel test is based on a patented phage technology combined with the Company's next generation lateral flow technology and has revolutionized the *Salmonella* testing arena. The RapidChek® SELECT ™ test was developed to meet some of the challenges faced in *Salmonella* testing, including high false positive and negative rates, which can be particularly prevalent in high burden samples. The patent claims technology that increases both the specificity and sensitivity of rapid pathogen tests. In September 2006, the RapidChek® SELECT ™ *Salmonella* test was the first lateral flow test approved for the National Poultry Improvement Plan, and will provide an attractive alternative to current methods used such as labor intensive cultural methodologies. The RapidChek® SELECT ™ *Salmonella* test was evaluated and adopted by several of the top poultry and beef processors in 2007. The launch and acceptability of RapidChek® SELECT ™ in the market has also facilitated the increase in sales of the RapidChek® *Listeria* system, as most processors prefer to utilize one platform for multiple testing needs. Customers have cited the use of SELECT ™ contributing to improved laboratory efficiencies and significant savings as compared to what they were previously using to test.

Agricultural Testing

Genetically Modified Crops

Tests for GM traits are generally used to determine whether the sample tested contains the protein associated with the genetic modification. Seeds, grain or leaf tissue are typically tested. The tests may be employed by users desiring to ensure that seed or grain lots are either GM-free or, in other cases, that they contain a specified amount of the GM material in order to meet certain GM requirements. Among the commodities typically tested with the Company's products are corn, soybeans, rice and cotton. The Company estimates that the worldwide demand for protein based testing of genetically modified crops is $15 million per year. To address this market, the Company maintains a small U.S. sales force and distribution in the five principal countries that, in addition to the United States, are responsible for 96% of the GM crop area worldwide.

The Company has developed a simple "one-step" test that is used at the point of testing to determine if an individual plant contains the targeted genetic trait. Commercial seed producers use these products to ensure the quality of their products. This type of test also can be used in crops for enforcement purposes to expose unlicensed application of the genetic technology.

Acceptance of GM crops has increased and as the development of new traits has risen, some countries have adopted regulations on biotech crops. In 2004, the European Union ("EU") adopted regulations regarding labeling and traceability of GM food and feed with enforcement beginning in April 2004. The regulatory tolerance for EU-authorized GM traits is 0.9%, and 0.5% for unauthorized GM traits that have already received a favorable risk assessment from various U.S. regulatory agencies. Traceability systems must be in place and must demonstrate that any traces of GM traits are adventitious and are technically avoidable. The Company no longer believes that the impact of regulations will result in stricter testing of grain and grain exports from countries growing GM crops, or increases in testing to meet these new regulations. Conversely, widespread acceptance of GM crops is generally reducing the practice of grain testing as GM traits are increasingly ubiquitous in the environment.

Water Quality

The Company's water quality product line includes industrial bio-detection kits for water and soil contaminants such as pesticides, explosives, petroleum related products and polychlorinated biphenyls (PCBs); Microtox® toxicity tests used in a wide array of market segments; and products for detecting polymers and corrosion in water. In addition to use by water utilities and related government agencies, the product line is used in many industrial manufacturing segments, environmental remediation, research and ecological studies. The global market for analytical testing associated with the water and environmental industries is estimated at $1.4 billion based on a compilation of market research studies. The overall growth rate in developed markets is estimated at 2-3%, while the growth rate in developing markets, primarily Asia, is estimated at 7-9%. The biggest driver for growth is government regulations associated with water quality and environmental protection.

Toxicity Testing

In 2001, the Company acquired AZUR Environmental Limited to add the Microtox® product line to its portfolio. Microtox® is a unique rapid acute toxicity test that detects a broad range of toxins and chemical agents. The Microtox® brand is the global reference standard for rapid acute toxicity testing. Microtox® makes toxicity analysis simple and easy to perform and results can be generated in as little as 30 minutes. The Company also markets a portable version of the Microtox® technology known as DeltaTox®. Many water utilities and emergency response teams are using DeltaTox® technology as part of their Water Fit for Use and emergency response programs. Microtox® has been widely accepted by the wastewater treatment industry where managing and controlling costs by accurately assessing the mechanical, operational and chemical performance of these facilities is critical. Microtox® delivers value by helping to improve operating efficiency and by helping facilities stay in compliance with their discharge permits.

In February 2006, the Company announced that its Microtox® bioassay technology was awarded the Designation and Certification as an "Approved Product for Homeland Security" by the Department of Homeland Security. In December 2007, the Company was awarded a Federal Supply Schedule GSA contract. The contract further expands the Company's reach into federal, state and local agencies, in addition to making it easier for these agencies to do business with the Company.

The Company is currently developing its next generation DeltaTox® instrument, for expected market introduction in the first half of 2010. This new instrument, DeltaTox® II, will include features to further enhance business results for customers implementing strong Water Fit for Use programs.

Environmental Contamination Detection Products

The entrance of pesticides into the water supply is a result of agricultural and residential runoff. In areas of substantial agricultural activity, drinking water is tested for pesticides to protect supplies and to comply with federal and state regulations. The Company's pesticide test kits are used in situations where field testing, or the testing of one specific pesticide gives the test kit much greater utility than a lab-based analyzer. Users include federal agencies such as the U.S. Geological Survey and USDA, state environmental and health departments, water utilities and environmental engineering companies. The Company also sells immunoassay products in the environmental market. The Company offers three different test formats, each with performance characteristics that make them well suited for a particular customer application. All of the Company's environmental test kits are capable of analyzing multiple samples in parallel. The Company is currently marketing kits for a variety of contaminant classes and has been able to expand its product offerings through distribution agreements to accommodate new technologies.

Sales and Marketing Strategy

The Company markets and sells products in the life sciences, food safety, agricultural testing and water quality product categories through a U.S. direct sales force, Internet presence and a network of over 50 distributors in Canada, Mexico, Latin America, Europe and Asia and through the Company's corporate partners. The Company also has a European office and sales operation near London, England. The Company evaluates various sales and service models that can contribute to the profitable growth of business. Identifying the most effective channels to market will allow the Company to better allocate resources to both new and existing growth opportunities.

In the United States, the primary sales channel is through a direct sales force comprised of geographically based field sales professionals, key segment managers, and inside sales associates. The sales force is augmented by customer service and project management organizations, and applied technical marketing specialists which assure that all elements of the customer's buying experience meet and exceed their performance expectations.

On the basis of its strengthening market position, the Company continues to develop channels to market and accelerate predictability and sustainability of revenues. The Company is investing in its direct sales force through the addition of new sales representatives and focused sales and technical training. The Company continually measures sales performance and maintains discipline in the balance between the addition of new sales resources and ongoing efforts to continually improve sales efficiency and effectiveness of existing resources.

The Company is also focusing on its network of quality channel partners. In 2006, the Company added its first distributor for its custom antibody offering. The Company is working to add additional channel partners for both its custom and catalog offerings nationally and internationally.

In 2005, the Company signed an exclusive distribution agreement with DuPont Qualicon for the representation of the Company's immunoassays for food pathogen detection. In 2007, the Company moved to a non-exclusive distribution agreement with DuPont Qualicon and expanded the agreement in 2009 to include RapidChek® SELECT products. In 2007, SDIX began to add new distribution partners for this product line. The Company expanded its international distribution network for food safety pathogen products, adding and training a total of 15 independent distributors to sell the RapidChek® product line in high growth markets globally, including Southeast Asia, Europe and Latin America. The Company also took a much more aggressive role in marketing these methods. It is anticipated that the additional distributors and international expansions of promotion/sales of the products will increase revenues as they gain acceptability.

Competition

Many of the Company's potential competitors are large companies with substantially greater financial and other resources than the Company. To the extent that any such companies enter into one or more of the Company's markets, the Company's operations could be materially adversely affected. The Company anticipates increased competition as potential competitors perceive that the Company's products have become commercially proven, or if the Company cannot maintain competitive differentiation.

In the Ag/GMO market, the Company competes with several small, privately held companies (Agdia, Envirologix) that market very similar, if not identical products.

In food pathogen testing, the Company is among the more recent entrants to the market and faces a broad base of competition. The worldwide market for pathogen tests is estimated to be between $850 million and $1 billion annually and as such has drawn many competitive products. The Company's RapidChek® *E. coli* O157:H7, *Salmonella* and *Listeria* tests compete globally with numerous competitive rapid testing systems. Instrument-based tests are offered by bioMerieux SA and DuPont Qualicon among others. Competitive strip based tests are offered by Neogen Corp., BioControl Systems, Inc. and others. In addition, traditional lab culture methods offer indirect competition. The Company hopes to gain market share from competitive methods and with new users due to key product advantages such as speed of result, ease-of-use, accuracy and by providing overall cost savings.

The Company believes there are no meaningful direct competitors for the Company's Microtox® product line in the United States. In Europe and other parts of the world, the Company primarily competes against Checklight, Ltd., an Israeli-based company, and one other instrument-based test method produced by Hach Lange, an affiliate of The Danaher Corporation. The Company believes its products have a number of competitive advantages including the comprehensive screening for general toxicity and competes effectively on superior features and functions.

With respect to the environmental contaminant test products, the Company currently receives the greatest competition from fixed site environmental laboratories and several small privately held companies. Traditional analytical methods for environmental contamination are often utilized for confirmation and closure of environmental sites. The Company believes it has detection products which are user friendly and provide greater value in use than competitive offerings.

In the antibody product category, the competitive landscape is rapidly changing as the Company continues to shift its emphasis to earlier activities in drug and biomarker discovery. The Company will increasingly compete with technology companies that offer products and services for the discovery and advancement of novel antibodies. The Company believes that its proprietary GAT™ platform coupled with its expertise in assay development provides differentiated access to the high value application markets it is targeting.

The Company also competes in its traditional antibody markets with the internal capabilities of some of the Company's large pharmaceutical, research and diagnostics customers. These customers often have significantly greater revenues than the Company. Generally these customers produce some products internally and purchase similar products from the Company.

Competitors in the market as third party providers of custom, large scale antibody reagent production include Covance (public), Harlan (private), Lampire (private) and Scantibodies (private). Additionally, there are a number of smaller companies that offer competing products. In the custom research reagent market, the Company has identified 49 companies offering some form of traditional antibody production from customer-provided antigens. The Company believes that its innovation, expertise, and fully integrated suite of immune-solutions plus the scale of its operations are significant competitive advantages against both large and small competitors. In the catalog antibody space, there are over 130 companies competing for this $1.35 billion market.

Markets and Products

The Company sells products in the life sciences, food safety, agricultural testing and water quality market categories through its U.S. direct sales force, a network of over 50 distributors in Canada, Mexico, Latin America, Europe and Asia and the Company's corporate partners.

Geographic and Customer Information

The following table sets forth sales by geographic region:

	Year Ended December 31,		
	2009	2008	2007
United States	$ 19,739	$ 20,744	$ 21,154
Rest of the world	7,415	6,915	6,053
Total	$ 27,154	$ 27,659	$ 27,207

The Company's basis for identifying sales by country is the ship-to location. There were no individual countries outside of the United States that represented more than 10% of the total revenues of the Company. There are no significant long-lived assets located outside the United States.

No single customer accounted for 10% or more of the Company's revenues in 2009, 2008 or 2007.

Regulatory Approvals

The Company is engaged in the development of antibody and immunoassay products for use in the medical and human healthcare fields. Its current products in this market are intended for "research use only." The Company also manufactures tests for bacterial food pathogens, mycotoxins, genetically engineered traits in plants and water treatment polymers, which are currently unregulated. However, agencies such as the Environmental Protection Agency ("EPA"), the FDA, and the FSIS are engaged in testing and, together with organizations like the AOAC, maintain compilations of official methods for use in testing in certain market segments. Some of these organizations also issue procedures and guidelines for validating new methods. Although not required, official methods adopted by these agencies sometimes have the commercial impact of regulations because the industry and the Company's customers tend to follow the practices of regulatory agencies.

The Company maintains compliance to 21 CFR 820 cGMP, and International Organization for Standardization ("ISO") 9001:2008 certification for all three of its facilities from an ANSI-ASQ National Accreditation Board ("ANAB") Accredited International Registrar for the ISO 9001 standards. Recognized and respected worldwide, the ISO 9001:2008 standards are put forth by the ISO. This certification demonstrates the Company's commitment to excellence in product and service quality, and a continued focus on improving the customer experience.

The Company has maintained AAALAC (Association for the Assessment and Accreditation of Laboratory Animal Care) accreditation at its Delaware facility since 1992 and at its Maine facility since 2000. The Company volunteers to participate in the AAALAC program in addition to complying with the local, state and federal laws that regulate animal research. In order to maintain these accreditations, the Company undergoes regular inspections and reviews. The Company also holds approvals from the USDA, OLAW (Office of Laboratory Animal Welfare), and the NIH, further validating the stewardship of the Company in proper laboratory animal care.

The Company believes that the validation and acceptance of its environmental products by regulatory agencies plays a significant role in market acceptance. EPA SW-846 is the compendium of test methods published by the EPA's Office of Solid Waste listing those analytical methods that have been validated by the EPA for a stated purpose. The vast majority of the Company's analytical methods for environmental soil sample analysis are listed in EPA SW-846. Many federal, state and local environmental programs often refer to and rely on EPA SW-846 methods for purposes of remediation and monitoring.

The legislation and regulations that the Company believes are most applicable to its environmental business are the Research Conservation and Recovery Act ("RCRA"), Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), Toxic Substances Control Act ("TSCA"), Federal Insecticide, Fungicide and Rodenticide Act ("FIFRA") and the Pure Food and Drug Act. For analysis of water and wastewater, the Safe Drinking Water Act, the Clean Water Act and the National Pollution Discharge Elimination System ("NPDES") permitting program acceptance under the Clean Water Act also will be significant to the Company's business. As the utility of the Company's Microtox® products continues to be widely recognized in drinking water security applications, regulations and mandates associated with Homeland Security programs may also have an impact on the Company's business. Collectively, these programs regulate the management, disposal and clean-up of hazardous substances and protect the nation's ground and surface water and drinking water supplies.

Manufacturing

The Company manufactures test kits for the detection of a wide array of analytes in five immunoassay formats and one bioluminescence format. The five formats are: one step lateral flow tests; coated tubes; latex particles; magnetic particles; and micro-titer plates. The Company manufactures a biological supplement that enhances the detection of certain analytes and improves overall performance of certain assay formats. In addition to test kits, the Company supplies ancillary equipment and supplies including test evaluation instruments, reagents, sample media, spectrophotometers, pipettes, balances and timers.

The key critical reagent manufacturing technologies are conjugation chemistries, antibody formulations, calibrator preparation, lateral flow strip production, microbiological and immunoassay processes. Reagent production processes include filling and dispensing liquids, subcomponent and finished goods assembly, in-process testing, quality control, packaging and shipping. The critical reagents and production assembly groups produce test kits in the Newark, Delaware laboratories. Biological materials are primarily developed and produced in-house; however, some reagents are licensed from third parties or purchased from commercial sources. A crucial step in the Company's manufacturing process is the stabilization of the immunoreagents utilizing proprietary lyophilization techniques. In general, raw materials used by the Company in its products are obtainable from multiple sources. The Company purchases instruments and ancillary equipment from outside vendors. A number of the instruments sold by the Company were developed to be used exclusively with the Company's products and are subject to specific supply agreements. The Company believes that the raw materials, instruments and equipment used in the manufacture of its products are sufficiently available for the Company's current and foreseeable manufacturing needs.

The Company manufactures its products in accordance with the FDA's Good Manufacturing Practices guidelines and has implemented data-driven problem solving, measurement and statistical process controls to troubleshoot and continuously improve quality and output performance. Capital investment and equipment automation have reduced key parameter variation, improved production efficiencies and lowered manufacturing costs. The Company utilizes planning tools to control all elements of the supply chain and manufacturing processes, including raw material procurement, inventory management, capacity planning and production scheduling, work-in-process tracking, order processing and fulfillment, shipping and customer invoicing. The Company believes the existing facilities and equipment are sufficient to support a significantly larger production demand.

The Company also supplies a wide array of custom antibody products and services to the *in-vitro* diagnostic, academic, pharmaceutical and medical research industries. Antibodies are developed and produced using animals or cell culture methods. Laboratories are maintained to prepare immunogens, perform chemical conjugations, purify antibodies, and perform a range of quality control procedures. The cell culture laboratories support the development of hybridomas and manufacture of monoclonal antibodies. The cell culture laboratories also provide services to enhance the productivity of cell lines, establish Master Cell Banks, and store cell lines in secure fail-safe cryogenic systems. In 2009, the Company consolidated the operations performed in the Dallas facility into the Sandy Drive technology center in Newark, Delaware, resulting in overhead cost savings and improved technical collaboration. Animal facilities house specific-pathogen-free animals that are tested routinely to assure they are maintained under the highest health standards. Current capacity utilization in antibody production is approximately 70%, and there is additional land and zoning clearance on the 64-acre site in Windham, Maine to double polyclonal operations.

Research and Development

The Company engages in substantial research and development activities (R&D) involving development of products, services and technology platforms for its two primary markets, Life Sciences and Food Safety. In the years ended December 31, 2009, 2008 and 2007, the Company incurred approximately $2.9 million, $3.6 million, and $2.9 million, respectively, in research and development expenditures. Research and development on the Company's proprietary GAT™ product offering, and food safety products accounted for 71% of the total R&D effort for the year ended December 31, 2009. Also in 2009, the Company invested 12% of its R&D effort in the development of its new instrument for the detection of toxins in water in support of its Microtox™ product line and scheduled to launch in the second quarter of 2010.

The Company's primary laboratory facilities located in Newark, Delaware were designed and built specifically for conducting research and development relating to antibody and immunoassay technology. These facilities include state-of-the art, cGMP antibody development and large-scale production facilities. The Company has assembled a scientific staff with extensive experience in the development, production and purification of monoclonal and polyclonal antibodies. The Company also has extensive expertise in the development and production of reagents from the antibodies it produces, as well as commercial immunoassays employing those reagents.

In 2009, the Company continued development of its proprietary GAT™ platform, focusing on advanced methods for development of antibodies to high value proteins that are the targets of pharmaceutical and biotechnology companies. Consistent with the vision of applying its GAT™ to the field of proteomics and biomarker discovery, the Company is testing multiplex immunoassays employing the novel antibodies developed using the GAT™ platform. In addition, in 2009 the Company entered into an agreement with the Fred Hutchinson Cancer Research Center (the "Hutchinson Center") to collaborate to discover biomarkers for use in the early detection of a variety of cancers. Initial studies will center on pancreatic cancer. The Company has provided approximately 1,300 antibodies for the collaborative studies from its unique collection of cancer antibodies and the Hutchinson Center will test the antibodies, with a unique set of patient samples collected prior to disease diagnosis.

In the food safety market, the Company completed the development of and commercially launched its new RapidChek® *E. coli* O157 (including H7) test, and earned Performance-Tested Methods™ certification from the AOAC Research Institute for testing composite samples of raw beef, including ground beef and boneless beef trim. This new test is the first product to be validated for analysis of the increased sample size being implemented across the beef processing industry. Also in the food safety market, the Company received a Certificate of Validation for its RapidChek® SELECT™ *Salmonella* system from the AOAC Research Institute.

The Company is currently developing its next generation DeltaTox® instrument, for expected market introduction in the first half of 2010. This new instrument, DeltaTox® II, will include features to further exhance business results for customers implementing strong water fit for use programs.

In 2009, the Company was awarded a U.S. patent for the use of its proprietary bacteriophage technology in microbiological assay tests and processes. This technology is a rapid bacterial detection method that reduces or eliminates the growth of undesirable bacteria, resulting in improved test performance. The use of bacteriophage to improve the specificity and sensitivity of testing methods is unique to the Company. Also in 2009, the Company received a U.S. patent for a novel method of detecting water treatment polymers using raman spectroscopy.

The Company's research and development personnel are experts in many advanced research disciplines in life sciences including immunology, immunochemistry, molecular biology, protein chemistry, biochemistry, microbiology and synthetic organic chemistry. In addition to the technical expertise resident within the research and development organization, the Company's technical manufacturing organization is expert in large-scale cGMP production, bioprocessing, purification and quality control of antibodies and reagents. The Company's core expertise is in antibody and immunoassay development and it is a major developer and producer of monoclonal antibodies.

Research and development activities are focused on developing proprietary technology and products to expand the Company's differentiated market position in Life Science and food safety markets. The Company is a recognized leader in the field of contract antibody and assay development services primarily for large pharmaceutical, biotech, diagnostic and chemical companies, and the development of rapid test kits in the food, water quality and agricultural sectors based on immunoassay technology. In addition, the Company has extensive expertise, facilities and equipment relating to the development and manufacture of one-step lateral flow tests.

The Company's research and development organization consists of 15 individuals, 11 of whom hold advanced academic degrees. In addition, approximately one-third of the Company's employees are involved in technical job functions.

Proprietary Technology and Patents

The Company's products are based on the use of proprietary reagents, technology and test systems developed by Company scientists or acquired externally. Accordingly, the Company has implemented a number of procedures to safeguard the proprietary nature of its technology. The Company requires its employees and consultants to execute confidentiality agreements upon the commencement of an employment or consulting relationship with the Company and all employees are required to assign to the Company all rights to any inventions made during their employment or relating to the Company's activities. Additionally, the Company seeks to protect its technology and processes through the patent process. The Company currently holds 24 issued U.S. patents, as well as one U.S. patent licensed for exclusive use by the Company.

There can be no assurance that the Company's patent applications will result in the issuance of any patent or that any patents issued to the Company would provide protection that is sufficiently broad to protect the Company's technology and products. In addition, the Company cannot be certain that it was the first creator of inventions covered by pending patent applications or that it was the first to file patent applications for such inventions. In addition to seeking patent protection for the Company's proprietary information, the Company also relies upon trade secrets, know-how and continuing technical innovation to maintain competitiveness for its products and services. The Company has developed a number of proprietary technologies which it has chosen not to patent, including immunization protocols, DNA and plasmid constructs, stabilization systems for reagents, chemical syntheses, and strategies relating to antibody development.

U.S. Patent	Title
5,426,035	Method for compensating toxicity test data for the measured toxicity of a reference sample
5,449,611	Polyaromatic hydrocarbon (PAH) immunoassay method, its components and a kit for use in performing the same
5,541,079	Monoclonal and polyclonal antibodies and test method for determination of organophosphates (license)
5,547,877	Methods for the rapid detection of toxic halogenated hydrocarbons and kits useful in performing the same
5,593,850	Monitoring of industrial water quality using monoclonal antibodies to polymers
5,618,681	Polyaromatic hydrocarbon (PAH) immunoassay method, its components and a kit for use in performing the same
5,780,250	Immunoassay standards for polyaromatic hydrocarbon detection
5,834,222	Polychlorinated Biphenyls (PCB) immunoassay method
5,858,692	PCB immunoassay
5,874,216	Indirect label assay device for detecting small molecules and method of use thereof
5,891,657	Immunoassay standards for volatile analytes with benzene rings
5,919,645	Method for the direct determination of the toxicity of particulate solids
6,096,563	Dual particle immunoassay method & kit
6,146,903	Method for determination of water treatment polymers
6,376,195	Indirect label assay device for detecting small molecules and method of use thereof
6,420,530	Determination method
6,524,810	Method of making bioluminescent assay reagent based on non-viable E. coli
6,663,833	Integrated Assay Device and Methods of Production and Use
6,750,328	Antibodies for detection of water treatment polymers
6,911,534	Method for determination of water treatment polymers
7,189,520	Compositions and methods for detecting animal byproduct in feed
7,214,505	Cell-based assay for the detection of toxic analytes
7,241,626	Isolation and confirmation of analytes from test devices
7,521,201	Bacteriophages as Selective Agents
7,532,321	Compositions and methods for the detection of water treatment polymers

Employees

As of December 31, 2009, the Company employed 150 full time and four part time employees. The workforce was supplemented by six agency-provided contractors. All of the Company's employees have executed agreements with the Company agreeing not to disclose the Company's proprietary information and assigning to the Company all rights to inventions made during their employment. Key personnel have signed agreements prohibiting them from competing with the Company. None of the Company's employees are covered by collective bargaining agreements. The Company believes that its relations with its employees are good.

Organizational History

Strategic Diagnostics Inc. is a Delaware corporation formed in 1990.

Item 1A. Risk Factors

If we do not produce future taxable income, our ability to realize the benefits of our net operating loss carryforwards could be significantly reduced.

As of December 31, 2009, the Company had U.S. federal net operating loss carryforwards, including those acquired in the Company's past acquisitions, of approximately $17.4 million, which, if not utilized, begin to expire as follows:

Year	Net Operating Loss (in thousands)
2010	$ 4,536
2017	760
2018	1,327
2019	550
2020	66
2021	56
2022	2,268
2024	2,033
2025	3
2026	1
2027	1
2028	3,492
2029	2,287
Total	$ 17,380

The Tax Reform Act of 1986 (the "Act") limits the annual use of net operating loss and income tax credit carryforwards (after certain ownership changes, as defined by the Act). The application of these limits could significantly restrict our ability to utilize carryforwards. Certain of our total net operating loss carryforwards from 2001 and prior years are subject to limitations on their annual use since a cumulative change in ownership of more than 50% has occurred within a three-year period with respect to those net operating loss carryforwards. The Company is currently evaluating recent changes in ownership. If it is determined that an ownership change of more than 50% within a three-year period did occur, as determined pursuant to the Internal Revenue Code and Regulations, substantially all of the net operating loss carryforwards and income tax credit carryforwards could be subject to annual limitations on usage. Because U.S. tax laws limit the time period during which these carryforwards may be applied against future taxable income, we may not be able to take full advantage of these attributes for federal and state income tax purposes due to the annual limitation usage.

Based on the best information available to us today, we may not have sufficient future taxable income to utilize the net operating loss carryforwards and income tax credit carryforwards prior to their expiration, and we have established a full valuation allowance against these net operating loss and income tax credit carryforwards for financial reporting purposes.

Our results of operations may fluctuate, which could cause volatility in our stock price.

Our results of operations may fluctuate significantly in the future as a result of a number of factors, many of which are outside of our control. These factors include, but are not limited to:

- unanticipated events associated with regulatory changes;
- general economic conditions;
- acceptance of our products;
- the success of products competitive with ours;
- expenses associated with development and protection of intellectual property matters;
- establishing or maintaining commercial scale manufacturing capabilities;
- the timing of expenses related to commercialization of new products;
- seasonality; and
- the timing and success in building our distribution channels.

The results of our operations may fluctuate significantly from quarter to quarter and may not meet expectations of securities analysts and investors. This may cause our stock price to be volatile.

If we use hazardous materials in a manner that causes injury or violates laws, we may be liable for damages.

Our research and development activities involve the controlled use of potentially harmful biological materials as well as hazardous materials, chemicals and various radioactive compounds. We use radioactivity in conducting biological assays and we use solvents that could be flammable in conducting our research and development activities. We cannot completely eliminate the risk of accidental contamination or injury from the use, storage, handling or disposal of these materials. We do not maintain a separate insurance policy for these types of risks. In the event of contamination or injury, we could be held liable for damages that result, and any liability could exceed our resources. 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 could be significant.

Our antibody production process utilizes various species of animals that could contract disease or die, interrupting business operations.

Our antibody production process utilizes animals to produce antibodies. We cannot completely eliminate the risks of animals contracting disease or a disaster that could cause death to valuable production animals. Disease or death on a broad scale could interrupt business operations as animals are a key part of the antibody production operation.

The difficulties of operating in international markets may harm sales of our products.

Customers outside of the United States accounted for 27% and 25% of our revenues for the years ended December 31, 2009 and 2008, respectively. The majority of our sales transactions are in U.S. dollars, however, we received payments in British pounds sterling for approximately $3.0 million in sales from our foreign subsidiary.

The international nature of our business subjects us and our representatives, agents and distributors to the laws and regulations of the jurisdictions in which they operate, and in which our products are sold. The types of risks that we face in international operations include, but are not limited to:

- the imposition of governmental controls;
- logistical difficulties in managing international operations; and
- fluctuations in foreign currency exchange rates.

Our international sales and operations may be limited or disrupted if we cannot successfully meet the challenges of operating internationally.

Future acquisitions and business combinations that we consummate may be difficult to integrate, disrupt our business, dilute stockholder value or divert management attention.

From time to time, we have considered and may in the future consider expanding our operations and market presence by making acquisitions and entering into business combinations, investments, joint ventures or other strategic alliances with other companies. We may have to issue debt or equity securities to pay for future acquisitions, which could be dilutive to our then current stockholders. We cannot assure you that we will consummate any transactions in the future. However, these transactions create risks, such as:

- difficulty assimilating the operations, technology and personnel of the combined companies;
- disrupting our ongoing business;
- problems retaining key technical and managerial personnel;
- additional operating losses and expenses of acquired businesses; and
- impairment of relationships with existing employees, customers and business partners.

Any of the events described in the foregoing paragraph could have an adverse effect on our business, financial condition and results of operations and could cause our stock price to decline.

The leases for our headquarters and a property where we conduct manufacturing and research will expire no later than December 31, 2011. If we are unable to negotiate new leases for our existing space, or find replacement space, in either case on terms that are attractive to us, or if we are required to make substantial capital improvements in either the existing or new space, our results of operations could be harmed.

Our headquarters and 25,000 square feet of manufacturing and research space that we lease in Newark, Delaware are leased under operating leases that will expire no later than December 2011. We are currently considering our options with respect to renewal or replacement of this space. We may be unable to negotiate new leases for our existing space, or to find replacement space, in either case on terms that are attractive to us. In addition, should we elect to attempt to negotiate new leases in our current facilities, we may have to make investments in capital improvements to enhance the space. In any such case, our results of operations could be harmed.

Certain of our shareholders are able to significantly influence proposals for a change in control or other matters requiring a shareholder vote.

Directly, or through entities that they control, members of our Board of Directors as of December 31, 2009 controlled approximately 29% of our common stock. Through entities that he controls, Steven R. Becker, who joined our Board effective March 12, 2008, controlled approximately 11% of our outstanding common stock as of December 31, 2009. Due to this concentration of ownership, members of our Board, acting together or, in some cases, individually, can substantially influence all matters requiring a stockholder vote, including, without limitation:

- the election of directors;
- the amendment of our organizational documents; or
- the approval of a merger, sale of assets, or other major corporate transaction.

Provisions in our organizational documents could prevent or frustrate attempts by stockholders to replace our current management.

Our certificate of incorporation and our bylaws contain provisions that could make it more difficult for a third party to acquire us without the consent of our Board. Our certificate of incorporation provides for a staggered board and removal of directors only for cause. Accordingly, stockholders may elect only a portion of our board at any annual meeting, which may have the effect of delaying or preventing changes in management. In addition, under our certificate of incorporation, our Board of Directors may issue additional shares of preferred stock and determine the terms of those shares of stock without any further action by our stockholders. Our issuance of additional preferred stock could make it more difficult for a third party to acquire a majority of our outstanding voting stock and thereby effect a change in the composition of our Board of Directors. Our bylaws require advance notice of stockholder proposals and director nominations and permit only our President or a majority of the Board of Directors to call a special stockholder meeting. These provisions may have the effect of preventing or hindering attempts by our stockholders to replace our current management. In addition, our certificate of incorporation contains provisions that limit our ability to engage in a business combination with any holder of 15% or more of our capital stock unless, among other possibilities, the Board of Directors approves the transaction. These provisions may have the effect of preventing or hindering a change of control of our company.

Our stock has generally had low trading volume, and its public trading price has been volatile.

During the year ended December 31, 2009, the price of our common stock fluctuated between $0.85 and $2.25 per share, with an average daily trading volume for the year of approximately 17,000 shares. The market may experience significant price and volume fluctuations that are often unrelated to the operating performance of individual companies.

Our common stock may be delisted from the NASDAQ Global Market, which could negatively impact the price of our common stock and our ability to access the capital markets.

Our common stock is listed on the NASDAQ Global Market. The delisting of our common stock would significantly affect the ability of investors to trade our securities and would significantly negatively affect the value and liquidity of our common stock. In addition, the delisting of our common stock could materially adversely affect our ability to raise capital on terms acceptable to us or at all. Delisting from the NASDAQ Global Market could also have other negative results, including the potential loss of confidence by our suppliers, customers and employees, the loss of institutional investor interest, and fewer business development opportunities.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company is headquartered in Newark, Delaware, and occupies approximately 28,000 square feet of space under an operating lease expiring in June 2011. The Company also leases approximately 25,000 square feet of manufacturing and research space in Newark, Delaware, under an operating lease expiring in December 2011. The Company owns and occupies approximately 75,000 square feet of manufacturing, research and animal facility space and approximately 88 acres of farmland in Windham, Maine. The Company leases regional sales offices near London, England expiring in June 2011. The Company believes that its equipment and facilities are adequate for its present purposes.

The Company's inactive subsidiary, AZUR Environmental Limited, is the lessee for two real property leases located in the United Kingdom. In 2001, the landlord of the two properties gave AZUR Environmental Limited its consent to allow AZUR to assign the lease and its related obligations to a third party. As inducement to the landlord to grant the assignment, AZUR was required to guarantee performance under the original lease terms if the third party fails to perform. Both lease terms expire in November 2016 and provide for annual principal rent payments of approximately $300,000 in the aggregate. The Company believes that based on its assessment of the current financial strength of the third party, no liability is required to be recorded with regard to the guarantee or lease obligation.

Item 3. Legal Proceedings

The Company is not a party to any material legal proceedings.

Item 4. Reserved

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

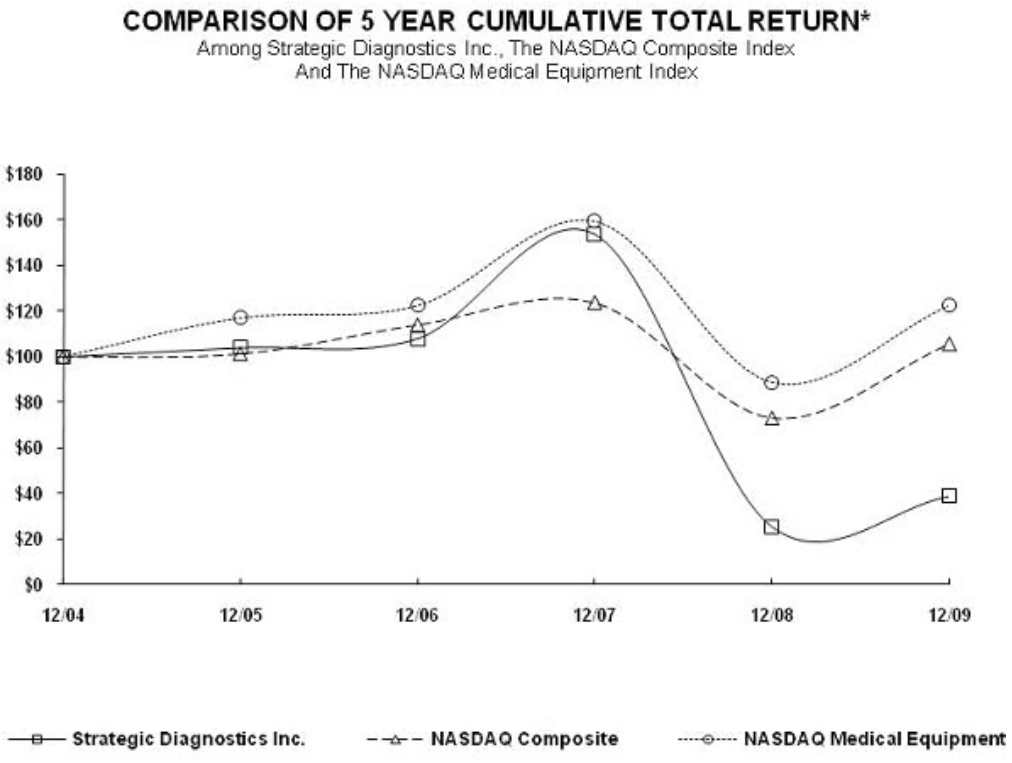
The Company's common stock is traded on The NASDAQ Global Market under the symbol "SDIX." Set forth below are the quarterly high and low bid prices for the shares of common stock of the Company as reported by The NASDAQ Global Market without retail mark-up, mark-down or commission and may not necessarily represent actual transactions:

	Common Stock Price Range	
Fiscal Year Ended	**High**	**Low**
December 31, 2009:		
Fourth Quarter	$ 2.02	$ 1.00
Third Quarter	2.19	0.88
Second Quarter	1.67	0.79
First Quarter	1.36	0.69
December 31, 2008:		
Fourth Quarter	$ 2.45	$ 0.71
Third Quarter	3.70	1.62
Second Quarter	4.26	3.26
First Quarter	5.42	3.48

On March 22, 2010, there were approximately 26,000 holders (354 holders of record) of the common stock of the Company. The Company has never paid any cash dividends on its common stock.

Stock Performance Graph

The following line graph compares for the fiscal years ended December 31, 2004 through 2009 (i) the yearly cumulative total shareholder return on the common stock with (ii) the cumulative total return of the NASDAQ Composite Index and with (iii) a Peer Group Index consisting of NASDAQ Medical Equipment Stocks.



COMPARISON OF CUMULATIVE TOTAL RETURN

Strategic Diagnostics Inc., NASDAQ Composite Index and NASDAQ Medical Equipment Peer Group Index

	12/04	12/05	12/06	12/07	12/08	12/09
Strategic Diagnostics Inc.	**100.00**	**104.00**	**108.00**	**153.71**	**25.43**	**38.86**
NASDAQ Composite	**100.00**	**101.33**	**114.01**	**123.71**	**73.11**	**105.61**
NASDAQ Medical Equipment	**100.00**	**117.06**	**122.50**	**159.63**	**88.67**	**122.59**

Item 6. Selected Financial Data

	Year Ended December 31,				
	2009	2008	2007	2006	2005
	(in thousands, except share and per share data)				
Revenues	**$ 27,154**	$ 27,659	$ 27,207	$ 25,522	$ 24,845
Operating expenses:					
Manufacturing	**12,416**	13,091	10,766	11,715	11,416
Research and development	**2,894**	3,576	2,938	2,630	3,034
Selling, general and administrative	**13,593**	14,425	11,990	10,555	9,722
Goodwill impairment	**-**	4,150	-	-	-
(Gain) loss on disposal of assets	**(1)**	(17)	110	42	-
Total operating expenses	**28,902**	35,225	25,804	24,942	24,172
Operating income (loss)	**(1,748)**	(7,566)	1,403	580	673
Interest income (expense), net	**(15)**	157	433	386	207
Income (loss) before taxes	**(1,763)**	(7,409)	1,836	966	880
Income tax expense (benefit)	**(112)**	8,386	976	282	296
Net income (loss)	**$ (1,651)**	$ (15,795)	$ 860	$ 684	$ 584
Basic net income (loss) per share	**$ (0.08)**	$ (0.78)	$ 0.04	$ 0.03	$ 0.03
Shares used in computing basic net income (loss)per share	**20,113,659**	20,312,707	20,325,285	20,031,833	19,741,223
Diluted net income (loss) per share	**$ (0.08)**	$ (0.78)	$ 0.04	$ 0.03	$ 0.03
Shares used in computing diluted net income (loss)per share	**20,113,659**	20,312,707	20,562,645	20,108,688	19,868,956

	December 31,				
	2009	2008	2007	2006	2005
BALANCE SHEET DATA:					
Cash and cash equivalents	**$ 7,937**	$ 9,980	$ 12,988	$ 10,892	$ 10,009
Working capital	**14,671**	14,233	19,973	16,731	15,552
Total assets	**23,225**	25,521	41,949	37,953	36,661
Current portion of long-term debt	**400**	1,658	611	211	211
Long-term debt	**700**	-	1,640	351	562
Stockholders' equity	**20,093**	21,248	37,128	35,262	33,778

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements

This annual report contains certain forward-looking statements reflecting the current expectations of Strategic Diagnostics Inc. and its subsidiaries (the "Company" or "SDIX"). In addition, when used in this annual report, the words "anticipate," "enable," "estimate," "intend," "expect," "believe," "potential," "may," "will," "should," "project" and similar expressions as they relate to the Company are intended to identify said forward-looking statements. Investors are cautioned that all forward-looking statements involve risks and uncertainties, which may cause actual results to differ from those anticipated at this time. Such risks and uncertainties include, without limitation, changes in demand for products, delays in product development, delays in market acceptance of new products, retention of customers, attraction and retention of management and key employees, adequate supply of raw materials, inability to obtain or delays in obtaining third party approvals or required government approvals, the ability to meet increased market demand, competition, protection of intellectual property, non-infringement of intellectual property, seasonality, the ability to obtain financing and other factors more fully described in the Company's public filings with the U.S. Securities and Exchange Commission.

Overview

SDIX is a biotechnology company with a core mission of developing, commercializing and marketing innovative and proprietary products, services and solutions that preserve and enhance the quality of human health and wellness.

The Company believes that its competitive position has been enhanced through the combination of talent, technology and resources resulting from the business development activities it has pursued since its inception. The Company has achieved meaningful economies of scale for the products it offers through the utilization of its consolidated facilities in Newark, Delaware for the manufacture of test kits and antibodies, and its facility located in Windham, Maine for the manufacture of antibodies.

The Company believes that by applying its core competency of creating custom antibodies to assay development, it produces sophisticated diagnostic testing and reagent systems that are responsive to customer diagnostic and information needs. Customers benefit from a quantifiable "return on investment" by reducing time, labor and/or material costs associated with applications for which the Company's products are used. In addition, the Company believes its tests provide high levels of accuracy, reliability and actionability of essential test results as compared to alternative products. The Company is focused on sustaining this competitive advantage by leveraging its expertise in immunology, proteomics, bio-luminescence and other bio-reactive technologies to continue its successful customer-focused research and development efforts. The Company believes that an established product base, quality manufacturing expertise, experienced sales and marketing organization, established network of distributors, corporate partner relationships and proven research and development expertise will be critical elements of its potential future success.

In 2009, the Company continued the transition from a fragmented product offering and marketing strategy to becoming a focused organization, with proven, proprietary technologies tied directly to its customers' needs. The transition is most evident in the Life Science immuno-solutions initiative and food pathogen detection products, where the Company believes significant progress is being made.

The Company continues to develop and introduce new methods for the detection of food pathogens that deliver a strong competitive advantage to its customers. In 2005, the Company filed a patent for new technology to be used in proprietary enrichments of its food pathogen testing methods. The patent covers technology for increasing the specificity and sensitivity of the Company's immunoassay test methods. The patent also makes claims for the application of the technology in large scale bio-production/bio-fermentation processes, such as those used in the production of amino acids, ethanol, enzymes and other processes using microbiological production methods.

The Company continued to develop multiple channels to market worldwide through an approach that includes direct sales, inside sales, distributors and agents. The Company increased distribution for its food pathogen products in Europe and Asia where there is growing demand for the Company's product line.

The Company believes it is making progress in most of its business efforts. As the deployment of new initiatives is accelerated, building on the Company's leadership position in food pathogens and expanding its strong positioning in the emerging area of genomic antibodies, the Company anticipates that the revenue lost to market changes in its legacy businesses will be replaced and the Company will develop a stronger, more predictable revenue base.

The Company expects the life science and food pathogen products to be its primary growth drivers in the future, and that the Company's competencies and competitive positions in these two areas are strong.

Results of Operations

Year ended December 31, 2009 versus year ended December 31, 2008

Revenues

Revenues for the year ended December 31, 2009 decreased 2% to $27.2 million compared to $27.7 million for the year ended December 31, 2008. The decrease in revenues was primarily the result of a 7% decrease in sales of kit products, partially offset by a 4% increase in sales of life science products. The following table sets out revenues by product category:

	Year Ended December 31,		Increase	Percent
	2009	2008	(Decrease)	Change
	(in thousands, except percentages)			
Life sciences	$ 14,321	$ 13,821	$ 500	4%
Kit products	12,738	13,634	(896)	(7%)
Contract	95	204	(109)	(53%)
Revenues	$ 27,154	$ 27,659	$ (505)	(2.0%)

Life Sciences Products

Life science revenues increased 4% to $14.3 million for the year ended December 31, 2009, compared to $13.8 million for the year ended December 31, 2008. Sales of bulk antibody products increased 10% to $3.4 million, sales of products utilizing the Company's GAT ™ platform increased 8% to $1.6 million and sales of custom polyclonal products increased 2% to $5.7 million all as a result of increased sales to the Company's IVD (In-vitro Diagnostics) customers. These increases were partially offset by a decline in sales of custom monoclonal products of 4% to $3.3 million,

Kit Products

Kit products revenues decreased 7% to $12.7 million for the year ended December 31, 2009 compared to $13.6 million for 2008. Sales of food pathogen products were $5.5 million in both 2009 and 2008. Water quality product sales decreased 7% to $4.8 million for 2009 compared to 2008, which was primarily attributable to decreased demand for the Company's water testing equipment in China. Ag-GMO products decreased 18% to $2.4 million for 2009 compared to 2008, primarily attributable to decreased demand for the Company's testing products in Brazil as well as the elimination of required testing for the Starlink ™ trait in grains in the United States.

Gross profit (defined as revenues less manufacturing costs) increased to $14.7 million for the year ended December 31, 2009 from $14.6 million for the year ended December 31, 2008. Gross margins improved to 54% for 2009 compared to 53% in 2008. The increase in margin was primarily attributable to increased sales of the Life Science products which have a lower per unit cost of sale.

Research and development expenses were $2.9 million for the year ended December 31, 2009, compared to $3.6 million, or 13% of revenues, for the year ended December 31, 2008. This decrease was primarily due to decreased spending and effort on development of the Company's proprietary SEQer™ antibodies, which are produced by the GAT ™ platform and are being sold through the Company's antibody catalog and decreased spending and effort on development of the Company's proprietary phage technology for use in the production of ethanol.

Selling, general and administrative expenses (SG&A) were $13.6 million for the year ended December 31, 2009, compared to $14.4 million for the year ended December 31, 2008. This decrease is primarily the result of decreased professional fees related to the recruitment of new management, reductions in severance costs related to the replacement of prior management and an insurance settlement related to employee fraud.

Interest income (expense), net

The Company recorded $15,000 in net interest expense for the year ended December 31, 2009 compared to net interest income of $157,000 for the year ended December 31, 2008, due to lower interest rates received on decreased levels of invested cash and cash equivalents during 2009.

Income taxes

The Company recorded an income tax benefit of $112,000 for the year ended December 31, 2009 compared to an income tax expense of $8.4 million for the year ended December 31, 2008. The 2009 federal income tax benefit is primarily the result of changes in federal tax law that provided the ability to realize research and experimentation credits and alternative minimum tax credits that previously had a valuation allowance placed against them. The tax provision for 2008 is due to valuation allowances placed against U.S. federal and state deferred tax assets in 2008, as a result of uncertainty as to the realization of the net deferred tax assets prior to their expiration.

Net loss

Net loss for the year ended December 31, 2009 was $1.7 million, or $0.08 per diluted share, compared to a net loss of $15.8 million, or $0.78 per diluted share, for the year ended December 31, 2008. Diluted shares utilized in these computations were 20.1 million and 20.3 million for the 2009 and 2008 periods, respectively.

Year ended December 31, 2008 versus year ended December 31, 2007

Revenues

Revenues for the year ended December 31, 2008 increased 2% to $27.7 million, compared to $27.2 million for 2007. The increase in revenues was primarily the result of a 7% increase in the sale of kit products partially offset by a 3% decline in the sale of life science products. The following table sets out revenues by product category:

	Year Ended December 31,		Increase	Percent
	2008	2007	(Decrease)	Change
	(in thousands, except percentages)			
Life sciences	$ 13,821	$ 14,281	$ (460)	(3%)
Kit products	13,634	12,770	864	7%
Contract	204	156	48	31%
Revenues	$ 27,659	$ 27,207	$ 452	2%

Life Sciences Products

Life science revenues decreased 3% to $13.8 million for the year ended December 31, 2008, compared to $14.3 million for 2007. Revenues from the Company's GAT™ platform grew by 155% to $1.4 million. This increase is primarily attributable to continued adoption by our clients of the Company's GAT™ platform. This increase was offset by declines in bulk antibody sales of 19% to $3.1 million, custom monoclonal antibodies of approximately 3% to $3.4 million, and a decline in custom polyclonal antibodies of 9% to $5.6 million. These decreases are primarily attributable to decreased orders by customers that had previously accumulated excess inventories.

Kit Products

Kit products revenues increased 7% to $13.6 million for the year ended December 31, 2008, compared to $12.8 million for 2007.

Sales of tests for food pathogens increased 20%, to $5.5 million in 2008, from $4.6 million in 2007, as the Company continued to see increasing acceptance of its line of products to detect pathogens in food. Water quality products revenue increased by 2% to $5.2 million for the year ended December 31, 2008, compared to $5.1 million for the year ended December 31, 2007. This increase was primarily the result of increased water quality equipment sales to China. Ag-GMO revenues declined 6%, to $2.9 million in 2008 from $3.1 million in 2007, due to a shrinking marketplace for products that detect genetic traits in grain and seed.

Gross profit (defined as revenue less manufacturing costs) for the year ended December 31, 2008 was $14.6 million, compared to $16.4 million for 2007. The gross margin was 53% in 2008, compared to 60% in 2007. This decrease in margin was primarily the result of underutilized capacity in the antibody product category and increased write-offs of obsolete inventory in both the food safety (specifically Ag-GMO) and antibody product categories.

For the year ended December 31, 2008, operating expenses increased 37% to $35.2 million, compared to $25.8 million for 2007. This increase is primarily due to approximately $4.2 million of expense related to goodwill impairment and an increase of approximately $2.4 million in selling, general and administrative costs.

For the year ended December 31, 2008, research and development spending was $3.6 million, compared to $2.9 million for 2007. This increase was primarily due to increased spending and effort on development of the Company's proprietary antibodies, which are produced by the Company's GAT™ platform and are being sold through the Company's antibody catalog, and increased spending and effort on development of the Company's proprietary phage technology for use in the production of ethanol.

During the fourth quarter of 2008, the Company performed the annual goodwill impairment analysis and recorded a non-cash goodwill impairment charge of $4.2 million. Refer to Note 3 of the Notes to the Consolidated Financial Statements for further information.

Selling, general and administrative expenses were $14.4 million for the year ended December 31, 2008, compared to $12.0 million for 2007. The 20% increase is primarily attributable to severance costs for the Company's former CEO, recruiting costs associated with management and personnel changes that were initiated during 2008 and continued expansion of the Company's sales and marketing efforts.

Interest income, net

The Company recorded net interest income of $157,000 during 2008 compared to net interest income of $433,000 during 2007. This decrease is primarily due to increased debt and related interest expense on our $2 million term loan executed in August 2007, and decreased interest rates received on lower levels of invested cash balances.

Income taxes

The Company recorded income tax expense of $8.4 million in 2008, which includes a $10.7 million increase in the valuation allowance, recorded against net deferred tax assets of approximately $12.5 million. The valuation allowance was recorded primarily due to being in a cumulative three year pre-tax loss position as of December 31, 2008 and uncertainty in overall economic conditions, which may not allow the Company to realize the net deferred tax assets prior to their expiration. These non-cash charges do not impact the Company's ongoing business operations. In 2007, the Company recorded income tax expense of $976,000, representing an effective tax rate of 53%.

Net Income (loss)

Net loss for the year ended December 31, 2008 was $15.8 million, or $0.78 per diluted share, compared to net income of $860,000, or $0.04 per diluted share for 2007. Diluted shares totaling 20.3 million and 20.6 million were used in the computations for 2008 and 2007, respectively.

Liquidity and Capital Resources

Liquidity is our ability to generate sufficient cash flows from operating activities to meet the Company's obligations and commitments, or obtain appropriate financing. Currently our liquidity needs arise primarily from debt service on indebtedness, working capital requirements and capital expenditures.

The following is a summary of selected cash flow information:

	Year Ended December 31,		
	2009	2008	2007
	(in thousands)		
Net cash provided by (used in) operating activities	$ 366	$ (749)	$ 2,302
Net cash used in investing activities	(499)	(895)	(2,482)
Net cash provided by (used in) financing activities	(1,791)	(1,082)	2,262
Effect of exchange rate changes on cash	(119)	(282)	14
Net increase (decrease) in cash and cash equivalents	$ (2,043)	$ (3,008)	$ 2,096

Net cash provided by operating activities in 2009 primarily relates to the net loss for the year, offset by depreciation, amortization and stock based compensation charges, decreases in accounts receivable and inventories and decreases in accounts payable and accruals. For 2008, net cash used in operating activities primarily relates to the net loss incurred for the year offset by depreciation, amortization and stock based compensation charges, the goodwill impairment charge and deferred income taxes.

Net cash used in investing activities for 2009 was $499,000 compared to $895,000 for 2008. These cash outflows were primarily the result of capital purchases which were $500,000 in 2009 versus $929,000 in 2008. The capital expenditures in 2009 were primarily related to the purchase of computer and electronic equipment. The capital expenditures in 2008 were primarily related to the purchase of lab and manufacturing equipment.

Net cash used in financing activities was $1.8 million for 2009, primarily related to a $1.25 million restricted cash requirement from the Company's lender, and $558,000 in debt repayments. In 2008, net cash used in financing activities was $1.1 million, primarily the result of $593,000 in debt repayments and $555,000 in purchases of treasury stock.

The Company's working capital (current assets less current liabilities) increased to $14.7 million at December 31, 2009 from $14.2 million at December 31, 2008, primarily due to the reclassification of $700,000 of debt to long-term from current as a result of our amended credit agreement described below. Outstanding debt decreased to $1.1 million at December 31, 2009 from $1.7 million at December 31, 2008 due to scheduled debt payments.

On May 5, 2000, the Company entered into a financing agreement with a commercial bank which was amended on August 12, 2009 (as amended, the "Credit Agreement"). The Credit Agreement was amended to eliminate the revolving line of credit, remove financial covenants requiring minimum EBITDA and tangible net worth amounts, and reduce the restricted cash requirement from $2.7 million to $1.25 million.

On August 21, 2007, the Company received a term loan under the Credit Agreement to finance the construction of new facilities at its Windham, Maine location. This agreement provided for up to $2 million in financing, $1.1 million of which was outstanding at December 31, 2009, and is repayable over five years, with principal payments that began on October 1, 2007. The loan bears a fixed interest rate of 5.96% with equal amortization of principal payments plus interest. This indebtedness is secured by $1.25 million in restricted cash as required by the Credit Agreement.

For the year ended December 31, 2009, the Company satisfied all of its cash requirements from cash and cash equivalents on-hand. At December 31, 2009, the Company had $1.1 million in debt and stockholders' equity of $20.1 million.

Based upon its cash and cash equivalents on hand, credit facilities, current product sales and the anticipated sales of new products, the Company believes it has, or has access to, sufficient resources to meet its operating requirements at least through the next 12 months.

The Company's ability to meet its long-term capital needs will depend on a number of factors, including compliance with existing and new loan covenants, the success of its current and future products, the focus and direction of its research and development program, competitive and technological advances, future relationships with corporate partners, government regulation, the Company's marketing and distribution strategy, its successful sale of additional common stock and/or the Company successfully locating and obtaining other financing, and the success of the Company's plan to make future acquisitions. Accordingly, no assurance can be given that the Company will be able to meet the long-term liquidity requirements that may arise from these inherent and similar uncertainties.

Off-Balance Sheet Arrangements

As of December 31, 2009, the Company did not have any off-balance sheet arrangements as defined in Item 304(a) (4) (ii) of Regulation S-K.

Contractual Obligations

The Company is committed to making cash payments in the future on two types of contracts: its long-term indebtedness and leases. The Company has no off-balance sheet debt or other such unrecorded obligations. Below is a schedule of the future payments that the Company was obligated to make based on agreements in place as of December 31, 2009.

	Payments Due by Year						
	2010	2011	2012	2013	2014	2015 and Beyond	Total
	(in thousands)						
Long-term debt (1)	$ 400	400	300	-	-	-	1,100
Operating leases (2)	$ 1,169	845	330	300	300	600	3,544
Total contractual cash obligations	$ 1,569	1,245	630	300	300	600	4,644

(1) See Note 5 to the Consolidated Financial Statements for a discussion of long-term debt
(2) See Note 8 to the Consolidated Financial Statements for a discussion of operating leases

Critical Accounting Policies

The Company's accounting policies are described in Note 1 of the Notes to the Consolidated Financial Statements. The Consolidated Financial Statements are prepared in conformity with U.S. generally accepted accounting principles ("GAAP"), which require the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. On an on-going basis, the Company evaluates its estimates, including those related to bad debts, inventories, deferred taxes, long-lived assets and stock-based compensation. The Company bases its estimates on historical experience and on various other assumptions that the Company believes are reasonable under the circumstances. The results form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates. The Company considers the following policies to be most critical in understanding the judgments that are involved in preparing the Consolidated Financial Statements and the uncertainties that could impact the consolidated results of operations, financial condition and cash flows.

Valuation of Accounts Receivable – Accounts receivable as of December 31, 2009 and December 31, 2008, were net of an allowance for doubtful accounts of $38,000 and $70,000, respectively. The recorded allowance is continually evaluated based on current market conditions, an analysis of customer-specific facts and circumstances, and the size and composition of the overall portfolio. The current state of the economy could cause longer sales cycles resulting in increased risk that outstanding balances could become uncollectible. If receivables are in dispute with the customer or otherwise deemed uncollectible, the corresponding amounts are written off and are charged against the allowance.

Valuation of Inventories – Inventories are valued at the lower of cost or market.

For inventories that consist primarily of test kit components, bulk antibody serum and antibody products, cost is determined using the first in, first out method. Realization of inventories is dependent upon the successful marketing of our products. Judgments are made regarding the carrying value of inventory based on current market conditions. Market conditions may change depending upon competitive product introductions and customer demand. If market conditions change or if the introduction of new products by the Company impacts the market for previously released products, the Company may be required to write-down the cost of its inventory.

For inventories that consist of costs associated with the production of custom antibodies, cost is determined using the specific identification method. Realization of such inventories is dependent upon the successful completion of a project in accordance with customer specifications. Losses on projects in progress are recorded in the period such losses become probable and estimable.

Deferred Taxes – In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the period in which those temporary differences become deductible. In making their assessment, management considers positive evidence, negative evidence, and possible tax planning strategies that could be implemented. Management also considers the future reversal of existing taxable temporary differences, recent earnings history, history of or potential for tax attributes such as net operating losses to expire and the ability to project future taxable income. The Company's history of cumulative pre-tax losses over the most recent three-year period, including 2009, is significant negative evidence that is difficult to overcome. In light of this negative evidence, coupled with the current economic conditions, management has concluded that it is more likely than not that the Company will not realize the benefits of these tax deductible differences and has continued to provide a full valuation allowance offsetting its U.S. federal and state net deferred tax assets at December 31, 2009.

At December 31, 2009, the Company had approximately $4.9 million of net operating loss carryforwards for tax purposes, which have no expiration and which correspond to a $1.4 million deferred tax asset, related to operations in the United Kingdom ("UK"). Management considered positive and negative indicators in concluding that a substantial valuation allowance of approximately $1.32 million was necessary for the foreign deferred tax assets of $1.37 million. The positive indicators include the contribution to income before taxes by the foreign operations in the UK for 2009, 2008 and 2007, and the expected income before taxes in the UK for 2010 and 2011. The negative indicators include a history of substantial net operating losses in the UK, the lack of income before taxes until 2004 and limitations with regard to estimating income in the UK beyond 2011 resulting from a year-to-year evaluation of the future need for a UK subsidiary.

As of December 31, 2009, the Company had U.S. federal net operating loss carryforwards, of $17.4 million, including those of acquired companies, which begin to expire as follows:

Year	Net Operating Loss (in thousands)
2010	$ 4,536
2017	760
2018	1,327
2019	550
2020	66
2021	56
2022	2,268
2024	2,033
2025	3
2026	1
2027	1
2028	3,492
2029	2,287
Total	$ 17,380

Revenue Recognition — Revenues composed of sales of immunoassay-based test kits and certain antibodies and immunochemical reagents are recognized upon the shipment of the product and transfer of title or when related services are provided. Revenues associated with such products or services are recognized when persuasive evidence of an order exists, shipment of product has occurred or services have been provided, the price is fixed or determinable, and collectability is reasonably assured. Management is required to make judgments based on actual experience about whether or not collectability is reasonably assured.

The Company enters into contracts related to the production of custom antibodies, which provide for the performance of defined tasks for a fixed price, with delivery of the product upon completion of production. The standard time to complete a project is typically longer than 30 days but less than 12 months and effort is expended over the life of the project. Revenues related to sales of custom antibody projects are recognized when a project's specifications have been met and/or the related materials have been shipped.

Fees associated with products and services added on to a custom antibody project subsequent to delivery of the initial project are billed monthly and recognized as revenue as the services and other deliverables are provided.

Valuation of Goodwill and Long-Lived Assets — 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 its 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 and intangible assets not subject to amortization are tested annually for impairment, and are tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds an asset's fair value.

The Company tests goodwill annually in a two-step approach. The first step is the comparison of the carrying value of the Company, including goodwill, to the fair value of the Company at the testing date. If the carrying amount exceeds the fair value of the Company, a second test is performed to measure the amount of an impairment charge, if any. To measure the amount of any impairment charge, the Company determines the implied fair value of goodwill in the same manner as if the Company were being acquired in a business combination.

In the fourth quarter of 2008, the Company recorded an impairment charge of approximately $4.2 million to writeoff goodwill and other intangible assets. For additional information, refer to Note 3 of the Notes to the Consolidated Financial Statements.

Share–Based Compensation — The Company accounts for stock-based compensation in accordance with the fair value method of accounting, which requires the Company to measure all employee share–based compensation awards at the date of grant and recognize such expense in our consolidated financial statements.

The grant date fair value of the awards is recognized as compensation expense over the vesting period of the awards and is included in selling, general and administrative expenses. Management is required to make estimates and assumptions to determine the grant date fair value of stock options, including the expected term of stock options and the volatility of our stock price in the future. In addition, assumptions related to expected future forfeitures and performance-based vesting features all impact expense recognition. These assumptions have an impact on the valuation assigned to equity awards and the associated recognition of expense.

New Accounting Standards and Disclosures

In June 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards (SFAS) No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles ("SFAS 168"). SFAS 168 establishes the FASB Accounting Standards Codification ("ASC") as the single source of authoritative nongovernmental GAAP. The ASC only changes the referencing of financial accounting standards and does not change or alter existing GAAP. The Codification is effective for interim and annual periods ending after September 15, 2009. The adoption of this standard did not have a material impact on the Company's financial statements. SFAS 168 has been incorporated into the ASC as ASC-105, Generally Accepted Accounting Principles or ASC 105.

In December 2007, the FASB issued SFAS No. 141(Revised), Business Combinations SFAS No. 141(R), which replaces SFAS No. 141, Business Combinations, and requires an acquirer to recognize the assets acquired, the liabilities assumed, and any non-controlling interest in the acquired at the acquisition date, measured at their fair values as of that date, with limited exceptions. This statement also requires the acquirer in a business combination achieved in stages to recognize the identifiable assets and liabilities, as well as the non-controlling interest in the acquired, at the full amounts of their fair values. SFAS No. 141(R) makes various other amendments to authoritative literature intended to provide additional guidance or to confirm the guidance in that literature to that provided in this statement. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. SFAS No. 141(R)'s impact on accounting for business combinations is dependent upon future acquisitions the Company may make. SFAS 141(R) has been incorporated into the ASC as ASC-805, Business Combinations ("ASC 805").

In April 2008, the FASB issued FASB Staff Position No. FAS 142-3, Determination of the Useful Life of Intangible Assets ("FSP 142-3"). FSP 142-3 amends the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets under SFAS No. 142, Goodwill and Other Intangible Assets. This new guidance applies prospectively to intangible assets that are acquired individually or with a group of other assets in business combinations and asset acquisitions. FSP 142-3 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. FSP 142-3's impact on the Company is dependent upon future acquisitions the Company may make. FSP 142-3 has been incorporated into the ASC as ASC-350, Intangibles ("ASC 350").

In September 2009, the FASB issued Accounting Standard Update ("ASU") No. 2009-13, Revenue Recognition (Topic 605) – Multi-Deliverables Revenue Arrangements, a Consensus of the FASB Emerging Issues Task Force, to address the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined unit. It establishes the accounting and reporting guidance for arrangements under which the vendor will perform multiple revenue-generating activities, specifically, how to separate deliverables and how to measure and allocate arrangement consideration to one or more units of accounting. The update will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company is currently evaluating the impact, if any, of adopting the update.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The Company has limited exposure to changing interest rates, and is currently not engaged in hedging activities. Interest on approximately $1.1 million of debt, is at a fixed annual rate of interest of 5.961%.

The Company conducts operations in the United Kingdom. The consolidated financial statements of the Company are denominated in U.S. dollars and changes in exchange rates between foreign countries and the U.S. dollar will affect the translation of financial results of foreign subsidiaries into U.S. dollars for purposes of recording the Company's consolidated financial results. Historically, the effects of translation have not been material to the consolidated financial results.

Item 8. Financial Statements and Supplementary Data

The following consolidated financial statements and supplemental quarterly financial data of the Company and its subsidiaries are included as part of this Form 10-K:

	Page
Management's Report on Internal Control over Financial Reporting	32
Report of Independent Registered Public Accounting Firm	33
Consolidated Balance Sheets as of December 31, 2009 and 2008	34
Consolidated Statements of Operations for each of the years in the three-year period ended December 31, 2009	35
Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss) for each of the years in the three-year period ended December 31, 2009	36
Consolidated Statements of Cash Flows for each of the years in the three-year period ended December 31, 2009	37
Notes to Consolidated Financial Statements	38

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of December 31, 2009, were functioning effectively to provide reasonable assurance that the information required to be disclosed by us in reports filed or submitted under the Securities Exchange Act of 1934, as amended, is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) accumulated and communicated to our management, including our principal executive and financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

(b) Change in Internal Control over Financial Reporting

No change in our internal control over financial reporting occurred during the quarter ended December 31, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

The report of management on our internal control over financial reporting is set forth in Item 8 of this report and is incorporated herein by reference.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The applicable information set forth in the Company's Definitive Proxy Statement is incorporated herein by reference.

Identification of Executive Officers and Certain Significant Employees

The executive officers of the Company, their positions with the Company, their ages and a brief biography for each are as follows:

Name	Age	Position
Francis M. DiNuzzo	54	President and Chief Executive Officer
Klaus Lindpaintner	55	VP – Research and Development and Chief Science Officer (effective February 1, 2010)
Kevin J. Bratton	60	VP – Finance, Chief Financial Officer and Corporate Secretary

Francis M. DiNuzzo has served as President and Chief Executive Officer since October 13, 2008. Mr. DiNuzzo joined the Company in February 2008 as Executive Vice President – Marketing and Chief Commercial Officer, and on June 6, 2008, he was appointed interim President and Chief Executive Officer. Prior to joining SDIX, Mr. DiNuzzo spent 26 years at Agilent Technologies / Hewlett Packard. He began his career in research and development in 1981 and advanced through a series of functional management roles over the next 18 years. In 1999, Mr. DiNuzzo became General Manager of Agilent's Chemical Solutions Business Unit where he had global responsibility for analytical equipment, consumables and service products serving the chemical, environmental, food and forensics markets. In 2001, Mr. DiNuzzo became General Manager of the Consumable and Services Business Unit, with global responsibility for all consumables and services across all Life Science and Chemical Analysis markets. In 2004, Mr. DiNuzzo became Vice President and General Manager of the Integrated Biology Solutions unit, a role where he formed a biotechnology business focused on Genomics, Proteomics and BioInformatics. Mr. DiNuzzo holds B.S and M.S. degrees in Engineering with a minor in Business Administration from the University of New Hampshire.

Klaus Lindpaintner joined SDIX in February 2010 as Vice President – Research and Development and Chief Scientific Officer. Prior to joining SDIX, Dr. Lindpaintner was with F. Hoffmann-La Roche Ltd. for 13 years and most recently served as Director of the "Roche Molecular Medicine Laboratories" at the company's headquarters in Basel, Switzerland, and as Roche's Global Head, Molecular Medicines Policy and External Affairs, coordinating the company's efforts and activities in implementing biomarker research based on genetics, genomics, proteomics, and associated disciplines from early discovery to late-stage clinical trials. Dr. Lindpaintner graduated from the Innsbruck University Medical School with a degree in Medicine and from Harvard University with a degree in Public Health.

Kevin J. Bratton joined SDIX in June 2009 as Vice President – Finance and Chief Financial Officer. Mr. Bratton was most recently Senior Vice President Business Operations for EUSA Pharma (USA), Inc. in Langhorne, Pennsylvania. Mr. Bratton had been Senior Vice President and Chief Financial Officer of Cytogen Corporation in Princeton, New Jersey prior to its acquisition by EUSA Pharma, Inc. in May 2008. Mr. Bratton has over 35 years of experience in all phases of multi-national financial operations across the healthcare, biotechnology and technology industries, including developing strategic plans and annual budgets as well as financing negotiations and merger & acquisition transactions. Prior to joining Cytogen, Mr. Bratton was Chief Financial Officer at Metrologic Instruments, Inc., a global technology company, where he directed the company's finance operations during a period of significant growth in sales, net income, cash flow from operations, and working capital. Previously, Mr. Bratton began his career with the public accounting firm Touche Ross & Co. (now Deloitte & Touche LLP). He has a bachelor of science in business and accounting from Northeastern University.

Item 11. Executive Compensation

The applicable information set forth in the Company's Definitive Proxy Statement is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The applicable information set forth in the Company's Definitive Proxy Statement is incorporated herein by reference.

Equity Compensation

The table below presents certain information as of December 31, 2009 concerning securities issuable in connection with equity compensation plans that have been approved by the Company's stockholders and that have not been approved by the Company's stockholders.

Plan Category		Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)		Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plan approved by security holders		1,541,800	$	2.90	1,906,731
Equity compensation not approved by security holders		160,000	$	1.50	-
	Total	1,701,800	$	2.77	1,906,731

The 160,000 shares underlying options granted under equity compensation not approved by security holders were granted in connection with the Company's hiring, on January 28, 2009, of its Vice-President Marketing and Sales, Monette Greenway, 85,000 shares, and in connection with the Company's hiring on June 1, 2009, of its Chief Financial Officer, Kevin Bratton, 75,000 shares. The grants to Ms. Greenway and Mr. Bratton are ten year non-qualified stock option grants at an exercise price of $1.50 per share.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The applicable information set forth in the Company's Definitive Proxy Statement is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

The applicable information set forth in the Company's Definitive Proxy Statement is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

1. Financial Statements

(a) See the Consolidated Financial Statements which begin on page 43 of this report.

2. Financial Statement Schedules

Financial statement schedules are omitted because they are either not required or not applicable or the required information is reflected in the financial statements or notes thereto.

3. Exhibits

Exhibit Number	Description	Reference
2.1	Agreement and Plan of Merger among the Company, AZUR Acquisition Corp. and AZUR Environmental dated May 4, 2001	(1)
3.1	Fourth Amended and Restated Certificate of Incorporation of the Company	(2)
3.2	Amended and Restated Bylaws of the Company	(2)
4.1	Reference is made to Exhibits 3.1 and 3.2	
4.2	Forms of Warrants to Purchase Common Stock of the Company	(2)
10.1	Stock Purchase Agreement among the Company and its outside directors and certain of their affiliates dated August 16, 2002	(12)
10.2	Demand Registration Rights Agreement among the Company and its outside directors and certain of their affiliates dated August 16, 2002	(12)
10.3	EnSys Environmental Products, Inc. 1993 Stock Incentive Plan*	(3)
10.4	Amended and Restated EnSys Environmental Products, Inc. 1995 Stock Incentive Plan*	(4)
10.5	EnSys Environmental Products, Inc. 401(k) Plan Adoption Agreement	(3)
10.11	Agreement and Plan of Merger by and between EnSys and Strategic Diagnostics Inc. dated as of October 11, 1996	(2)
10.18	Industrial Lease dated October 26, 1993, by and between Tober & Agnew Properties, Inc. and Strategic Diagnostics Inc.	(6)
10.21	Lease agreement dated October 29, 1997 by and between Pencader Courtyard, L.P. and Strategic Diagnostics Inc.	(7)
10.22	1998 Employee Stock Purchase Plan	(11)
10.23	2000 Stock Incentive Plan*	(18)
10.27	Loan Agreement between the Company and PNC Bank, Delaware, dated May 5, 2000	(10)
10.28	Line of Credit Note between the Company and PNC Bank, Delaware, dated May 5, 2000	(10)
10.29	Term Note between the Company and PNC Bank, Delaware, dated May 5, 2000	(10)
10.30	Employment Agreement dated September 2, 2003, by and between Matthew H. Knight and the Company*	(13)
10.31	Nonqualified Stock Option Agreement dated September 2, 2003, by and between Matthew H. Knight and the Company*	(13)

10.32	Restricted Stock Grant Agreement dated September 2, 2003, by and between Matthew H. Knight and the Company*	(13)
10.33	Employment Agreement dated January 1, 1997 by and between James W. Stave and the Company*	(14)
10.34	Amended and Restated Distribution Agreement, dated as of August 31, 2009, by and between the Registrant and the DuPont Qualicon division of E.I. du Pont de Nemours and Company	(15) (16)
10.35	Strategic Diagnostics Inc. Change of Control Severance Agreement*	(17)
10.36	Agreement, dated as of March 12, 2008, by and among the Company and Steven R. Becker, BC Advisors, LLC, SRB Management, L.P. and Richard van den Broek	(19)
10.37	Separation Agreement, dated as of June 6, 2008, between Strategic Diagnostics Inc. and Matthew H. Knight*	(20)
10.38	Employment Agreement, dated as of October 13, 2008, between Strategic Diagnostics Inc. and Francis M. DiNuzzo*	(21)
10.39	Separation Agreement, dated as of December 9, 2008, between Strategic Diagnostics Inc. and Stanley Fronczkowski*	(22)
10.40	Amendment No. 1 to Separation Agreement and General Release, dated as of April 3, 2009, between Strategic Diagnostics Inc. and Stanley Fronczkowski*	(23)
10.41	Form of Nonqualified Stock Option Agreement	
10.42	Form of Restricted Stock Grant Agreement	
21.1	Subsidiaries of the Company	
23.1	Consent of KPMG LLP, Independent Registered Public Accounting Firm	
31.1	Certifications of the Chief Executive Officer of Strategic Diagnostics Inc. required by Rule 13a-14(a) under the Securities Exchange Act of 1934	
31.2	Certifications of the Chief Financial Officer of Strategic Diagnostics Inc. required by Rule 13a-14(a) under the Securities Exchange Act of 1934	
32.1	Certification of Francis M. DiNuzzo pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002	
32.2	Certification of Kevin J. Bratton pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002	

(1) Incorporated by reference to the designated exhibit of the Company's 10-Q for the fiscal quarter ended September 30, 2001.
(2) Incorporated by reference to the designated exhibit of the EnSys Registration Statement on Form S-4 (No. 333-17505) filed on December 9, 1996.
(3) Incorporated by reference to the designated exhibit of the EnSys Registration Statement on Form S-1 (No. 33-68440) filed on September 3, 1993.
(4) Incorporated by reference to Appendix F to the Joint Proxy Statement/Prospectus contained in the EnSys Registration Statement on Form S-4 (No. 333-17505) filed on December 9, 1996.
(5) Incorporated by reference to the designated exhibit of the EnSys Form 10-K for the fiscal year ended December 31, 1994.
(6) Incorporated by reference to the designated exhibit of the EnSys Form 10-Q for the fiscal quarter ended March 31, 1996.
(7) Incorporated by reference to the designated exhibit of the Company's Form 10-K for the fiscal year ended December 31, 1996.
(8) Incorporated by reference to the designated exhibit of the Company's Form 10-K for the fiscal year ended December 31, 1997.

(9) Incorporated by reference to the identically numbered exhibit contained in the Company's Form 8-K filed on May 26, 1999.
(10) Incorporated by reference to the identically numbered exhibit contained in the Company's Form 8-K filed on March 15, 1999.
(11) Incorporated by reference to the designated exhibit of the Company's Registration Statement on Form S-8 (No. 333- 68107) filed on November 30, 1998.
(12) Incorporated by reference to the designated exhibit of the Company's 10-Q for the fiscal quarter ended September 30, 2002.
(13) Incorporated by reference to the designated exhibit of the Company's Form 10-Q for the fiscal quarter ended September 30, 2003.
(14) Incorporated by reference to the designated exhibit of the Company's Form 10-K for the fiscal year ended December 31, 2004.
(15) Confidential treatment has been requested as to certain portions of this exhibit pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended.
(16) Incorporated by reference to the designated exhibit of the Company's Form 10-Q for the fiscal quarter ended September 30, 2009, as amended.
(17) Incorporated by reference to the designated exhibit of the Company's Form 10-Q for the fiscal quarter ended September 30, 2005.
(18) Incorporated by reference to Appendix A of the Company's Definitive Proxy Statement filed with the Securities and Exchange Commission on March 24, 2004.
(19) Incorporated by reference to Exhibit 99.1 of the Company's Form 8-K filed March 18, 2008.
(20) Incorporated by reference to Exhibit 99.1 of the Company's Form 8-K filed June 6, 2008.
(21) Incorporated by reference to Exhibit 99.1 of the Company's Form 8-K filed October 16, 2008.
(22) Incorporated by reference to Exhibit 99.1 of the Company's Form 8-K filed December 9, 2008.
(23) Incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q for the fiscal quarter ended March 31, 2009.
* Management contract or compensatory plan.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our system of internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Management performed an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2009 based upon criteria in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this assessment, management determined that the Company's internal control over financial reporting was effective as of December 31, 2009, based on the criteria in Internal Control-Integrated Framework issued by COSO.

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

This report shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Further, this report shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

/s/ Francis M. DiNuzzo
Francis M. DiNuzzo
President and Chief Executive Officer

/s/ Kevin J. Bratton
Kevin J. Bratton
Vice President – Finance and Chief Financial Officer

Dated: March 26, 2010

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Strategic Diagnostics Inc.:

We have audited the accompanying consolidated balance sheets of Strategic Diagnostics Inc. and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss) and cash flows for each of the years in the three-year period ended December 31, 2009. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Strategic Diagnostics Inc. and subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2009 in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Philadelphia, Pennsylvania
March 26, 2010

STRATEGIC DIAGNOSTICS INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	December 31, 2009	December 31, 2008
ASSETS		
Current Assets :		
Cash and cash equivalents	**$ 7,937**	$ 9,980
Restricted cash	**1,250**	-
Receivables, net	**3,650**	4,099
Inventories	**3,714**	3,890
Deferred tax asset	**1**	3
Other current assets	**551**	534
Total current assets	**17,103**	18,506
Property and equipment, net	**4,626**	5,275
Other assets	**10**	107
Deferred tax asset	**51**	71
Intangible assets, net	**1,435**	1,562
Total assets	**$ 23,225**	$ 25,521
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities :		
Current portion of long-term debt	**$ 400**	$ 1,658
Accounts payable	**571**	691
Accrued expenses	**1,386**	1,860
Deferred revenue	**75**	64
Total current liabilities	**2,432**	4,273
Long-term debt	**700**	-
Commitments and Contingencies (Note 8)		
Stockholders' Equity:		
Preferred stock, $.01 par value, 20,920,648 shares authorized, no shares issued or outstanding	**-**	-
Common stock, $.01 par value, 35,000,000 shares authorized, 20,786,515 and 20,680,522 issued at December 31, 2009 and December 31, 2008, respectively	**208**	206
Additional paid-in capital	**40,958**	40,345
Treasury stock, 406,627 common shares at cost at December 31, 2009 and December 31, 2008	**(555)**	(555)
Accumulated deficit	**(20,276)**	(18,625)
Cumulative translation adjustments	**(242)**	(123)
Total stockholders' equity	**20,093**	21,248
Total liabilities and stockholders' equity	**$ 23,225**	$ 25,521

The accompanying notes are an integral part of these statements

STRATEGIC DIAGNOSTICS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share data)

	Year Ended December 31,		
	2009	2008	2007
Revenues	**$ 27,154**	$ 27,659	$ 27,207
Operating expenses:			
Manufacturing	**12,416**	13,091	10,766
Research and development	**2,894**	3,576	2,938
Selling, general and administrative	**13,593**	14,425	11,990
Goodwill impairment	**-**	4,150	-
(Gain) loss on disposal of assets	**(1)**	(17)	110
Total operating expenses	**28,902**	35,225	25,804
Operating income (loss)	**(1,748)**	(7,566)	1,403
Interest income (expense), net	**(15)**	157	433
Income (loss) before taxes	**(1,763)**	(7,409)	1,836
Income tax expense (benefit)	**(112)**	8,386	976
Net income (loss)	**$ (1,651)**	$ (15,795)	$ 860
Basic net income (loss) per share	**$ (0.08)**	$ (0.78)	$ 0.04
Shares used in computing basic net income (loss) per share	**20,113,659**	20,312,707	20,325,285
Diluted net income (loss) per share	**$ (0.08)**	$ (0.78)	$ 0.04
Shares used in computing diluted net income (loss) per share	**20,113,659**	20,312,707	20,562,645

The accompanying notes are an integral part of these statements.

STRATEGIC DIAGNOSTICS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)
(in thousands)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Cumulative Translation Adjustments	Total
Balance January 1, 2007	$ -	$ 202	$ 38,605	$ -	$ (3,690)	$ 145	$ 35,262
Comprehensive income:							
Net income	-	-	-	-	860	-	860
Currency translation adjustment	-	-	-	-	-	14	14
Total comprehensive income							874
Exercises of stock options	-	3	534	-	-	-	537
Employee stock purchase plan	-	-	33	-	-	-	33
Stock-based compensation	-	-	422	-	-	-	422
Balance December 31, 2007	$ -	$ 205	$ 39,594	$ -	$ (2,830)	$ 159	$ 37,128
Comprehensive loss:							
Net loss	-	-	-	-	(15,795)	-	(15,795)
Currency translation adjustment	-	-	-	-	-	(282)	(282)
Total comprehensive loss							(16,077)
Company share buyback	-	-	-	(555)	-	-	(555)
Employee stock purchase plan	-	1	69	-	-	-	70
Stock-based compensation	-	-	682	-	-	-	682
Balance December 31, 2008	$ -	$ 206	$ 40,345	$ (555)	$ (18,625)	$ (123)	$ 21,248
Comprehensive loss:							
Net loss	-	-	-	-	(1,651)	-	(1,651)
Currency translation adjustment	-	-	-	-	-	(119)	(119)
Total comprehensive loss							(1,770)
Employee stock purchase plan	-	1	27	-	-	-	28
Stock-based compensation	-	1	586	-	-	-	587
Balance December 31, 2009	$ -	$ 208	$ 40,958	$ (555)	$ (20,276)	$ (242)	$ 20,093

The accompanying notes are an integral part of these statements.

STRATEGIC DIAGNOSTICS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	2009	2008	2007
Cash Flows from Operating Activities :			
Net income (loss)	**$ (1,651)**	$ (15,795)	$ 860
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities :			
Goodwill impairment charge	**-**	4,150	-
Depreciation, amortization and other intangibles impairment	**1,277**	1,401	1,206
Stock-based compensation expense	**591**	682	430
Deferred income taxes	**22**	8,566	769
(Gain) loss on disposal of fixed assets	**(1)**	(17)	93
(Increase) decrease in :			
Receivables	**449**	11	(432)
Inventories	**176**	314	(1,026)
Other current assets	**(17)**	(13)	(29)
Other assets	**103**	(100)	(14)
Increase (decrease) in :			
Accounts payable	**(120)**	122	32
Accrued expenses	**(474)**	1	411
Deferred revenue	**11**	59	(128)
Other non-current liabilities	**-**	(130)	130
Net cash provided by (used in) operating activities	**366**	(749)	2,302
Cash Flows from Investing Activities :			
Purchase of property and equipment	**(500)**	(929)	(2,484)
Proceeds from sale / disposal of assets	**1**	34	2
Net cash used in investing activities	**(499)**	(895)	(2,482)
Cash Flows from Financing Activities :			
Proceeds from exercise of stock options	**-**	-	537
Proceeds from employee stock purchase plan	**17**	66	36
Proceeds from issuance of long and short term debt	**-**	-	2,000
Purchase of treasury stock	**-**	(555)	-
Restricted cash requirement	**(1,250)**	-	-
Repayments on financing obligations	**(558)**	(593)	(311)
Net cash provided by (used in) financing activities	**(1,791)**	(1,082)	2,262
Effect of exchange rate changes on cash	**(119)**	(282)	14
Net increase (decrease) in cash and cash equivalents	**(2,043)**	(3,008)	2,096
Cash and Cash Equivalents, Beginning of Year	**9,980**	12,988	10,892
Cash and Cash Equivalents, End of Year	**$ 7,937**	$ 9,980	$ 12,988
Supplemental Cash Flow Disclosure :			
Cash paid (received) for taxes and tax refunds	**$ (54)**	$ 11	$ 233
Cash paid for interest	**84**	119	69

The accompanying notes are an integral part of these statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CERTAIN BALANCE SHEET INFORMATION

Business

Strategic Diagnostics Inc. and its subsidiaries ("SDIX" or the "Company") is a biotechnology company with a core mission of developing, commercializing and marketing innovative and proprietary products, services and solutions that preserve and enhance the quality of human health and wellness.

The Company's Life Science portfolio includes products and custom services that supply critical reagents used across the life science research and development markets. The Company's Genomic Antibody Technology™ ("GAT™") is gaining wide adoption in proteomic research, disease understanding and drug/biomarker discovery among academic, biotech, in-vitro diagnostic and large pharmaceutical customers.

The Company's Kit products portfolio includes immunoassays, which represent advanced technology for rapid, cost-effective detection of food pathogens as well as water and soil contaminants. SDIX's RapidChek® and SELECT ™ kits are experiencing growing adoption for the detection of pathogens such as *E. coli*, *Salmonella* and *Listeria* in the production, processing and manufacturing of food and beverages.

By applying its core competencies of creating proprietary antibodies and assay development, the Company has produced sophisticated testing and reagent systems that are responsive to each customer's analytical information needs.

SDIX is a customer-centric organization. The Company's goals are to consistently deliver increased value to its customers that facilitate their business results, reduce costs and help in the management of risk. SDI sales professionals focus on delivering a quantifiable "return on investment" to their customers by reducing time and total costs associated with applications for which the Company's products are used. In addition, the Company believes its tests provide high levels of accuracy and reliability, which deliver more actionable test results to the customer as compared to alternative products. The Company is focused on sustaining profitable growth by leveraging its expertise in antibodies and immuno-technologies to successfully develop proprietary products and services that enhance the competitive advantage of its customers.

The Company believes that its competitive position has been enhanced through the combination of talent, technology and resources resulting from the business development activities it has pursued since its inception. The Company has achieved meaningful economies of scale for the products it offers through the utilization of its facilities in Newark, Delaware for the manufacture of test kits and antibodies, and its facility in Windham, Maine for the manufacture of antibodies.

The continued economic downturn, including disruptions in the capital and credit markets, may continue indefinitely and intensify, and could adversely affect our results of operations, cash flows and financial condition or those of our customers and suppliers. These circumstances could adversely affect our access to liquidity needed to conduct or expand our business or conduct acquisitions or make other discretionary investments. These circumstances may also adversely impact the capital needs of our customers and suppliers, which, in turn, could adversely affect their ability to purchase our products or supply us with necessary equipment and raw materials. This could adversely affect our results of operations, cash flows and financial condition. A weakening business climate could cause longer sales cycles and slower growth, and could expose us to increased business or credit risk in dealing with customers or suppliers adversely affected by economic conditions. Our ability to collect accounts receivable may be delayed or precluded if our customers are unable to pay their obligations.

Basis of Presentation

The historical financial statements presented herein include the consolidated financial statements of Strategic Diagnostics Inc. and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Accounts Receivable

As of December 31, 2009 and 2008, the allowance for doubtful accounts was $38 and $70, respectively. If receivables are in dispute with the customer or otherwise deemed uncollectible, the Company's policy is to charge these write-offs against the allowance. The Company continually reviews the realizability of its receivables and charges current period earnings for the amount deemed unrealizable. At December 31, 2009 and 2008, net accounts receivable were $3,650 and $4,099, respectively.

(in thousands, except share and per share data)

A summary of the activity in the allowance for doubtful accounts for the years ended December 31, 2009, 2008 and 2007 is as follows:

	2009	2008	2007
Balance, January 1	$ 70	$ 82	$ 134
Additions (reductions) to allowance for doubtful accounts charged (credited) to costs and expenses	12	70	(49)
Deductions-written off as uncollectible	(44)	(82)	(3)
Balance, December 31	$ 38	$ 70	$ 82

Inventories

The Company's inventories are valued at the lower of cost or market. For inventories that consist primarily of test kit components, bulk antibody serum and antibody products, cost is determined using the first in, first out method.

For inventories that consist of costs associated with the production of custom antibodies, cost is determined using the specific identification method. Realization of such inventories is dependent upon the successful completion of a project in accordance with customer specifications. Losses on projects in progress are recorded in the period such losses become probable.

At December 31, inventories consisted of the following:

	2009	2008
Raw materials	$ 807	$ 1,216
Work in progress	1,228	946
Finished goods	1,679	1,728
Inventories	$ 3,714	$ 3,890

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are computed using the straight-line method over the estimated useful lives (generally three to five years) of the assets. Leasehold improvements are depreciated over the shorter of the lease term or the estimated useful life.

Impairment of Goodwill and Long-Lived Assets

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 in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Goodwill and intangible assets not subject to amortization are tested annually for impairment, and are tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value.

The Company tests its goodwill annually in a two-step approach. The first step is the comparison of the carrying value of the Company, including goodwill, to the fair value of the Company at the testing date. If the carrying amount exceeds the fair value of the Company, a second test is performed to measure the amount of an impairment charge, if any. To measure the amount of any impairment charge, the Company determines the implied fair value of goodwill in the same manner as if the Company were being acquired in a business combination. See Note 3 for additional information.

Revenue Recognition

Revenues composed of sales of immunoassay-based test kits and certain antibodies and immunochemical reagents are recognized upon the shipment of the product and transfer of title, or when related services are provided. Revenues associated with such products or services are recognized when persuasive evidence of an order exists, shipment of product has occurred or services have been provided, the price is fixed or determinable and, collectability is reasonably assured. Management is required to make judgments based on actual experience about whether or not collectability is reasonably assured.

(in thousands, except share and per share data)

The Company enters into contracts related to the production of custom antibodies, which provide for the performance of defined tasks for a fixed price, with delivery of the product upon completion of production. The standard time to complete a project is typically longer than 30 days but less than 12 months and effort is expended over the life of the project. Revenues related to sales of custom antibody projects are recognized when a project's specifications have been met and/or the related materials have been shipped.

Fees associated with products and services added on to a custom antibody project subsequent to delivery of the initial project are billed monthly and recognized as revenue as the services and other deliverables are provided.

Stock-Based Compensation

The Company accounts for stock-based compensation using the fair value method, which requires that compensation costs related to employee share-based payment transactions are measured in the financial statements at fair value on the date of grant and are recognized over the vesting period of the award.

Research and Development

Research and development costs are charged to expense as incurred.

Accounting for Income Taxes

Deferred income tax assets and liabilities are determined based on the differences between the financial statement and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance for any tax benefits which are not expected to be realized. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in the period that such changes are enacted.

The Company utilizes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. As a result of the implementation of authoritative guidance on January 1, 2007 related to the accounting for uncertainty in income taxes, the Company recognizes in its financial statements the impact of a tax position if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The authoritative guidance also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure. The Company includes interest and penalties related to unrecognized tax benefits as a component of income tax expense. See Note 10 for further information.

Basic and Diluted Income (Loss) per Share

Basic earnings (loss) per share (EPS) are computed by dividing net income or loss available for common stockholders by the weighted-average number of common shares outstanding during the period. Diluted EPS is similar to basic EPS, except that the dilutive effect of converting or exercising all potentially dilutive securities is also included in the denominator. The Company's calculation of diluted EPS includes the dilutive effect of exercising stock options into common shares and the inclusion of unvested restricted stock awards. Basic loss per share excludes potentially dilutive securities. For the years 2009, 2008 and 2007, conversion of stock options and unvested restricted shares totaling 208,679, 339,656 and 96,116 into common share equivalents were excluded from this calculation because they were anti-dilutive.

Listed below are the basic and diluted share calculations for the years ended December 31, 2009, 2008 and 2007:

	2009	2008	2007
Weighted average common shares outstanding	20,113,659	20,312,707	20,325,285
Shares used in computing basic net income (loss) per share	20,113,659	20,312,707	20,325,285
Dilutive effect of stock options and unvested restricted stock awards	-	-	237,360
Shares used in computing diluted net income (loss) per share	20,113,659	20,312,707	20,562,645

Treasury Stock

Shares of common stock repurchased by the Company are recorded at cost as treasury stock in the stockholders' equity section of the consolidated balance sheet, and as a use of cash in the financing activities section of the consolidated statement of cash flows.

Foreign Currency Translation

The functional currency for the Company's United Kingdom branch operation is the British pound. Assets and liabilities related to this foreign operation are translated at the current exchange rates at the end of each period. The resulting translation adjustments are accumulated as a separate component of stockholders' equity. Revenues and expenses are translated at average exchange rates in effect during the period with foreign currency transaction gains and losses, if any, included in results of operations.

Comprehensive Income (Loss)

Comprehensive income (loss) is comprised of net income (loss) and currency translation adjustments and is presented in the consolidated statements of stockholders' equity.

Use of Estimates

The preparation of the consolidated financial statements requires the management of the Company to make a number of estimates and assumptions relating to the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. These estimates include those made in connection with assessing the valuation of accounts receivable, inventories, deferred tax assets, goodwill and long lived assets. Actual results could differ from those estimates.

Statements of Cash Flows

The Company considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents.

New Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board ("FASB") issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles ("SFAS 168"). SFAS 168 establishes the FASB Accounting Standards Codification ("ASC") as the single source of authoritative nongovernmental GAAP. The ASC only changes the referencing of financial accounting standards and does not change or alter existing GAAP. The Codification is effective for interim and annual periods ending after September 15, 2009. The adoption of this standard did not have a material impact on the Company's financial statements. SFAS 168 has been incorporated into the ASC as ASC-105, Generally Accepted Accounting Principles, or ASC 105.

In December 2007, the FASB issued SFAS No. 141(Revised), Business Combinations SFAS No. 141(R), which replaces SFAS No. 141, Business Combinations, and requires an acquirer to recognize the assets acquired, the liabilities assumed, and any non-controlling interest in the acquired at the acquisition date, measured at their fair values as of that date, with limited exceptions. This statement also requires the acquirer in a business combination achieved in stages to recognize the identifiable assets and liabilities, as well as the non-controlling interest in the acquired, at the full amounts of their fair values. SFAS No. 141(R) makes various other amendments to authoritative literature intended to provide additional guidance or to confirm the guidance in that literature to that provided in this statement. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. SFAS No. 141(R)'s impact on accounting for business combinations is dependent upon future acquisitions the Company may make. SFAS 141(R) has been incorporated into the ASC as ASC-805, Business Combinations ("ASC 805").

In April 2008, the FASB issued FASB Staff Position No. FAS 142-3, Determination of the Useful Life of Intangible Assets ("FSP 142-3"). FSP 142-3 amends the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets under SFAS No. 142, Goodwill and Other Intangible Assets. This new guidance applies prospectively to intangible assets that are acquired individually or with a group of other assets in business combinations and asset acquisitions. FSP 142-3 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. FSP 142-3's impact on the Company is dependent upon future acquisitions the Company may make. FSP 142-3 has been incorporated into the ASC as ASC-350, Intangibles ("ASC 350").

(in thousands, except share and per share data)

In September 2009, the FASB issued Accounting Standard Update ("ASU") No. 2009-13, Revenue Recognition (Topic 605) – Multi-Deliverables Revenue Arrangements, a Consensus of the FASB Emerging Issues Task Force, to address the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined unit. It establishes the accounting and reporting guidance for arrangements under which the vendor will perform multiple revenue-generating activities, specifically, how to separate deliverables and how to measure and allocate arrangement consideration to one or more units of accounting. The update will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company is currently evaluating the impact, if any, of adopting the update.

2. PROPERTY AND EQUIPMENT

As of December 31, property and equipment consisted of the following:

	2009	2008
Equipment	$ 6,595	$ 6,256
Building improvements	4,105	4,088
Furniture and fixtures	188	175
Land	1,452	1,380
Leasehold improvements	972	904
Total property and equipment	13,312	12,803
Less - accumulated depreciation and amortization	(8,686)	(7,528)
Net property and equipment	$ 4,626	$ 5,275

Depreciation expense was $1,150, $1,114 and $966 in 2009, 2008 and 2007, respectively.

3. INTANGIBLE ASSETS

As of December 31, intangible assets consisted of the following:

	2009	2008	Lives
Intangible assets	$ 2,614	$ 3,085	2-20
Less - accumulated amortization	(1,179)	(1,523)	
Net intangible assets	$ 1,435	$ 1,562	

In the fourth quarter of 2008, as economic conditions continued to decline, the Company experienced a sustained and significant decline in its stock price. As a result of this decline, the Company's market capitalization was significantly below the book value of the Company's stockholders' equity at December 31, 2008. The Company performed an impairment test and the resulting fair value of goodwill was zero. Accordingly, the Company recorded a charge of $4,150 to write off the entire balance of goodwill during the year ended December 31, 2008.

The remaining intangible assets principally relate to intellectual and property rights acquired from Molecular Circuitry Inc. ("MCI"). The technology acquired from MCI primarily relates to proprietary growth media used by the Company in conjunction with the Company's *E. coli* and *Salmonella* test kits, and also technology used in the Company's ruminant feed test kit. The Company launched sales of these products during the year ended December 31, 2003 and expects a continued revenue stream from the sale of these products.

A former director and current large shareholder of the Company was a majority shareholder of MCI. MCI will continue to receive royalties from the Company until July of 2012. Royalties paid to MCI in 2009, 2008 and 2007 were $167, $166 and $172, respectively.

Amortization of these intangible assets is on a straight line basis over their useful lives and was $127, $237 and $240 in 2009, 2008 and 2007, respectively. The following table is a schedule of the expected amortization expense in each of the next five years:

(in thousands, except share and per share data)

Year	Amount
2010	$ 114
2011	114
2012	114
2013	114
2014	114

4. ACCRUED EXPENSES

As of December 31, accrued expenses consisted of the following:

	2009	2008
Royalties	$ 88	$ 143
Compensation	798	1,245
Professional fees	256	303
Purchases	244	169
Total accrued expenses	$ 1,386	$ 1,860

5. LONG-TERM DEBT

On May 5, 2000, the Company entered into a financing agreement with a commercial bank which was amended on August 12, 2009 (as amended, the "Credit Agreement").

On August 21, 2007, the Company received a term loan under the Credit Agreement to finance the construction of new facilities at its Windham, Maine location. This agreement provided for up to $2,000 in financing, $1,100 of which was outstanding at December 31, 2009, and is repayable over five years, with principal payments that began on October 1, 2007. The loan bears a fixed interest rate of 5.96% with equal amortization of principal payments plus interest.

This indebtedness is secured by $1,250 in restricted cash as required by the Credit Agreement.

The following table is a schedule of the principal payments required under the Company's long-term indebtedness:

2010	$	400
2011		400
2012		300
Total debt	$	1,100

Interest expense was $82, $117 and $78 in 2009, 2008 and 2007, respectively.

6. SHARE-BASED COMPENSATION

Under various plans, executives, key employees and outside directors receive awards of options to purchase common stock. The Company has a stock option plan (the "2000 Plan") which authorizes the granting of incentive and nonqualified stock options and restricted stock awards. Incentive stock options are granted at not less than 100% of fair market value at the date of grant (110% for stockholders owning more than 10% of the Company's common stock). Nonqualified stock options are granted at not less than 85% of fair market value at the date of grant. A maximum of 6,000,000 shares of common stock are issuable under the 2000 Plan. Certain additional options have been granted outside the 2000 Plan. These options generally follow the provisions of the 2000 Plan. The Company issues new shares to satisfy option exercises and the vesting of restricted stock awards.

The Company also has an Employee Stock Purchase Plan (the "ESPP"). The ESPP allows eligible full-time employees to purchase shares of common stock at 90 percent of the lower of the fair market value of a share of common stock on the first or last day of the quarter. Eligible employees are provided the opportunity to acquire Company common stock during each quarter. No more than 661,157 shares of common stock may be issued under the ESPP. Such stock may be unissued shares or treasury shares of the Company or may be outstanding shares purchased in the open market or otherwise on behalf of the ESPP. For financial reporting purposes, the Company's ESPP is compensatory. Therefore, the Company is required to recognize compensation expense related to the discount from market value of shares sold under the ESPP.

(in thousands, except share and per share data)

On December 27, 2005, the Board of Directors of the Company approved the accelerated vesting, effective as of December 31, 2005, of all unvested stock options granted to employees and non-employee directors from 2002 through 2005 under the 2000 Plan, as well as options granted to the Company's former Chief Executive Officer under his original employment agreement. The acceleration of vesting of these options reduced non-cash compensation expense that would have been recorded in the Company's statements of operations in 2006, 2007 and 2008, in anticipation of the adoption of the fair value method of accounting for stock-based compensation in January 2006. The Board's decision to accelerate the vesting was based on such factors as: 48% of the options were "out of the money"; the options generally vested over the next three years; to reduce compensation expense that would be recorded in future periods following the adoption of the fair value method and, the Company decided to rely, to a substantial degree, on restricted stock as opposed to options in future incentive compensation awards.

As a result of the acceleration, options to purchase approximately 381,000 shares of the Company's common stock (which represented 23% of the Company's outstanding stock options) became exercisable on December 31, 2005. The accelerated options ranged in exercise price from $2.51 to $4.12 per share and the weighted average exercise price of the accelerated options was $3.41 per share. Of the 381,000 shares that became exercisable, approximately 199,000 of these shares were "in the money" as of December 27, 2005, meaning that the exercise price was at or below the price of the Company's common stock on that date. The weighted average exercise price of the "in the money" shares on that date was $3.02. The options subject to acceleration included options to purchase approximately 222,000 shares held in the aggregate by executive officers and approximately 48,000 shares held in the aggregate by non-employee directors of the Company. Of these 270,000 shares, approximately 147,000 were "in the money" as of December 27, 2005. The grant date fair value of the unvested portion of accelerated options at December 31, 2005 totaled $975,000 and would have been recognized as compensation expense in accordance with FASB ASC Topic 718 – Stock Compensation, in future years as follows: $682,000 in 2006, $228,000 in 2007 and $65,000 in 2008.

Share-based compensation expense recorded in 2009, 2008 and 2007 is summarized as follows:

	2009	2008	2007
Stock options	$ 307	$ 384	$ 249
Employee stock purchase plan	4	7	8
Restricted stock awards	280	291	173
Total share-based compensation expense	$ 591	$ 682	$ 430

The deferred income tax benefit related to share-based compensation expense for the years ended December 31, 2009 and 2008 was $0 due to the full valuation allowance recorded against deferred tax assets (see Note 10). The deferred income tax benefit for the year ended December 31, 2007 was $120. Share-based compensation expense is a component of selling, general and administrative expense, and is recorded as a non-cash expense in the operating activities section of the consolidated statement of cash flows.

(in thousands, except share and per share data)

Information with respect to the stock options granted under the 2000 Plan and options granted separately from the 2000 Plan is summarized as follows:

	Number of Shares	Price Range				Weighted Average Remaining Contractual term	Aggregate Instrinsic Value
Balance, January 1, 2007	1,469,729	$ 1.88	-	$ 6.94			
Granted	180,575	$ 3.46	-	$ 4.65			
Cancelled / forefeited	(224,284)	$ 2.50	-	$ 6.94			
Exercised	(174,400)	$ 1.88	-	$ 4.20			
Balance, December 31, 2007	1,251,620	$ 1.88	-	$ 6.94			
Granted	574,420	$ 1.50	-	$ 4.60			
Cancelled / forfeited	(106,068)	$ 3.05	-	$ 5.50			
Balance, December 31, 2008	1,719,972	$ 1.88	-	$ 6.94			
Granted	483,000	$ 1.10	-	$ 1.50			
Cancelled / forfeited	(501,172)	$ 2.88	-	$ 4.69			
Balance, December 31, 2009	1,701,800	$ 1.10	-	$ 6.94		6.1 years	$ 4
Vested and excercisable at December 31, 2009	924,150	$ 1.50	-	$ 6.94		4.7 years	$ -
Expected to vest as of December 31, 2009	1,630,903	$ 1.10	-	$ 6.94		6.5 years	$ 4

As of December 31, 2009, options covering 924,150 shares were exercisable with a weighted average exercise price of $3.75 per share, and 1,906,731 shares were available for future grant under the 2000 Plan.

As of December 31, 2009 there was $446 of unrecognized compensation expense related to non-vested stock options that is expected to be recognized over a weighted average period of 3.3 years.

The total aggregate intrinsic value of options exercised during the years ended December 31, 2009, 2008 and 2007 was $0, $0 and $257 respectively. Cash received from the exercises during the years ended December 31, 2009, 2008 and 2007 was $0, $0 and $537 and are included within the financing activity section of the consolidated statements of cash flows.

The weighted average fair value at the date of grant for options granted during 2009, 2008 and 2007 was estimated at $0.62, $1.39 and $2.55 per share, respectively, using the Black-Scholes pricing model. The weighted-average assumptions used in the Black-Scholes model were as follows: dividend yield of 0%, expected volatility of 51% in 2009, 49% in 2008 and 59% in 2007, risk-free interest rate of 2.50% in 2009, 3.20% in 2008 and 4.25% in 2007, and an expected option life of 6 years in 2009, 6 years in 2008, and 5.5 years in 2007. The expected option life was computed using the sum of the average vesting period and the contractual life of the option and dividing by 2, for all periods presented.

(in thousands, except share and per share data)

The following table provides additional information about the Company's stock options outstanding at December 31, 2009:

	Options Outstanding			Options Exercisable	
		Weighted Average			
Range of Exercise Prices	Number of Shares	Remaining Contractual Life	Exercise Price	Number of Shares	Wtd. Average Exercise Price
$ 1.10 - $ 2.61	846,700	8.6 Years	$ 1.57	158,150	$ 1.90
$ 3.05 - $ 3.57	206,400	3.6 Years	$ 3.32	206,400	$ 3.32
$ 3.69 - $ 6.94	648,700	5.0 Years	$ 4.17	559,600	$ 4.14
$ 1.50 - $ 6.94	1,701,800	6.1 Years	$ 3.41	924,150	$ 3.75

The Company grants restricted stock awards (RSA) which is the right to receive shares. The fair value of RSAs is based on the market price for the stock at the date of grant. RSAs generally vest over periods of two to five years.

The following table summarizes the changes in non-vested restricted stock units for the three year period ending December 31, 2009:

	Shares	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value
Non-vested RSAs at January 1, 2007	85,222	$ 3.71	
Granted	70,193	$ 4.61	
Vested	(43,549)	$ 3.54	
Cancelled / forfeited	(15,750)	$ 4.00	
Non-vested RSAs at December 31, 2007	96,116	$ 4.36	
Granted	266,619	$ 1.99	
Vested	(52,117)	$ 4.02	
Cancelled / forfeited	(14,212)	$ 4.71	
Non-vested RSAs at December 31, 2008	296,406	$ 2.28	
Granted	64,500	$ 1.26	
Vested	(142,133)	$ 2.26	
Cancelled / forfeited	(12,747)	$ 3.78	
Non-vested RSAs at December 31, 2009	206,026	$ 1.77	$ 280
Expected to vest at December 31, 2009	196,111	$ 1.72	$ 267

The Company recorded compensation expense of $280, $291 and $173 for the years ended December 31, 2009, 2008 and 2007, for RSAs. This expense is a component of selling, general and administrative expenses, and is recorded as a non-cash expense in the operating activities section of the consolidated statement of cash flows. As of December 31, 2009, 196,111 of the above non-vested RSAs are expected to vest and there is approximately $256 of unrecognized compensation expense related to non-vested RSAs that are expected to vest over a weighted average of 2.1 years.

(in thousands, except share and per share data)

7. SEGMENT, GEOGRAPHIC AND CUSTOMER INFORMATION

The Company develops and manufactures antibodies in its life sciences division. Such antibodies are incorporated into test kits manufactured by the Company's industrial BioDetection (Kit products) services division for the detection of a wide variety of substances related to food safety and water quality. In addition, antibodies from the life sciences division are sold to medical diagnostic and pharmaceutical companies and research institutions. The Company does not provide segment disclosures as discrete financial information is not prepared for the Life Sciences or BioDetection division for review by the Company's Chief Operating Decision Maker.

Geographic:

The following table sets forth revenues by geographic region:

	Year Ended December 31,		
	2009	2008	2007
United States	$ 19,739	$ 20,744	$ 21,154
Rest of the world	7,415	6,915	6,053
Total	$ 27,154	$ 27,659	$ 27,207

The Company's basis for identifying sales by country is the ship-to location. There were no individual countries outside of the United States that represented more than 10% of the total revenues of the Company. There are no significant long-lived assets located outside the United States.

Products and Services:

The following table sets out revenues by product category.

	Year Ended December 31,		
	2009	2008	2007
Life science	$ 14,321	$ 13,821	$ 14,281
Kit products	12,738	13,634	12,770
Contract revenue	95	204	156
Revenues	$ 27,154	$ 27,659	$ 27,207

(in thousands, except share and per share data)

8. COMMITMENTS AND CONTINGENCIES

The Company leases its office and manufacturing facilities and other equipment under operating leases. Rent expense for the years ended December 31, 2009, 2008 and 2007, was $1,157, $991 and $843, respectively. Future commitments under non-cancelable leases at December 31, 2009 are as follows:

2010	$ 1,169
2011	845
2012	330
2013	300
2014	300
2015 and thereafter	600
	$ 3,544

The Company's subsidiary, AZUR Environmental Limited, is the lessee for two real property leases located in the United Kingdom. In 2001, the landlord of the two properties gave AZUR Environmental Limited its consent to allow AZUR to assign the lease and its related obligations to a third party. As inducement to the landlord to grant the assignment, AZUR was required to guarantee performance under the original lease terms if the third party fails to perform. Both lease terms expire in November 2016 and provide for annual principal rent payments of approximately $300 per year in the aggregate and these amounts have been included in the table above.

The Company is subject to various claims arising in the ordinary course of business. Although the ultimate outcome of these matters is presently not determinable, management does not believe that the outcome of these matters will have a material adverse effect on the Company's financial position or results of operations.

9. RETIREMENT SAVINGS PLAN

The Company maintains a retirement savings plan qualified under Section 401(k) of the Internal Revenue Code. The plan allows for eligible employees to contribute a portion of their gross wages to the plan. The Company matches employees' contributions on a 100% basis up to 1% of gross wages and on a 50% basis up to the next 5% of gross wages. In 2009, 2008 and 2007, the Company recognized expense of $245, $242 and $172, respectively, associated with this plan.

10. INCOME TAXES

The components of income (loss) before tax expense as of December 31 are as follows:

	2009	2008	2007
United States	$ (1,900)	$ (7,587)	$ 1,673
Rest of the world	137	178	163
Total	$ (1,763)	$ (7,409)	$ 1,836

The income tax expense (benefit) consists of the following:

		2009	2008	2007
Federal	current	$ (147)	$ (20)	$ 95
	deferred		7,249	710
		(147)	7,229	805
State	current	7	(135)	63
	deferred	-	1,242	59
		7	1,107	122
Foreign	current	-	-	-
	deferred	28	50	49
		28	50	49
Total		$ (112)	$ 8,386	$ 976

(in thousands, except share and per share data)

The following table summarizes the significant differences between the U.S. Federal statutory rate and the Company's effective tax rate for financial statement purposes:

	2009	2008	2007
Statutory tax rate	34.0%	34.0%	34.0%
State taxes, net of federal benefit	(0.3)	(9.9)	4.4
Valuation allowance, federal	(22.7)	(135.8)	-
Goodwill impairment	-	(2.5)	-
Provision for uncertain tax positions	-	-	10.4
Additional tax for reconciliation to return	-	-	6.2
Research and development credits	(0.4)	1.6	(6.7)
Other, net	(4.3)	(0.6)	4.9
Total	6.3%	(113.2%)	53.2%

Significant components of the Company's deferred tax assets as of December 31 are as follows:

	2009	2008
Net operating loss carryforwards	$ 7,856	$ 6,875
Credit carryforwards	884	1,048
Amortization and depreciation	3,647	4,033
Deferred compensation	240	188
Non-deductible reserves	141	69
Inventory costs not currently deductible	323	299
Total deferred tax assets	13,091	12,512
Valuation allowance	(13,039)	(12,438)
Net deferred tax assets	$ 52	$ 74

For the year ended December 31, 2009, the Company recorded income tax benefit of $112, which included a $601 increase in the valuation allowance recorded against deferred tax assets of $13,091. The current federal income tax benefit is primarily the result of changes in federal tax law that provided the ability to realize research and experimentation credits and alternative minimum tax credits that previously had a valuation allowance provided against them. The increase in the valuation allowance is primarily due to the continuation of the conditions that led to the conclusion that a full valuation allowance against U.S. federal and state deferred tax assets was required

FASB ASC 740, Accounting for Income Taxes ("FASB ASC 740"), requires a company to evaluate its deferred tax assets on a regular basis to determine if a valuation allowance against the net deferred tax assets is required. Pursuant to FASB ASC 740, a cumulative pre-tax loss in recent years is significant negative evidence that is difficult to overcome in considering whether deferred tax assets are more likely than not realizable. The Company has evaluated the possibility of potential tax planning strategies and determined that none currently exist that the Company would conclude are prudent and feasible. The Company has concluded, based upon the evaluation of all available evidence, that it is more likely than not that the U.S. federal and state net deferred tax assets will not be realized and has recorded a full valuation allowance on its U.S. federal and state net deferred tax assets, as of December 31, 2009.

At December 31, 2009, the Company had approximately $4,905 of net operating loss carryforwards for tax purposes which have no expiration related to operations in the United Kingdom ("UK"). Management considered positive and negative indicators, as well as potential tax planning strategies, and has concluded that a substantial valuation allowance of approximately $1,321 was necessary for the foreign deferred tax assets of approximately $1,373. The positive indicators include the contribution to income before taxes by the foreign operations in the UK for 2009 and 2008, and the forecasted income before taxes in the UK for 2010 and 2011. The negative indicators include a history of substantial net operating losses in the UK, the lack of income before taxes prior to 2004, limited income before taxes in the recent years and limitations with regard to estimating income in the UK beyond 2011 resulting from a year-to-year evaluation of the future need for a UK subsidiary.

At December 31, 2009, the Company had U.S. federal net operating loss carryforwards of $17,380 including those of acquired companies, which will expire as follows:

Year	Net Operating Loss (in thousands)
2010	$ 4,536
2017	760
2018	1,327
2019	550
2020	66
2021	56
2022	2,268
2024	2,033
2025	3
2026	1
2027	1
2028	3,492
2029	2,287
Total	$ 17,380

The Tax Reform Act of 1986 (the "Act") limits the annual use of net operating loss and income tax credit carryforwards (after certain ownership changes, as defined by the Act). The application of these limits could significantly restrict the Company's ability to utilize these carryforwards. Certain of the Company's total net operating loss carryforwards from 2001 and prior years are subject to limitations on their annual use since a cumulative change in ownership of more than 50% has occurred within a three-year period with respect to those net operating loss carryforwards. The Company continues to evaluate recent changes in ownership. If it is determined that an ownership change of more than 50% within a three-year period did occur, as determined pursuant to the Internal Revenue Code and Regulations, substantially all the net operating loss carryforwards and income tax credit carryforwards could be subject to annual limitations on usage. Because U.S. tax laws limit the time period during which these carryforwards may be applied against future taxable income, the Company may not be able to take full advantage of these attributes for federal and state income tax purposes due to the annual limitation usage.

The Company has federal research and experimentation credit carryforwards of $730 as of December 31, 2009, which are set to expire in years 2019 through 2029. The Company also has federal alternative minimum tax credit carryforwards of $11 which have indefinite lives. In accordance with Internal Revenue Code §168(k)(4)) the Company intends to elect out of bonus depreciation on the filing of its 2009 federal income tax return which will result in a federal tax refund related to certain of the research and experimentation credits and the alternative minimum tax credits. Accordingly, the research and experimentation credits and alternative minimum tax credits were reduced in the current year by $31 and $1, respectively.

For the year ended December 31, 2009, the Company increased its unrecognized tax benefits increased by $23 (net of decreases).

(in thousands, except share and per share data)

The following table is a reconciliation of the gross unrecognized tax benefits during the years ended December 31:

	2009	2008	2007
Gross unrecognized tax benefits as of January 1	$ 487	$ 580	$ 362
Increases from positions taken in prior periods	-	-	128
Decreases from positions taken in prior periods	(5)	(130)	-
Increases from positions taken in current period	28	37	92
Decreases from unrecognized tax benefits for settlements with taxing authorities	-	-	(2)
Gross unrecognized tax benefits as of December 31	$ 510	$ 487	$ 580

The unrecognized tax benefits at December 31, 2009 of $510, if recognized in a period where there was not a full valuation allowance, would affect the effective tax rate.

The Company is subject to U.S. federal and UK income tax, as well as income taxes of multiple state jurisdictions.

The Company recognizes accrued interest expense and penalties related to uncertain tax benefits in income tax expense. The Company had no payments or accruals of interest or penalties that were required to be recognized for unrecognized tax benefits during the year ended December 31, 2009. The Company had no payments or accruals of interest or penalties for the years ended December 31, 2008 and 2007, due to the available net operating loss carryforwards. Additionally there was no interest or penalties required to be recognized in the statement of operations during the year ended December 31, 2009 and no interest or penalties required to be recognized in the statement of operations during the years ended December 31, 2008 and 2007.

For federal purposes, post-1992 tax years remain open to examination as a result of net operating loss carryforwards. For state purposes, the statute of limitations remains open in a similar manner for states that have generated net operating losses. The Company does not expect that the total amount of unrecognized tax benefits related to positions taken in prior periods will change significantly during the next twelve months.

12. QUARTERLY FINANCIAL DATA (unaudited)

	Three Months Ended,			
	March 31	June 30	September 30	December 31
	(In thousands except per share data)			
2009				
Revenues	$ 6,902	$ 6,853	$ 7,196	$ 6,203
Gross profit (1)	3,805	3,630	4,113	3,190
Net loss	(561)	(734)	(291)	(65)
Basic loss per share	(0.03)	(0.04)	(0.01)	-
Diluted loss per share	(0.03)	(0.04)	(0.01)	-
2008				
Revenues	$ 7,155	$ 6,584	$ 6,892	$ 7,028
Gross profit (1)	4,033	3,400	3,337	3,798
Net loss	(12)	(1,081)	(2,218)	(12,484)
Basic loss per share	-	(0.05)	(0.11)	(0.62)
Diluted loss per share	-	(0.05)	(0.11)	(0.62)

(1) Gross profit is revenues less manufacturing expenses.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

STRATEGIC DIAGNOSTICS INC.

Date: March 26, 2010

/s/ Francis M. DiNuzzo
Francis M. DiNuzzo
President, Chief Executive Officer and Director

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

Date: March 26, 2010

/s/ Richard van den Broek
Richard van den Broek
Lead Director

Date: March 26, 2010

/s/ Francis M. DiNuzzo
Francis M. DiNuzzo
President, Chief Executive Officer and Director
(Principal Executive Officer)

Date: March 26, 2010

/s/ Kevin J. Bratton
Kevin J. Bratton
Vice President – Finance and Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: March 26, 2010

/s/ Steven Becker
Steven Becker
Director

Date: March 26, 2010

/s/ Thomas A. Bologna
Thomas A. Bologna
Director

Date: March 26, 2010

/s/ Geoffrey Davis
Geoffrey Davis
Director

Date: March 26, 2010

/s/ Clifford L. Spiro
Clifford L. Spiro
Director

Date: March 26, 2010

/s/ Stephen L. Waechter
Stephen L. Waechter
Director

Date: March 26, 2010

/s/ David M. Wurzer
David M. Wurzer
Director

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