

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

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended September 30, 2014.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from _____ to _____.

Commission File Number 000-23357

BIOANALYTICAL SYSTEMS, INC.

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

INDIANA
(State or other jurisdiction of incorporation or organization)

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

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

47906
(Zip code)

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

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

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

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

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

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company

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

Based on the closing price on the NASDAQ Capital Market on March 31, 2014, the aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was \$16,737,000. As of December 22, 2014, 8,075,847 of registrant's common shares were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement to be delivered to stockholders in connection with the Annual Meeting of Stockholders have been incorporated by reference into Part III of this report.

TABLE OF CONTENTS

	<u>Page</u>
PART I	
Item 1. Business	1
Item 1A. Risk Factors	13
Item 1B. Unresolved Staff Comments	19
Item 2. Properties	20
Item 3. Legal Proceedings	20
Item 4. Mine Safety Disclosures	20
PART II	
Item 5. Market for Registrant's Common Equity and Related Stockholder Matters	20
Item 6. Selected Financial Data	21
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	22
Item 7A. Quantitative and Qualitative Disclosures about Market Risk	33
Item 8. Financial Statements and Supplementary Data	34
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	60
Item 9A. Controls and Procedures	60
Item 9B. Other Information	60
PART III	
Item 10. Directors and Executive Officers of the Registrant	61
Item 11. Executive Compensation	63
Item 12. Security Ownership of Certain Beneficial Owners and Management	63
Item 13. Certain Relationships and Related Transactions	63
Item 14. Principal Accounting Fees and Services	63
PART IV	
Item 15. Exhibits and Financial Statement Schedules	63

PART I

This Report may contain "forward-looking statements," within the meaning of Section 27A of the Securities Act of 1933, as amended, and/or Section 21E of the Securities Exchange Act of 1934, as amended. Those statements may include, but are not limited to, discussions regarding our intent, belief or current expectations with respect to (i) our strategic plans; (ii) our future profitability, liquidity and capital resources; (iii) our capital requirements; (iv) industry trends affecting our financial condition or results of operations; (v) our sales or marketing plans; or (vi) our growth strategy. Investors in our common shares are cautioned that reliance on any forward-looking statement involves risks and uncertainties, including the risk factors beginning on page 13 of the Report. Although we believe that the assumptions on which the forward-looking statements contained herein are based are reasonable, any of those assumptions could prove inaccurate and, as a result, the forward-looking statements based upon those assumptions could be significantly different from actual results. In light of the uncertainties inherent in any forward-looking statement, the inclusion of a forward-looking statement herein should not be regarded as a representation by us that our plans and objectives will be achieved. We do not undertake any obligation to update any forward-looking statement.

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

ITEM 1 - BUSINESS

General

Bioanalytical Systems, Inc. ("We" the "Company", or "BASi") is an international contract research organization providing drug discovery and development services and analytical instruments. Our strategy is to provide services that will generate high-quality and timely data in support of new drug approval or use expansion. Our clients and partners include pharmaceutical, biotechnology, academic and government organizations. We provide innovative technologies and products and a commitment to quality to help clients and partners accelerate the development of safe and effective therapeutics and maximize the returns on their research and development investments. We offer an efficient, variable-cost alternative to our clients' internal product development programs. Outsourcing development work to reduce overhead and speed drug approvals through the Food and Drug Administration ("FDA") is an established alternative to in-house development among pharmaceutical companies. We derive our revenues from sales of our research services and drug development instruments, both of which are focused on determining drug safety and efficacy. The Company has been involved in the research of drugs to treat numerous therapeutic areas for over 40 years since its formation as a corporation organized in Indiana in 1974.

We support the preclinical and clinical development needs of researchers and clinicians for small molecule and large biomolecule drug candidates. We believe our scientists have the skills in analytical instrumentation development, chemistry, computer software development, physiology, medicine, analytical chemistry and toxicology to make the services and products we provide increasingly valuable to our current and potential clients. Our principal clients are scientists engaged in analytical chemistry, drug safety evaluation, clinical trials, drug metabolism studies, pharmacokinetics and basic research from small start-up biotechnology companies to many of the largest global pharmaceutical companies. We are committed to bringing scientific expertise, quality and speed to every drug discovery and development program to help our clients develop safe and effective life-changing medicines.

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

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

Industry Overview

Drug discovery and development is the process of creating drugs for the treatment of human disease. The drug discovery process aims to identify potential drug candidates, while the drug development process involves the testing of these drug candidates in animals and humans to meet regulatory requirements. Discovering and developing new drugs is an extremely expensive, complex, high-risk and time-consuming process. Multiple industry sources estimate the fully capitalized cost of developing and commercializing a new pharmaceutical product ranges from \$800 million to over \$1 billion. In addition, it generally takes between 10 and 15 years to develop a new prescription drug and obtain approval to market it in the United States.

The drug development services industry provides independent product development services to pharmaceutical companies, biotechnology companies, and government organizations. This industry has evolved from providing limited clinical trial services in the 1970s to a full-service industry today characterized by broader relationships with clients and by service offerings that encompass the entire drug development process, including preclinical evaluations, study design, clinical trial management, data collection, biostatistical analyses, regulatory consulting, clinical laboratory and diagnostic services, pre- and post-approval safety analysis, product registration and post-approval support.

Over the past 25 years, technological advances, as well as the emergence of the biotechnology industry, have dramatically changed the drug discovery process. New and improved technologies have evolved such as ultra-high-throughput screening, new in vitro and in vivo preclinical profiling techniques and the gene-based drug research commonly referred to as genomics. The objective of these innovations is to find more drug targets and to screen chemical compounds against targets much more quickly, with literally millions of compounds possible. This process is expected to produce many more molecules having the ability to affect biological activity. These molecules then need to be tested quickly and economically to determine their viability as potentially safe and effective drug candidates.

Trends Affecting the Drug Discovery and Development Industry

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

Accelerated Drug Development

Clients continue to demand faster, more efficient, more selective development of an increasing pool of drug candidates. Consequently, our clients require fast, high-quality service in order to make well-informed decisions to quickly exclude poor candidates and speed development of successful ones. The need for additional development

capacity to exploit more opportunities, accelerate development, extend market exclusivity and increase profitability drives the demand for outsourced services.

Increase in Potential New Drug Candidates

While research and development spending and the number of drug candidates are increasing, the time and cost required to develop a new drug candidate also have increased. Many pharmaceutical and biotechnology companies do not have sufficient internal resources to pursue development of all of these new drug candidates on their own. Consequently, these companies are looking to the drug discovery and development services industry for cost-effective, innovative and rapid means of developing new drugs.

Cost Pressures of Introducing New Drugs

Market forces, healthcare reform and other governmental initiatives place significant pressures on pharmaceutical and biotechnology companies to reduce drug prices. In addition, increased competition as a result of patent expiration, market acceptance of generic drugs, and governmental and privately managed care organization efforts to reduce healthcare costs have added to drug pricing pressures. The industry is responding by consolidating, streamlining operations, decentralizing internal discovery and development processes, and minimizing fixed costs. In addition, increased pressures to differentiate products and justify drug pricing are resulting in an increased focus on healthcare economics, safety monitoring and commercialization services. Moreover, pharmaceutical and biotechnology companies are attempting to increase the speed and efficiency of internal new drug discovery and development processes.

Patent Expiration

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

Alliances

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

Mergers and Acquisitions

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

Biotechnology Industry and Virtual Drug Company Growth

The U.S. biotechnology industry has grown rapidly over the last decade and has emerged as a key client segment for the drug discovery and development services industry. In recent years, this industry has generated significant numbers of new drug candidates that will require development and regulatory approval. Many biotechnology drug developers do not have in-house resources to conduct development. Many new companies choose only to carry a product to a developed stage sufficient to attract a partner who will manufacture and market the drug. Because of the time and cost involved, these companies rely heavily on CROs to conduct research for their drug candidates.

Unique Technical Expertise

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

Data Management and Quality Expertise

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

Changes in the Regulatory Environment

The drug discovery and development process is heavily regulated by the FDA and its Center for Drug Evaluation and Research. Recent product safety concerns, increases in drug and general healthcare costs and the emergence of importation issues have placed the FDA and other regulatory agencies under increased scrutiny. The war on terror, the risk of global vaccine shortages and the threat of new potential pandemics have elevated the FDA's focus on research in the areas of bioterrorism and vaccine development. As a result of these and other events, drug safety, cost and availability are under intense monitoring and review by Congress, the FDA and other government agencies. In 2007, primarily in response to the FDA's handling of post market data and recent drug safety concerns, the FDA Act was signed into law. In addition to reauthorizing and amending various provisions that were scheduled to expire, this Act provided the FDA with new regulatory authority to require drug sponsors to run post-approval studies and clinical trials and develop and implement risk evaluation and mitigation strategies. It is also likely that additional legislation will be passed that will impact the FDA and drug development and approval process in the United States. The FDA Act, continued drug safety issues and future legislation could have a lasting and pronounced impact on the drug discovery and development industry.

Globalization of the Marketplace

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

Our Solution

We address the needs of the pharmaceutical and biotechnology industries, as well as academic, non-profit and government organizations, for drug discovery and development by providing integrated services to help our clients maximize the return on their research and development investments. Our application of innovative technologies and products and our commitment to quality throughout the drug discovery and development process offer our clients a way to identify and develop successful drugs and devices more quickly and cost-effectively. We have obtained significant drug development expertise from more than 40 years of operation.

The Company's Role in the Drug Development Process

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

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

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

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

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

Exhaustive safety, tolerability and dosing regimens are established in sick patients in Phase II trials. Phase III clinical trials verify efficacy and safety. After successful completion of Phase III trials, the sponsor of the new drug submits a New Drug Application ("NDA") or Product License Application ("PLA") to the FDA requesting that the product be approved for marketing. Early manufacturing demonstrates production of the substance in accordance with FDA Good Manufacturing Practices ("GMP") guidelines. Data are compiled in an NDA, or for biotechnology products a PLA, for submission to the FDA requesting approval to market the drug or product. The bioanalytical sample count per study grows rapidly from Phase I through Phase III. Phase II and III studies may take several years to complete, supported by well-proven, consistently applied analytical methods.

Our services include evaluation of bioequivalence and bioavailability to monitor the rate and extent to which a drug is available in the body and to demonstrate that the availability is consistent between formulations. We also offer in-vitro bioequivalence testing for non-absorbed oral drugs. We offer support and testing services in clinical sample development, release and stability.

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

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

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

Company Services and Products

Overview

We focus on developing innovative services and products that increase efficiency and reduce costs associated with taking new drugs to market. We operate in two business segments – contract research services and research products, both of which address the bioanalytical, preclinical, and clinical research needs of drug developers. Both segments arose out of our expertise in a number of core technologies designed to quantify trace chemicals in complex matrices.

Contract Research Services

The contract research services segment provides screening and pharmacological testing, preclinical safety testing, formulation development, regulatory compliance and quality control testing. Revenues from the contract research services segment were \$19.1 million for fiscal 2014. The following is a description of the services provided by our contract research services segment:

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

Research Products

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

- *In vivo* sampling systems and accessories (including disposables, training and systems qualification)
- Physiology monitoring tools

- Liquid chromatography and electrochemistry instruments platforms

Revenues for our products segment were \$5.5 million for fiscal 2014. We offer three (3) principal product lines: Analytical Products, In vivo Sampling Products and Vetronics' Products. The following is a brief description of the products offered:

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

Clients

Over the past five years, we have regularly provided our services and/or products to most of the top 25 pharmaceutical companies in the world, as ranked by the number of research and development projects. Approximately 10% of our revenues are generated from customers outside of North America.

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

In fiscal 2014, our Preclinical services group significantly expanded its presence at two important existing customers. In fiscal 2014, Arrowhead Research Corporation accounted for approximately 12.1% of total sales and 18.5% of total trade accounts receivable at September 30, 2014. In fiscal 2013, Arrowhead accounted for approximately 0.4% of total sales and 4.6% of total trade accounts receivable at September 30, 2013. In fiscal 2014, Principia Biopharma accounted for approximately 8.7% of total sales and 8.4% of total trade accounts receivable at September 30, 2014. In fiscal 2013, Principia Biopharma accounted for approximately 0.4% of total sales and 7.1% of total trade accounts receivable at September 30, 2013.

In fiscal 2014, Boehringer Ingelheim remained an important customer accounting for approximately 5.9% of total sales and 2.5% of total trade accounts receivable at September 30, 2014. In fiscal 2013, Boehringer Ingelheim accounted for approximately 6.0% of total sales and 2.6% of total trade accounts receivable at September 30, 2013. The clients discussed are included in our contract research services segment. There can be no assurance that our business will move away from dependence upon a limited number of customer relationships.

Sales and Marketing

With both large and small pharmaceutical and biotechnology companies, as well as research institutions, we promote our services through concentrated business development efforts, scientist-to-scientist communications and centralized corporate marketing programs. We recognize that our growth and customer satisfaction depend upon our ability to continually improve and create new client relationships.

Our sales and global marketing initiatives include integrated campaigns designed to help differentiate and promote our products and services. Through trade events, online and print advertising in trade publications, direct communication, newsletters, and our website, we provide our perspective on current industry challenges or developments to create an ongoing dialogue with our clients and to promote our industry expertise, quality, technology and innovation. We reinforce key messages and selling points through client presentations, corporate material and at trade events and industry conferences.

We encourage and sponsor the participation of our scientific and technical personnel in a variety of professional endeavors, including via speaking engagements, the presentation of papers at national and international professional trade meetings and the publication of scientific articles in medical and pharmaceutical journals. Through these endeavors we seek to further our reputation for professional excellence.

As of September 30, 2014 we have 10 employees on our global sales and marketing staff. We have a network of 19 established distributors covering Japan, the Pacific Basin, South America, the Middle East, India, South Africa and Eastern Europe. All of our distributor relationships are managed from the corporate headquarters in West Lafayette, Indiana.

Contractual Arrangements

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

Our products business offers both annual and multi-year service and maintenance agreements as well as capital lease arrangements on many of our product lines.

Competition

Services

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

- Covance, Inc.;
- Pharmaceutical Product Development, Inc.;
- Charles River Laboratories, Inc.; and
- Quintiles Transnational Holdings, Inc.

CROs generally compete on:

- regulatory compliance record;
- reputation for on-time quality performance;
- quality system;

- previous experience;
- medical and scientific expertise in specific therapeutic areas;
- scientist-to-scientist relationships;
- quality of contract research;
- financial viability;
- database management;
- statistical and regulatory services;
- ability to recruit investigators;
- ability to integrate information technology with systems to optimize research efficiency;
- quality of facilities;
- an international presence with strategically located facilities; and
- price.

Products

Though many global analytical instruments competitors exist, we have an extensive, long standing network of customers who are repeat buyers and recommend our products. In contrast, there are few competitors for our *in vivo* sampling products. The primary market is large pharmaceutical research departments and academic research institutions. Our differentiators are high quality, flexibility to meet customers' specific needs and superior technical support and service. We provide equipment that enables our customers to attain premium scientific laboratory information on a reasonable operating investment. As customers' needs constantly change, we continually refine our products and develop new products which meet our operating objectives.

Government Regulation

We are subject to various regulatory requirements designed to ensure the quality and integrity of our data and products. These regulations are promulgated primarily under the Federal Food, Drug and Cosmetic Act, and include Good Laboratory Practice ("GLP"), Good Manufacturing Practice ("GMP"), and Good Clinical Practice ("GCP") guidelines administered by the FDA. The standards of GLP, GMP, and GCP are required by the FDA and by similar regulatory authorities around the world. These guidelines demand rigorous attention to employee training; detailed documentation; equipment validation; careful tracking of changes and routine auditing of compliance. Noncompliance with these standards could result in disqualification of project data collected by the Company. Material violation of GLP, GMP, or GCP guidelines could result in regulatory sanctions and, in severe cases, could also result in a discontinuance of selected operations. Since April 2005, we have been audited, on a routine basis, by the FDA fifteen times. The FDA has visited eleven times in West Lafayette and four times at the Evansville location. Of the fifteen FDA audits, ten were without findings. Where the FDA had findings, which have not been significant to our operations, we have taken actions to address the findings. Our West Lafayette location was also audited by the Environmental Protection Agency during fiscal 2013 with no findings.

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

Analytical Services

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

- Resources – organization, personnel, facilities and equipment

- Rules – protocols and written procedures
- Characterization – test items and test systems
- Documentation – raw data, final report and archives
- Quality assurance unit – formalized internal audit function

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

Preclinical Services

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

Quality Assurance and Information Technology

To assure compliance with applicable regulations, we have established quality assurance programs at our facilities that audit test data, train personnel and review procedures and regularly inspect facilities. In addition, FDA regulations and guidelines serve as a basis for our Standard Operating Procedures ("SOPs") where applicable. On an ongoing basis, we endeavor to standardize SOPs across all relevant operations. We have both developed and purchased software to ensure compliant documentation, handling and reporting of laboratory-generated study data. We use 21 CFR Part 11 (FDA guidelines on electronic records and electronic signatures that define the criteria under which electronic records and electronic signatures are considered to be trustworthy, reliable and equivalent to paper records) compliant software for our preclinical research group. At the end of fiscal 2014, our contract research operations were compliant with applicable US FDA regulations (including 21 CFR Part 11) in our analytical, bioanalytical, toxicology, lab information management, and document management systems. Systems compliant with 21 CFR Part 11 were formally validated and released for use in regulated studies.

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

Controlled, Hazardous, and Environmentally Threatening Substances

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

Our laboratories are subject to licensing and regulation under federal, state and local laws relating to hazard communication and employee right-to-know regulations, the handling and disposal of medical specimens and hazardous waste, as well as the safety and health of laboratory employees. All of our laboratories are subject to applicable federal and state laws and regulations relating to the storage and disposal of laboratory specimens, including regulations of the Environmental Protection Agency, the Department of Transportation, the National Fire Protection Agency and the Resource Conservation and Recovery Act. Although we believe that we are currently in compliance in all material

respects with such federal, state and local laws, failure to comply could subject us to denial of the right to conduct business, fines, criminal penalties and other enforcement actions.

The regulations of the U.S. Department of Transportation, the U.S. Public Health Service and the U.S. Postal Service apply to the surface and air transportation of laboratory specimens. Our laboratories also comply with the International Air Transport Association regulations which govern international shipments of laboratory specimens. Furthermore, when materials are sent to a foreign country, the transportation of such materials becomes subject to the laws, rules and regulations of such foreign country.

Safety

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

HIPAA

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

Product Liability and Insurance

We maintain product liability and professional errors and omissions liability insurance, providing approximately \$6.0 million in coverage on a claims-made basis. Additionally, in certain circumstances, we seek to manage our liability risk through contractual provisions to be indemnified by the client or covered by the client's liability insurance policies. Also, in certain types of engagements, we seek to limit our contractual liability to clients to the amount of fees received. The contractual arrangements are subject to negotiation with clients, and the terms and scope of such indemnification, liability limitation and insurance coverage vary by client and project.

Research and Development

In fiscal 2014 and 2013, we spent \$658 and \$454, respectively, on research and development. Separate from our contract research services business, we maintain applications research and development to enhance our products business. Expenditures cover hardware and software engineering costs, laboratory supplies, labor, prototype development and laboratory demonstrations of new products and applications for those products.

Intellectual Property

We believe that our patents, trademarks, copyrights and other proprietary rights are important to our business. Accordingly, we actively seek protection for those rights both in the United States and abroad. Where we deem it to be an appropriate course of action, we will vigorously prosecute patent infringements. The loss of any one or more of our patents, trademarks, copyrights or other proprietary rights could be material to our consolidated revenues or earnings.

We currently hold three U.S. federally registered trademarks. We also have one issued U.S. patent on the Dried Blood Spot (DBS) sampling card for the Culex® Automated Blood Sampling Instrumentation and a pending U.S. patent

application for another element of the DBS technology. There are also three pending international patent applications for this technology in Japan, Canada, and Europe. Additionally, we have two issued U.S. patents and one pending U.S. patent application for the No Blood Waste technology for the Culex® instrument. There are two pending international patent applications for this technology in Europe and Canada. There are two additional issued U.S. patents and 15 issued international patents in Germany, Denmark, Europe, Spain, France, Great Britain, Japan, Sweden, and Switzerland relating to the Ratur® technology which can be used with the Culex® system; one issued U.S. patent relating to pinch valve technology; and one pending U.S. patent application and three pending international patent applications in Japan, Canada, and Europe relating to a tube assembly system that could potentially be used in the Culex® system.

Our issued patents are protected for durations ranging from April of 2017 to October of 2031. In addition to these formal intellectual property rights, we rely on trade secrets, unpatented know-how and continuing applications research which we seek to protect through means of reasonable business procedures, such as confidentiality agreements.

Raw Materials

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

Employees

At September 30, 2014, we had 150 full-time employees and 9 part-time employees. All employees enter into confidentiality agreements intended to protect our proprietary information. We believe that our relations with our employees are good. None of our employees are represented by a labor union. Our performance depends on our ability to attract and retain qualified professional, scientific and technical staff. The level of competition among employers for skilled personnel is high. We believe that our employee benefit plans enhance employee morale, professional commitment and work productivity and provide an incentive for employees to remain with the Company.

Executive Officers of the Registrant

The following table illustrates information concerning the persons who served as our executive officers as of September 30, 2014. Officers are elected annually at the annual meeting of the board of directors.

Name	Age	Position
Jacqueline M. Lemke	52	President and Chief Executive Officer,
Jeffrey Potrzebowski	61	Chief Financial Officer, Vice President-Finance
John P. Devine, Jr.*	53	Vice President, Preclinical Services
Dr. James S. Bourdage	62	Vice President Bioanalytical Operations
Connie Dougherty	52	Vice President of Business Development

*As stated below, Mr. Devine's Employment Agreement was not renewed beyond its current term. His official termination date is December 30, 2014

Jacqueline M. Lemke, joined the Company as Vice President, Finance and Chief Financial Officer on April 9, 2012. She was named Interim President and Chief Executive Officer on July 5, 2012. On February 12, 2013, she was named President and Chief Executive Officer. Prior to joining the Company, Ms. Lemke, was Vice President of Finance and Global CFO of Remy, Inc., a billion dollar division of Remy International, from 2007 – 2010 where she built a global finance team and created a financial system to support rapid decision making and clear lines of management

accountability. From 2004 - 2005, she served as Vice President of Finance and Global CFO Connected Home Solutions at Motorola, Inc., and, prior to that, was Global Strategic Planning Director of the multi-billion dollar revenue Invista division at the DuPont Company. Ms. Lemke's experience includes managing cyclical, global businesses, negotiating and implementing mergers, acquisitions and joint ventures as well as building an infrastructure to execute a restructured refinancing. She began her career as a tax consultant at Deloitte & Touche and is a Certified Public Accountant (CPA). Ms. Lemke earned her bachelor's degree in finance and accounting from Drexel University and her master's degree in management from Northwestern University.

Jeffrey Potrzebowski joined the Company as Vice President-Finance and Chief Financial Officer on June 9, 2014. Prior to joining the Company, from 2006 to 2013, Mr. Potrzebowski was CFO of Oerlikon Drive Systems, a manufacturer of gear and drive solutions. Prior to that, Mr. Potrzebowski was Senior Vice President and CFO of Remy International before which, Mr. Potrzebowski had spent twelve years in financial positions of increasing responsibility with Great Lakes Chemical Corporation. Mr. Potrzebowski is a Certified Public Accountant (CPA), with a bachelor's degree in Business Administration in Accounting from Toledo University.

John P. Devine, Jr., joined the Company in 1989 and has been Vice President, Preclinical Services, since fiscal 2011. Mr. Devine was responsible for BASi's in vivo discovery services and preclinical services. On September 18, 2014, Mr. Devine was given notice that, pursuant to his Employment Agreement, it is the Company's intention not to extend the term of his Employment Agreement beyond its current term. Mr. Devine earned his bachelor's degree in biology from the University of Southern Indiana, is a Board Certified Toxicologist and is a regional and national member of the Society of Toxicology.

Dr. James S. Bourdage, joined the Company as Vice President of Bioanalytical Operations on June 2, 2014. Prior to joining the Company, Dr. Bourdage was Executive Director Biopharmaceutical CMC Solutions at Covance Inc., Greenfield, Indiana, since 2011, where he was responsible for the US Biotechnology CMC operation of this \$2.4 billion drug development services organization. From 2009 to 2011, Dr. Bourdage was Senior Director, Bioanalytical Sciences, at Pharmathene, Inc., Annapolis, Maryland, a biodefense company with more than \$300 million in government contracts. From 2003 to 2009, Dr. Bourdage was Global Research Advisor and Team Leader, Laboratory for Experimental Medicine at Eli Lilly Co., Indianapolis, where his responsibilities included oversight of biotherapeutic immunogenicity and biomarker assay development to support global clinical trials. Previously, he was Senior Research Scientist, Drug Absorption and Transport at Pharmacia (Upjohn), Kalamazoo, Michigan, where he received the Upjohn Corporate Special Recognition Award in 1992 and the Quality Control Achievement Award in 1993. Dr. Bourdage received a Ph.D. in Immunochemistry from the University of Illinois in 1979. He is a member of the American Society of Clinical Pathologists and the American Association of Pharmaceutical Scientists.

Connie Dougherty, joined the Company as Vice President of Business Development on September 15, 2014. Prior to joining the Company, from 2008 to 2014, Ms. Dougherty served as Area Marketing Manager - Northern New Jersey, Manhattan, and Queens for Sunoco, a Division of Energy Transfer Partners. In that role Ms. Dougherty was responsible for commercializing new business opportunities and developing strategic relationships. Previously, she was Territory Manager Downstream Business for, Exxon Company, USA/Exxon Mobil -Marketing. Ms. Dougherty also held a variety of sales leadership positions at Lehigh Gas Inc. and Sun Refining and Marketing Company. Ms. Dougherty received a Bachelor of Science degree in business from Rowan University in Glassboro, New Jersey in 1985.

Investor Information

We file various reports with, or furnish them to, the Securities and Exchange Commission (the "SEC"), including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to such reports. These reports are available free of charge upon written request or by visiting www.BASinc.com/invest. Inquiries from shareholders, security analysts, portfolio managers, registered representatives and other interested parties including media inquiries should be directed to:

BASi Investor Relations,
Attn: Jeffrey Potrzebowski

2701 Kent Avenue, West Lafayette, IN 47906 USA
Phone 765-463-4527, Fax 765-497-1102, basi@BASinc.com

ITEM 1A - RISK FACTORS

Risks Related to Our Business

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

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

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

We rely on a limited number of key customers, the importance of which may vary dramatically from year to year, and a loss of one or more of these key customers may adversely affect our operating results.

Two customers accounted for approximately 20.8% of our total revenue in fiscal 2014 and three customers accounted for approximately 15.3% of our total revenues in fiscal 2013. The loss of a significant amount of business from one of our major customers would materially and adversely affect our results of operations until such time, if ever, as we are able to replace the lost business. Significant clients or projects in any one period may not continue to be significant clients or projects in other periods. In any given year, there is a possibility that a single pharmaceutical company may account for 5% or more of our total revenue or that our business may be dependent on one or more large projects. Since we do not have long-term contracts with most of our clients, the importance of a single client may vary dramatically from year to year. To the extent that we are dependent on any single customer, we are subject to the risks faced by that customer to the extent that such risks impede the customer's ability to stay in business and make timely payments to us.

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

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

- products being tested fail to satisfy safety requirements;
- products have undesired clinical results;
- the client decides to forego a particular study;
- inability to enroll enough patients in the study;
- inability to recruit enough investigators;

- production problems causing shortages of the drug; and
- actions by regulatory authorities.

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

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

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

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

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

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

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

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

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

We have experienced periods of losses on our operating activities.

Our overall strategy includes increasing revenue on a consistent basis and controlling our operating expenses in support of the revenue growth. We have concentrated our efforts on enhancing our business development program as well as ongoing Company-wide efficiency activities intended to increase productivity and streamline our operations. We

cannot assure that our efforts will result in profitability, or if our efforts result in profits, such profits will continue for any meaningful period of time.

Our failure to comply with the covenants contained in our credit facility, including as a result of events beyond our control, could result in an event of default, which could materially and adversely affect our operating results and our financial condition.

On May 14, 2014, we entered into a Credit Agreement with Huntington Bank. The agreement includes both a term loan and a revolving loan and is secured by mortgages on our facilities and in West Lafayette and Evansville, Indiana and liens on our personal property. This credit facility requires us to maintain certain financial ratios. The credit facility also requires us to comply with various operational and other covenants. If there were an event of default under our credit facility that was not cured or waived, the lenders of the defaulted debt could cause all amounts outstanding with respect to that debt to be due and payable immediately. We cannot assure that our assets or cash flow would be sufficient to fully repay borrowings under the credit facility, either upon maturity or if accelerated, upon an event of default, or that we would be able to refinance or restructure the payments becoming due on the credit facility.. Please see Note 7 to the Consolidated Financial Statements for additional detail regarding our credit facility.

If we are unable to maintain effective internal control over financial reporting or disclosure controls and procedures, the accuracy and timeliness of our financial reporting may be adversely affected.

Maintaining effective internal controls over financial reporting is necessary for us to produce reliable financial statements. Moreover, we must maintain effective disclosure controls and procedures in order to provide reasonable assurance that the information required to be reported in our periodic reports filed with the SEC is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. If we are unable to maintain effective internal controls over financial reporting or disclosure controls and procedures or remediate any material weakness, it could result in a material misstatement of our consolidated financial statements that would require a restatement, investor confidence in the accuracy and timeliness of our financial reports may be adversely impacted, and the market price of our common shares could be negatively impacted.

We operate in a highly competitive industry.

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

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

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

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

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

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

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

Providing CRO services creates a risk of liability.

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

We rely on third parties for important services.

We depend on third parties to provide us with services critical to our business. The failure of any of these third parties to adequately provide the needed services including, without limitation, transportation services, could have a material adverse effect on our business.

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

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

Hardware or software failures, delays in the operations of our computer and communications systems or the failure to implement system enhancements could harm our business.

Our success depends on the efficient and uninterrupted operation of our computer and communications systems. A failure of our network or data gathering procedures could impede the processing of data, delivery of databases and

services, client orders and day-to-day management of our business and could result in the corruption or loss of data. While all of our operations have disaster recovery plans in place, they might not adequately protect us. Despite any precautions we take, damage from fire, floods, hurricanes, power loss, telecommunications failures, computer viruses, break-ins and similar events at our computer facilities could result in interruptions in the flow of data to our servers and from our servers to our clients. In addition, any failure by our computer environment to provide our required data communications capacity could result in interruptions in our service. In the event of a delay in the delivery of data, we could be required to transfer our data collection operations to an alternative provider of server hosting services. Such a transfer could result in delays in our ability to deliver our products and services to our clients. Additionally, significant delays in the planned delivery of system enhancements, improvements and inadequate performance of the systems once they are completed could damage our reputation and harm our business. Finally, long-term disruptions in the infrastructure caused by events such as natural disasters, the outbreak of war, the escalation of hostilities and acts of terrorism, particularly involving cities in which we have offices, could adversely affect our businesses. Although we carry property and business interruption insurance, our coverage might not be adequate to compensate us for all losses that may occur.

Our animal populations may suffer diseases that can damage our inventory, harm our reputation, result in decreased sales of research products or result in other liability to us.

It is important that our research products be free of diseases, including infectious diseases. The presence of diseases can distort or compromise the quality of research results, can cause loss of animals in our inventory, can result in harm to humans or outside animal populations if the disease is not contained to animals in inventory, or can result in other losses. Such results could harm our reputation or have a material adverse effect on our financial condition, results of operations, and cash flows.

Our products business depends on our intellectual property.

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

We may expand our business through acquisitions.

We occasionally review acquisition candidates. Factors which may affect our ability to grow successfully through acquisitions include:

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

We depend on the pharmaceutical and biotechnology industries.

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

Unfavorable general economic conditions may materially adversely affect our business.

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

We rely on air transportation to serve our customers.

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

Privacy regulations could increase our costs or limit our services.

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

We may be affected by health care reform.

In March 2010, the United States Congress enacted the Patient Protection and Affordable Care Act (“PPACA”) intended over time to expand health insurance coverage and impose health industry cost containment measures. PPACA legislation and the accompanying regulations may significantly impact the pharmaceutical and biotechnology industries as it is implemented over the next several years. In addition, the U.S. Congress, various state legislatures and European

and Asian governments may consider various types of health care reform in order to control growing health care costs. We are unable to predict what legislative proposals will be adopted in the future, if any.

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

Risks Related to Share Ownership

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

The market price of our common shares has historically experienced and might continue to experience volatility.

Many factors could have a significant impact on the future price of our common shares, including:

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

These factors also include ones beyond our control, such as market conditions within our industry and changes in pharmaceutical and biotechnology industries. In addition, in recent years, the stock market has experienced significant price and volume fluctuations. The stock market, and in particular the market for pharmaceutical and biotechnology company stocks, has also experienced significant decreases in value in the past. This volatility and valuation decline have affected the market prices of securities issued by many companies, often for reasons unrelated to their operating performance, and might adversely affect the price of our common stock.

If we are unable to maintain listing of our securities on the NASDAQ Capital Market or any stock exchange, it may be more difficult for the Company's shareholders to sell their securities.

NASDAQ requires listing issuers to comply with certain standards in order to remain listed on its exchange. If, for any reason, NASDAQ should delist the Company's securities from trading on its exchange and the Company is unable to obtain listing on another national securities exchange, a reduction in some or all of the following may occur, each of which could have a material adverse effect on our shareholders:

- the liquidity of our common stock;
- the market price of our common stock;
- our ability to obtain financing for the continuation of our operations;
- the number of institutional and general investors that will consider investing in our common stock;
- the number of investors in general that will consider investing in our common stock;

- the number of market makers in our common stock;
- the availability of information concerning the trading prices and volume of our common stock; and
- the number of broker-dealers willing to execute trades in shares of our common stock.

There is no public market for the Series A preferred shares or warrants to purchase common shares.

There is no established public trading market for the Series A preferred shares and the warrants that were sold May 11, 2011, and we do not expect a market to develop. In addition, we do not intend to apply to list the Series A preferred shares or the warrants on any securities exchange. Without an active market, the liquidity of these securities is limited.

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

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

ITEM 1B- UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2-PROPERTIES

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

- **Our principal executive offices** are located at 2701 Kent Avenue, West Lafayette, Indiana 47906, with approximately 121,000 square feet of operations, manufacturing, and administrative space. Both the contract research services segment and the products segment conduct operations at this facility. The building has been financed by mortgages.
- **BAS Evansville Inc.** is in Evansville, Indiana. We occupy 10 buildings with roughly 92,000 square feet of operating and administrative space on 52 acres. Most of this site is engaged in preclinical toxicology testing of developmental drugs in animal models. The contract research services segment conducts operations at this facility.

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

ITEM 3-LEGAL PROCEEDINGS

We currently do not have any material pending legal proceedings.

ITEM 4- MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Market Information

As of September 30, 2014, our common stock was traded on the NASDAQ Capital Market under the symbol "BASi". The following table sets forth the quarterly high and low sales price per share of our common stock from October 1, 2012 through September 30, 2014.

	<u>High</u>	<u>Low</u>
Fiscal Year Ended September 30, 2013		
First Quarter	\$ 1.36	\$ 1.10
Second Quarter	1.80	1.23
Third Quarter	1.64	1.25
Fourth Quarter	1.58	1.26
Fiscal Year Ended September 30, 2014		
First Quarter	\$ 3.06	\$ 1.29
Second Quarter	3.30	2.49
Third Quarter	2.95	2.51
Fourth Quarter	2.60	2.12

Holdings

There were approximately 2,700 holders of record of our common stock as of December 19, 2014.

Dividends

We did not pay any cash dividends on our common shares in fiscal years 2014 or 2013 and do not anticipate paying cash dividends in the foreseeable future. Dividends paid on our Series A preferred shares are discussed in Note 3 to the Notes to Consolidated Financial Statements.

ITEM 6 – SELECTED FINANCIAL DATA

Not applicable.

[Remainder of page intentionally left blank.]

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

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and notes thereto included or incorporated by reference elsewhere in this Report. In addition to the historical information contained herein, the discussions in this Report may contain forward-looking statements that may be affected by risks and uncertainties, including those discussed in Item 1A, Risk Factors. Our actual results could differ materially from those discussed in the forward-looking statements. Please refer to page 1 of this Report for a cautionary statement regarding forward-looking information.

References to years or portions of years in this Item refer to our fiscal year ended September 30, unless otherwise indicated. The following amounts are in thousands unless otherwise indicated.

Business Overview

We are an international contract research organization providing drug discovery and development services. Our clients and partners include pharmaceutical, biotechnology, academic and governmental organizations. We apply innovative technologies and products and a commitment to quality to help clients and partners accelerate the development of safe and effective therapeutics and maximize the returns on their research and development investments. We offer an efficient, variable-cost alternative to our clients' internal product development programs. Outsourcing development work to reduce overhead and speed drug approvals through the Food and Drug Administration ("FDA") is an established alternative to in-house development among pharmaceutical companies. We derive our revenues from sales of our research services and drug development tools, both of which are focused on determining drug safety and efficacy. The Company has been involved in the research of drugs to treat numerous therapeutic areas for over 40 years.

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

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

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

A significant portion of innovation in the pharmaceutical industry is now being driven by biotech and small, venture capital funded drug development companies. Many of these companies are "single-molecule" entities, whose success depends on one innovative compound. While several of the biotech companies have reached the status of major pharmaceuticals, the industry is still characterized by smaller entities. These developmental companies generally do not have the resources to perform much of the research within their organizations, and are therefore dependent on the CRO industry for both their research and for guidance in preparing their FDA submissions. These companies have provided significant new opportunities for the CRO industry, including us. They do, however, provide challenges in selling, as

they frequently have only one product in development, which causes CROs to be unable to develop a flow of projects from a single company. These companies may expend all their available funds and cease operations prior to fully developing a product. Additionally, the funding of these companies is subject to investment market fluctuations, which changes as the risk profiles and appetite of investors change.

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

Executive Overview

Our revenues are dependent on a relatively small number of industries and clients. As a result, we closely monitor the market for our services. For a discussion of the trends affecting the market for our services, see “Item 1. Business – Trends Affecting the Drug Discovery and Development Industry.” In fiscal 2014, we experienced increased demand as compared to fiscal 2013 in our Contract Research services segment. Most notably significant revenue gains were reported by our Preclinical Services unit which supports our clients' Phase II & III clinical trials. In our Product segment revenue was down slightly compared to the prior fiscal year due in part from lower sales of certain analytical instruments, offset in part by increased sales of our Culex®, *in vivo* sampling systems.. For fiscal 2015, we plan to focus on sales execution, operational excellence and building strategic partnerships with pharmaceutical and biotechnology companies, to differentiate our company and create value for our clients and shareholders.

We review various metrics to evaluate our financial performance, including revenue, margins and earnings. Revenues increased approximately 11.4% in fiscal 2014; and gross margin increased 0.4% from fiscal 2013. Operating expenses increased 16.5% in fiscal 2014 from fiscal 2013 due in large part to rebuilding the organization with the addition of new business development personnel and increased spending for engineering and product development. In addition, at September 30, 2014, our annual goodwill impairment test was completed for Vetronics, a reporting unit within our Products Segment, resulting in an impairment charge totaling \$374 in fiscal 2014. In late 2014 we began shifting our market focus and will no longer actively market the Vetronics product offering. However, we will continue to service the units in the field. The benefit of higher revenues in fiscal 2014 was more than offset by the increase in operating expenses and the impairment charge resulting in a reported operating income of \$334 in fiscal 2014 compared to operating income of \$830 in fiscal 2013. For a detailed discussion of our revenue, margins, earnings and other financial results for the fiscal year ended September 30, 2014, see “Results of Operations – 2014 Compared to 2013” below.

As of September 30, 2014, we had \$981 of cash and cash equivalents as compared to \$1,304 of cash and cash equivalents at the end of fiscal 2013. In fiscal 2014, we generated \$1,726 in cash from operations as compared to \$1,594 in fiscal 2013. Total capital expenditures increased in fiscal 2014 to a level of \$523 reflecting ongoing investment in our business due to our improved liquidity position.

On May 14, 2014, we entered into a Credit Agreement (“Agreement”) with Huntington Bank. The Agreement includes both a term loan and a revolving loan and is secured by mortgages on our facilities in West Lafayette and Evansville, Indiana and liens on our personal property. The term loan for \$5,500 bears interest at LIBOR plus 325 basis points with monthly principal payments of approximately \$65 plus interest. The term loan matures in May 2019. On May 15, 2014, we used the proceeds from the term loan to pay off our outstanding indebtedness to Regions Bank. The revolving loan for \$2,000 matures in May 2016 and bears interest at LIBOR plus 300 basis points with interest paid monthly. More information regarding this credit facility is provided in “Liquidity and Capital Resources – New Credit Facility”.

We believe that the development of innovative new drugs is going through an evolution, evidenced by the significant reduction of expenditures on research and development at several major international pharmaceutical

companies, accompanied by increases in outsourcing and investments in smaller start-up companies that are performing the early development work on new compounds. Many of these companies are funded by either venture capital or pharmaceutical investment, or both, and generally do not build internal staffs that possess the extensive scientific and regulatory capabilities to perform the various activities necessary to progress a drug candidate to the filing of an Investigative New Drug (“IND”) application with the FDA.

While continuing to maintain and develop our relationships with large pharmaceutical companies, we intend to aggressively promote our services to developing businesses, which will require us to expand our existing capabilities to provide services early in the drug development process, and to consult with clients on regulatory strategy and compliance leading to their FDA filings. We have launched our Enhanced Drug Discovery services as part of this strategy, utilizing our proprietary Culex® technology to provide early experiments in our laboratories that previously would have been conducted in the sponsor’s facilities. As we move forward, we must balance the demands of the large pharmaceutical companies with the personal touch needed by smaller biotechnology companies to develop a competitive advantage. We intend to accomplish this through the use of and expanding upon our existing project management skills, strategic partnerships and progressive relationship management.

Our long-term strategic objective is to maximize the Company’s intrinsic value per share. While we remain focused on reducing our costs through productivity and better processes and a continued emphasis on generating free cash flow, we are dedicated to the strategies that drive our top-line growth. We are intensifying our efforts to improve our processes, embrace change and wisely employ our stronger liquidity position. We will continue to make BASi a stronger company.

Results of Operations

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

	Year Ended September 30,	
	2014	2013
Service revenue	77.7%	74.6%
Product revenue	22.3	25.4
Total revenue	100.0%	100.0%
Cost of service revenue ^(a)	72.7	75.4
Cost of product revenue ^(a)	49.8	46.4
Total cost of revenue	67.6	68.0
Gross profit	32.4	32.0
Operating expenses	31.0	28.2
Operating income	1.4	3.8
Other expense	5.7	0.2
(Loss) income before income taxes	(4.3)	3.6
Income tax expense	0.0	0.1
Net (loss) income	(4.3)%	3.5%

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

2014 Compared to 2013

Service and Product Revenues

Revenues for the year ended September 30, 2014 increased 11.4% to \$24,584 compared to \$22,068 for the year ended September 30, 2013. In fiscal 2014, we experienced increased demand in our Contract Research services segment. Most notably, significant revenue gains were reported by our Preclinical services unit which supports our client's Phase II & III clinical trials. In our Product segment revenue was down slightly compared to same period one year ago due in part from lower sales of certain analytical instruments offset in part by increased sales of our Culex[®], *in vivo* sampling systems over the same period one year ago.

Our Services revenue increased 15.9% in fiscal 2014 to \$19,097 compared to \$16,473 for the prior fiscal year. An increase in the number of primate studies and an increase in post-IND chronic studies reported by our Preclinical Services unit were the main drivers for the increase in revenue. The following table details our Service revenue.

	Fiscal Year Ended		<u>Change</u>	<u>%</u>
	September 30,			
	<u>2014</u>	<u>2013</u>		
Bioanalytical Analysis	\$ 7,146	\$ 7,930	\$ (784)	-9.9%
Preclinical Services	9,626	6,532	3,094	47.4%
Other Laboratory Services	2,325	2,011	314	15.6%

Sales in our Products segment decreased 1.9% from \$5,595 to \$5,487 when compared to the prior fiscal year. The majority of the decline stems from lower sales of certain analytical instruments offset in part by increased sales of our Culex[®], *in vivo* sampling systems over the same period one year ago. The following table details our Product revenue.

	Fiscal Year Ended		<u>Change</u>	<u>%</u>
	September 30,			
	<u>2014</u>	<u>2013</u>		
Culex, in-vivo sampling systems	\$ 2,535	\$ 2,322	\$ 213	9.2%
Analytical instruments	2,120	2,399	(279)	-11.6%
Other instruments	832	874	(42)	-4.8%

Cost of Revenue

Cost of revenue for the year ended September 30, 2014 was \$16,622 or 67.6% of revenue compared to \$15,013, or 68.0% of revenue for the prior fiscal year.

Cost of Service revenue as a percentage of Service revenue decreased to 72.7% in the current fiscal year from 75.4% in the prior fiscal year. The main reason for the decrease was our ability to leverage the higher revenue in fiscal year 2014 over our fixed cost base as well as strict spend monitoring during the fiscal year.

Cost of Product revenue as a percentage of Product revenue in the current fiscal year increased to 49.8% from 46.4% in the prior fiscal year. This increase is mainly due to a change in the mix of products sold in the current fiscal year, higher expediting costs as well as an increase in cost for selected purchased parts used in assembly operations.

Operating Expenses

Selling expenses for the year ended September 30, 2014 increased by 21.2% to \$1,656 from \$1,366 for the year ended September 30, 2013. This increase stems from the hiring of three Business Development employees, two in the fourth quarter of fiscal 2013 and one in fiscal 2014, in addition to an increase in employee health care costs, commissions, travel, and other employee costs including tuition reimbursement.

Research and development expenses for the year ended September 30, 2014 increased 44.9% to \$658 from \$454 for the year ended September 30, 2013. Higher personnel costs due to the addition of one scientist, increased benefit costs, and higher spending for outside services drove the increase.

General and administrative expenses for the current fiscal year increased 12.1% to \$4,940 from \$4,405 for the prior fiscal year. The principal reasons for the increase were higher personnel costs due to the addition of personnel in Finance and Client Services, increased employee health care costs, higher spending for legal and consulting expenses and costs in our fourth fiscal quarter of \$68 associated with the separation agreement between the Company and the Vice President of Preclinical Services.

We performed our annual goodwill impairment test as of September 30, 2014, the end of our fiscal year. The estimated fair value of our Vetronics reporting unit was less than its related book value and we determined that its goodwill balance was impaired. In late 2014 we began shifting our market focus and will no longer actively market the Vetronics product offering. However, we will continue to service the units in the field. Accordingly, step two of the goodwill impairment test was completed for the Vetronics reporting unit which resulted in an impairment charge totaling \$374 in the fourth quarter. There was no indication of impairment for the Bioanalytical Services and Preclinical Services reporting units as of September 30.

Other Income/Expense

Other expense, net, was \$1,397 for the year ended September 30, 2014 as compared to \$41 for the year ended September 30, 2013. The primary reason for the increase in expense was due to an increase in the fair value of the warrant liability offset in part by lower interest costs in fiscal 2014 resulting from the refinancing of our credit facility.

Income Taxes

Our effective tax rate for the year ended September 30, 2014 was (0.6)% compared to 2.1% for the prior fiscal year. The current year expense primarily relates to federal alternative minimum tax. The prior year expense primarily relates to state franchise taxes. No net benefits have been provided on taxable losses in the current fiscal year.

Restructuring Activities

In March 2012, we announced a plan to restructure our bioanalytical laboratory operations. We consolidated our laboratory in McMinnville, Oregon into our 120,000 square foot headquarters facility in West Lafayette, Indiana. This plan was implemented to reduce operating costs and strengthen our ability to meet clients' needs by improving laboratory utilization. In the fourth quarter of fiscal 2012, we decided to initiate closure of our facility and bioanalytical laboratory in Warwickshire, United Kingdom after careful evaluation of its financial performance and analysis of our strategic alternatives. We continue to sell our products globally while further consolidating delivery of our CRO services into our Indiana locations. As part of the overall evaluation of our business, personnel reductions in the Selling, R&D and General and Administrative functions were also implemented at both of our Indiana locations during the second half of fiscal 2012.

We reserved for lease payments at the cease use date for our UK facility and have considered free rent, sublease rentals and the number of days it would take to restore the space to its original condition prior to our improvements. In the first quarter of fiscal 2013, we began amortizing into general and administrative expense, equally through the cease use date, the estimated rent income of \$200 when the reserve was originally established. We have been unsuccessful at subleasing the facility. Based on these, we have \$961 reserved for UK lease related costs.

The following table sets forth the roll-forward of the restructuring activity for the year ended September 30, 2014.

	Balance, September 30, 2013	Total Charges	Cash Payments	Other	Balance, September 30, 2014
Lease related costs	\$ 877	\$ 84	\$ -	\$ -	\$ 961
Receivable from sale of equipment	(16)	-		16	-
Other costs	117	-		-	117
Total	<u>\$ 978</u>	<u>\$ 84</u>	<u>\$ -</u>	<u>\$ 16</u>	<u>\$ 1,078</u>

Other costs include legal and professional fees and other costs incurred in connection with transitioning services from sites being closed as well as costs incurred to remove improvements previously made to the UK facility. Other activity in the reserve roll-forward primarily reflects a receivable for settlement of the capital lease in the UK.

Liquidity and Capital Resources

Comparative Cash Flow Analysis

At September 30, 2014, we had cash and cash equivalents of \$981 compared to \$1,304 at September 30, 2013.

Net cash provided by operating activities was \$1,684 for the year ended September 30, 2014, compared to net cash provided by operating activities of \$1,594 for the year ended September 30, 2013. The increase in cash provided by operating activities in the current fiscal year results from the increase in the fair value of warrant liability of \$918 compared to a decline in the fair value of \$601 in the prior fiscal year. Other contributing factors to our cash from operations in fiscal 2014 were noncash charges of \$1,597 for depreciation and amortization and \$84 for stock option expense. Changes in working capital in fiscal 2014 consisted of an increase in customer advances of \$175 and a decrease in accounts receivable of \$910, a decrease of accounts payable amounting to \$863, an increase in inventory of \$185 and a decrease in accrued expenses of \$153. Included in operating activities for fiscal 2013 are non-cash charges of \$1,723 for depreciation and amortization and \$225 for stock option expense. Working capital changes in fiscal 2013 included a decrease in inventory of \$277 offset by a decrease in accounts payable of \$269, a decrease in accrued expenses amounting to \$378 and a decrease in customer advances of \$197.

Investing activities used \$490 in fiscal 2014 as opposed to providing cash of \$12 in fiscal 2013. The investing activity in fiscal 2014 consisted of investments in capital improvements and equipment replacement. The increase in capital expenditures in fiscal 2014 reflects the stronger liquidity position of the Company and the investments being made to support our growth initiatives. The cash provided in fiscal 2013 relates to proceeds from the sale of equipment disposed of in our West Lafayette facility.

Financing activities used \$1,513 in fiscal year 2014 as compared to \$1,022 used in fiscal 2013. The main uses of cash in fiscal 2014 were for net payments on our line of credit of \$ 1,213, capital lease payments of \$276 as well as net payments on our long-term debt of \$16 net of new borrowings, offset in part by proceeds for warrant exercises amounting to \$183. The main uses of cash in fiscal 2013 were for long-term debt and capital lease payments of \$918 as well as net payments on our line of credit of \$29.

Capital Resources

Prior to obtaining the new credit facility described below, we had a term loan from Regions Bank (“Regions”), which was secured by mortgages on our facilities in West Lafayette and Evansville, Indiana. In addition, prior to its termination in January 2014, we had a \$3,000 line of credit with EGC. The EGC line of credit was subject to availability limitations.

On November 9, 2012, we executed a sixth amendment with Regions which we further modified on December 21, 2012. In the sixth amendment, Regions agreed to extend the term loan and mortgage loan maturity dates to October 31, 2013. The unpaid principal on the notes was incorporated into a replacement note payable for \$5,786 bearing interest at LIBOR plus 400 basis points (minimum of 6.0%) with monthly principal payments of approximately \$47 plus interest.

The replacement note payable was secured by real estate at our West Lafayette and Evansville, Indiana locations. The replacement note payable had a balance of \$5,254 at September 30, 2013.

On October 31, 2013, we executed a seventh amendment with Regions to extend the note payable maturity date to October 31, 2014.

Regions required us to maintain a fixed charge coverage ratio of not less than 1.25 to 1.00 and a total liabilities to tangible net worth ratio of not greater than 2.10 to 1.00. Failure to comply with those covenants would have been a default under the Regions loans, requiring us to negotiate with Regions regarding loan modifications or waivers. If we were unable to obtain such modifications or waivers, Regions could have accelerated the maturity of the loans and caused a cross default with our other lender. The Regions loan agreements contained cross-default provisions with each other and formerly with the revolving line of credit with EGC described below that was terminated in January 2014.

Revolving Line of Credit

On January 31, 2014, we paid off the remaining balance on our \$3,000 revolving line of credit agreement (“Credit Agreement”) with EGC. Pursuant to the terms of the Credit Agreement, the line of credit would have automatically renewed on January 31, 2014 unless either party gave a 60-day notice of intent to terminate or withdraw. On October 30, 2013, we informed EGC of our intent not to renew the line of credit on January 31, 2014 and the line of credit terminated on that date.

During the first four months of fiscal 2014, borrowings under the Credit Agreement bore interest at an annual rate equal to Citibank’s Prime Rate plus five percent (5%) with minimum monthly interest of \$15. Interest was paid monthly. The line of credit also carried an annual facilities fee of 2% and a 0.2% collateral monitoring fee. Borrowings under the Credit Agreement were secured by a blanket lien on our personal property, including certain eligible accounts receivable, inventory, and intellectual property assets, a second mortgage on our West Lafayette and Evansville real estate and all common stock of our U.S. subsidiaries and 65% of the common stock of our non-United States subsidiary. Borrowings were calculated based on 75% of eligible accounts receivable. Under the Credit Agreement, as amended, the Company had agreed to restrict advances to subsidiaries, limit additional indebtedness and capital expenditures and maintain a minimum tangible net worth of at least \$8,000. The Credit Agreement also contained cross-default provisions with the Regions loan and any future EGC loans. At September 30, 2013, we had \$1,415 outstanding on this line.

New Credit Facility

On May 14, 2014, we entered into a Credit Agreement (“Agreement”) with Huntington Bank. The Agreement includes both a term loan and a revolving loan and is secured by mortgages on our facilities in West Lafayette and Evansville, Indiana and liens on our personal property.

The term loan for \$5,500 bears interest at LIBOR plus 325 basis points with monthly principal payments of approximately \$65 plus interest. The term loan matures in May 2019. On May 15, 2014, we used the proceeds from the term loan to pay off the Regions Bank replacement note payable. The balance on the term loan at September 30, 2014 was \$5,238.

The revolving loan for \$2,000 matures in May 2016 and bears interest at LIBOR plus 300 basis points with interest paid monthly. The revolving loan also carries a facility fee of .25%, paid quarterly, for the unused portion of the revolving loan. The revolving loan includes an annual clean-up provision that requires the Company to maintain a balance of not more than 20% of the maximum loan of \$2,000 for a period of 30 days in any 12 month period while the revolving loan is outstanding. The revolving loan balance was \$202 at September 30, 2014.

The Agreement requires us to maintain a fixed charge coverage ratio of not less than 1.10 to 1.00 and a maximum total leverage ratio of not greater than 3.00 to 1.00 from the date of the Agreement through September 30, 2015 and 2.50 to 1.00 commencing after October 1, 2015 until maturity. The Agreement also contains various other covenants, including restrictions on the incurrence of certain indebtedness, liens, investments, acquisitions, asset sales and cash dividends. At September 30, 2014, we were in compliance with these covenants.

We entered into an interest rate swap agreement with respect to the above loans to fix the interest rate with respect to 60% of the value of the term loan at approximately 5.0%. We entered into this derivative transaction to hedge interest rate risk of the related debt obligation and not to speculate on interest rates.

Based on our expected revenue and the impact of the cost reductions implemented as well as the availability of the new line of credit, we project that we will have the liquidity required to fund the initiatives in support of our strategy for fiscal 2015 in addition to meeting our debt obligations.

The following table summarizes the cash payments under our contractual term debt and other obligations at September 30, 2014 and the effect such obligations are expected to have on our liquidity and cash flows in future fiscal periods (amounts in thousands). The table does not include our revolving line of credit. Additional information on the debt is described in Note 7, Debt Arrangements.

	2015	2016	2017	2018	2019	Total
Term loan	\$ 786	\$ 786	\$ 786	\$ 785	\$ 2,095	\$ 5,238
Capital lease obligations	308	242	31	27	16	624
Operating leases	856	16	1	-	-	873
	\$ 1,950	\$ 1,044	\$ 818	\$ 812	\$ 2,111	\$ 6,735

Equity Offering (amounts in this section not in thousands)

On May 11, 2011, we completed a registered public offering of 5,506 units at a price of \$1,000 per unit. Each unit consists of one 6% Series A convertible preferred share which is convertible into 500 common shares at a conversion price of \$2.00 per share, one Class A Warrant to purchase 250 common shares at an exercise price of \$2.00 per share, and one Class B Warrant to purchase 250 common shares at an exercise price of \$2.00 per share.

The designation, rights, preferences and other terms and provisions of the Preferred Shares are set forth in the Certificate of Designation. Until May 11, 2014, the Series A preferred shares had a stated dividend rate of 6% per annum, payable quarterly in cash or, subject to certain conditions, in common shares or a combination of cash and common shares, at our election. After May 11, 2014, the Series A preferred shares participate in any dividends payable upon our common shares on an "as converted" basis. If the preferred shares were converted prior to May 11, 2014, we would have also been required to pay to the converting holder in cash, or subject to certain conditions, in common shares or a combination thereof, \$180 per \$1,000 of the stated value of the preferred shares less any dividends paid prior to conversion (a "make-whole" payment). The Class A Warrants are exercisable currently and expire in May 2016. The Class B Warrants expired in May 2012. The Class A Warrants are accounted for as a liability using the fair value for each on the issuance date and are marked to fair value at each reporting date. The net proceeds from the sale of the units, after deducting the fees and expenses of the placement agent and other expenses were \$4.6 million. We used the proceeds for the purchase of laboratory equipment and for working capital and general corporate purposes. Because the preferred dividend or make-whole payment is triggered at the option of the preferred shareholder, we recorded the dividend liability at the time of the offering close and will not have any preferred dividend liability subsequent to the fiscal quarter ended June 30, 2011.

As of September 30, 2014, 4,321 preferred shares had been converted into 2,564,108 common shares and 217,366 common shares have been issued for quarterly preferred dividends for remaining outstanding, unconverted preferred shares. As of September 30, 2014, 577,897 warrants have been exercised. At September 30, 2014, 1,185 preferred shares and 798,603 warrants remained outstanding.

Inflation

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

Critical Accounting Policies

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

Revenue Recognition

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

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

Long-Lived Assets, Including Goodwill

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

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

Goodwill is tested annually for impairment and more frequently if events and circumstances indicate that the asset might be impaired. First, we can assess qualitative factors in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Then, we follow a two-step quantitative process. In the first step, we compare the fair value of each reporting unit, as computed primarily by present value cash flow calculations, to its book carrying value, including goodwill. We do not believe that market value is indicative of the true fair value of the Company mainly due to average daily trading volumes of less than 1%. If the fair value exceeds the carrying value, no further work is required and no impairment loss is recognized. If the carrying value exceeds the fair value, the goodwill of the reporting unit is potentially impaired and we would then complete step 2 in order to measure the impairment loss.

In step 2, the implied fair value is compared to the carrying amount of the goodwill. If the implied fair value of goodwill is less than the carrying value of goodwill, we would recognize an impairment loss equal to the difference. The implied fair value is calculated by allocating the fair value of the reporting unit (as determined in step 1) to all of its assets and liabilities (including unrecognized intangible assets) and any excess in fair value that is not assigned to the assets and liabilities is the implied fair value of goodwill.

The discount rate, gross margin and sales growth rates are the material assumptions utilized in our calculations of the present value cash flows used to estimate the fair value of the reporting units when performing the annual goodwill impairment test. Our reporting units with goodwill at September 30, 2014 are Vetronics, which is included in our Products segment, Bioanalytical Services and Preclinical Services, which are both included in our contract research services segment, based on the discrete financial information available which is reviewed by management. We utilize a cash flow approach in estimating the fair value of the reporting units, where the discount rate reflects a weighted average cost of capital rate. The cash flow model used to derive fair value is sensitive to the discount rate and sales growth assumptions used.

We performed our annual goodwill impairment test for all reporting units mentioned above at September 30, 2014. The estimated fair value of our Vetronics reporting unit was less than its related book value and we determined that its goodwill balance was impaired. This was a result of the rates of growth, earnings and cash flow expectations for future performance that were below the Company's previous projections. In late 2014, we began shifting our market focus and will no longer actively market the Vetronics product offering. As a service to our existing customers, we will continue to service the units in the field. Accordingly, step two of the goodwill impairment test was completed for the Vetronics reporting unit which resulted in an impairment charge totaling \$374 in the fourth quarter of fiscal 2014. There was no indication of impairment for the Bioanalytical Services and Preclinical Services reporting units as of September 30, 2014.

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

At September 30, 2014 and 2013, remaining recorded goodwill was \$1,009 and \$1,383, respectively. The changes in the carrying amount of goodwill for the year ended September 30, 2014, are as follows:

	Vetronics	Bioanalytical Services	Preclinical Services	Total
Balance as of October 1, 2013	\$ 374	\$ 971	\$ 38	\$ 1,383
Impairment loss	(374)	-	-	(374)
Balance as of September 30, 2014	\$ -	\$ 971	\$ 38	\$ 1,009

Stock-Based Compensation

We recognize the cost resulting from all share-based payment transactions in our financial statements using a fair-value-based method. We measure compensation cost for all share-based awards based on estimated fair values and recognize compensation over the vesting period for awards. We recognized stock-based compensation related to stock options of \$84 and \$225 during the fiscal years ended September 30, 2014 and 2013, respectively.

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

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

Employee stock-based compensation expense recognized in fiscal 2014 and 2013 was calculated based on awards ultimately expected to vest and has been reduced for estimated forfeitures. Forfeitures are revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates and an adjustment will be recognized at that time.

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

Income Tax Accounting

As described in Note 8 to the consolidated financial statements, we use the asset and liability method of accounting for income taxes. We recognize deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. We measure deferred tax assets and liabilities using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. We recognize the effect on deferred tax assets and liabilities of a change in tax rates in income in the period that includes the enactment date. We record valuation allowances based on a determination of the expected realization of tax assets.

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

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

As of September 30, 2014 and 2013, we had a \$16 liability for uncertain income tax positions, respectively.

We file income tax returns in the U.S. and several U.S. states. We remain subject to examination by taxing authorities in the jurisdictions in which we have filed returns for years after 2009.

We have an accumulated net deficit in our UK subsidiary. With the closure of the UK facility, we no longer have any filing obligations in the UK. Consequently, the related deferred tax asset on such losses and related valuation allowance on the UK subsidiary have been removed.

Inventories

Inventories are stated at the lower of cost or market using the first-in, first-out (FIFO) cost method of accounting. We evaluate inventories on a regular basis to identify inventory on hand that may be obsolete or in excess of current and future projected market demand. For inventory deemed to be obsolete, we provide a reserve for this inventory. Inventory that is in excess of current and projected use is reduced by an allowance to a level that approximates the estimate of future demand.

Fair Value of Warrant Liability

In May 2011, we issued Class A and B Warrants that are measured at fair value on a recurring basis. We recorded these warrants as a liability determining the fair value at inception on May 11, 2011. Subsequent quarterly fair value measurements, using the Black Scholes model which is considered a level 2 fair value measurement, are calculated with fair value changes charged to the statement of operations and comprehensive income (loss). Class B Warrants expired in May 2012 and the liability was reduced to zero. As of September 30, 2014, 578 Class A warrants have been exercised, leaving 799 outstanding. The fair value of the warrants exercised was \$854. The following table sets forth the changes in the fair value of the warrant liability since inception:

<u>Evaluation Date</u>	<u>Fair Value per Share</u>		<u>Fair Value</u>			<u>Change in Fair Value (Income) Expense</u>
	<u>Warrant A</u>	<u>Warrant B</u>	<u>Warrant A</u>	<u>Warrant B</u>	<u>Total</u>	
5/11/2011	\$ 1.433	\$ 0.779	\$ 1,973	\$ 1,072	\$ 3,045	\$ -
6/30/2011	1.536	0.811	2,114	1,116	3,230	185
9/30/2011	0.844	0.091	1,162	124	1,286	(1,944)
12/31/2011	0.901	0.074	1,240	102	1,342	56
3/31/2012	0.933	0.001	1,284	2	1,286	(56)
6/30/2012	0.602	-	828	-	828	(458)
9/30/2012	0.881	-	1,213	-	1,213	385
12/31/2012	0.796	-	1,096	-	1,096	(117)
3/31/2013	0.899	-	1,238	-	1,238	142
6/30/2013	0.668	-	920	-	920	(318)
9/30/2013	0.444	-	612	-	612	(308)
12/31/2013	1.396	-	1,573	-	1,573	961
3/31/2014	1.152	-	934	-	934	200
6/30/2014	1.067	-	852	-	852	(66)
9/30/2014	0.846	-	676	-	676	(160)

Interest Rate Swap

The Company uses an interest rate swap designated as a cash flow hedge to fix 60% of the Huntington debt due to mitigate changes in interest rates. The changes in the fair value of the interest rate swap are recorded in Accumulated Other Comprehensive Income (AOCI) to the extent effective. We assess on an ongoing basis whether the derivative that is used in the hedging transaction is highly effective in offsetting changes in cash flows of the hedged debt. The terms of the interest rate swaps match the terms of the underlying debt resulting in no ineffectiveness. When we determine that a derivative is not highly effective as a hedge, hedge accounting is discontinued and we reclassify gains or losses that were accumulated in AOCI to other income (expense), net on the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss).

New Accounting Pronouncements

Effective October 1, 2017, the Company will be required to adopt the new guidance of ASC Topic 606, *Revenue from Contracts with Customers* (Topic 606), which will supersede the revenue recognition requirements in ASC Topic 605,

Revenue Recognition. Topic 606 requires the Company to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance requires the Company to apply the following steps: (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when, or as, the Company satisfies a performance obligation. The Company will be required to adopt Topic 606 either on a full retrospective basis to each prior reporting period presented or on a modified retrospective basis with the cumulative effect of initially applying the new guidance recognized at the date of initial application. If the Company elects the modified retrospective approach, it will be required to provide additional disclosures of the amount by which each financial statement line item is affected in the current reporting period, as compared to the guidance that was in effect before the change, and an explanation of the reasons for significant changes. The Company has not yet assessed the impact of the new guidance on its consolidated financial statements.

In July 2013, the Financial Accounting Standards Board (“FASB”) issued authoritative guidance that requires that an entity net its liability for unrecognized tax positions against a net operating loss carry forward, a similar tax loss or a tax credit carry-forward when settlement in this manner is available under the tax law. The Company will adopt this guidance effective at the beginning of its 2015 fiscal year. The adoption of this updated authoritative guidance is not expected to have a significant impact on the Company’s Consolidated Financial Statements.

In February 2013, the FASB issued authoritative guidance that amends the presentation of accumulated other comprehensive income and clarifies how to report the effect of significant reclassifications out of accumulated other comprehensive income. The guidance became effective for the Company on a prospective basis at the beginning of its 2014 fiscal year, requires footnote disclosures regarding the changes in accumulated other comprehensive income by component and the line items affected in the statements of operations. The adoption of this updated authoritative guidance is not expected to have a significant impact on the Company’s Consolidated Financial Statements.

ITEM 7A – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

[Remainder of page intentionally left blank.]

ITEM 8-FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Consolidated Financial Statements

	<u>Pag</u> <u>e</u>
Consolidated Financial Statements of Bioanalytical Systems, Inc.	
Consolidated Balance Sheets as of September 30, 2014 and 2013	35
Consolidated Statements of Operations and Comprehensive Income (Loss) for the Years Ended September 30, 2014 and 2013	36
Consolidated Statements of Shareholders' Equity for the Years Ended September 30, 2014 and 2013	37
Consolidated Statements of Cash Flows for the Years Ended September 30, 2014 and 2013	38
Notes to Consolidated Financial Statements	39
Reports of Independent Registered Public Accounting Firms	59

Financial Statement Schedules:

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

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

	As of September 30,	
	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 981	\$
Accounts receivable		
Trade, net of allowance of \$54 and \$87 at September 30,		
2014	2,557	3,621
Unbilled revenues and other	878	691
Inventories	1,564	1,379
Prepaid expenses	675	238
Total current assets	6,655	7,233
Property and equipment, net	15,949	16,913
Goodwill	1,009	1,383
Debt issue costs, net	122	21
Other assets	39	47
Total assets	\$ 23,774	\$ 25,597
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	\$ 2,672	\$ 3,584
Accrued expenses	1,842	1,689
Customer advances	2,990	2,815
Income tax accruals	20	30
Revolving line of credit	202	1,415
Fair value of warrant liability	676	612
Current portion of capital lease obligation	279	268
Current portion of long-term debt	786	613
Total current liabilities	9,467	11,026
Fair value of interest rate swap	21	—
Capital lease obligation, less current portion	298	471
Long-term debt, less current portion	4,452	4,641
Total liabilities	14,238	16,138
Shareholders' equity:		
Preferred shares, authorized 1,000,000 shares, no par value:		
1,185 Series A shares at \$1,000 stated value issued and		
outstanding at September 30, 2014 and 1,335 at September		
30, 2013	1,185	1,335
Common shares, no par value:		
Authorized 19,000,000 shares; 8,075,335 issued and		
outstanding at September 30, 2014 and 7,703,891 at		
September 30, 2013	1,980	1,887
Additional paid-in capital	21,154	19,925
Accumulated deficit	(14,790)	(13,720)
Accumulated other comprehensive income	7	32
Total shareholders' equity	9,536	9,459
Total liabilities and shareholders' equity	\$ 23,774	\$ 25,597

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

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

	For the Years Ended	
	September 30,	
	2014	2013
Service revenue	\$ 19,097	\$ 16,473
Product revenue	5,487	5,595
Total revenue	24,584	22,068
Cost of service revenue	13,889	12,416
Cost of product revenue	2,733	2,597
Total cost of revenue	16,622	15,013
Gross profit	7,962	7,055
Operating expenses:		
Selling	1,656	1,366
Research and development	658	454
General and administrative	4,940	4,405
Impairment of goodwill	374	—
Total operating expenses	7,628	6,225
Operating income	334	830
Interest expense	(488)	(649)
Change in fair value of warrant liability – (increase) decrease	(918)	601
Other income	9	7
(Loss) income before income taxes	(1,063)	789
Income tax (benefit) expense	7	16
Net (loss) income	\$ (1,070)	\$ 773
Other comprehensive (loss) income :		
Fair value adjustment of interest rate swap	(21)	—
Foreign currency translation adjustment	(4)	3
Comprehensive (loss) income	\$ (1,095)	\$ 776
Basic net (loss) income per share:	\$ (0.13)	\$ 0.10
Diluted net (loss) income per share:	\$ (0.13)	\$ 0.09
Weighted common shares outstanding:		
Basic	7,960	7,664
Diluted	7,960	8,371

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

BIOANALYTICAL SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands, except number of shares)

	Preferred Shares		Common Shares		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Total shareholders' equity
	Number	Amount	Number	Amount				
Balance at October 1, 2012	1,335	\$ 1,335	7,638,738	\$ 1,871	\$ 19,635	\$ (14,493)	\$ 29	\$ 8,377
Comprehensive loss:								
Net income						773		773
Foreign currency translation adjustments							3	3
Stock based compensation expense					225			225
Stock option exercise			1,372					-
Common shares issued for dividends/make-whole payment	-	-	63,781	16	65			81
Balance at September 30, 2013	1,335	\$ 1,335	7,703,891	\$ 1,887	\$ 19,925	\$ (13,720)	\$ 32	\$ 9,459
Comprehensive income:								
Net loss						(1,070)		(1,070)
Foreign currency translation adjustments							(4)	(4)
Fair value adjustment of interest rate swap							(21)	(21)
Stock based compensation expense					84			84
Stock option exercise			7,692	2	1			3
Conversion of preferred shares to common	(150)	(150)	75,000	19	131			-
Common shares issued for dividends/make-whole payment			20,774	5	43			48
Common shares issued for Class A Warrant exercises			267,978	67	970			1,037
Balance at September 30, 2014	1,185	\$ 1,185	8,075,335	\$ 1,980	\$ 21,154	\$ (14,790)	\$ 7	\$ 9,536

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

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

	Years Ended September 30,	
	2014	2013
Operating activities:		
Net (loss) income	\$ (1,070)	\$ 773
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	1,597	1,723
Employee stock compensation expense	84	225
Change in fair value of warrant liability – increase (decrease)	918	(601)
(Gain) loss on sale of property and equipment	(21)	(13)
Provision for doubtful accounts	(33)	(36)
Impairment of goodwill	374	—
Changes in operating assets and liabilities:		
Accounts receivable	910	11
Inventories	(185)	277
Income tax accruals	(10)	13
Prepaid expenses and other assets	(345)	66
Accounts payable	(863)	(269)
Accrued expenses	153	(378)
Customer advances	175	(197)
Net cash provided by operating activities	1,684	1,594
Investing activities:		
Capital expenditures	(490)	(8)
Proceeds from sale of equipment	—	20
Net cash (used) provided by investing activities	(490)	12
Financing activities:		
Payments of long-term debt	(5,516)	(588)
Borrowings of long-term debt	5,500	—
Payments of debt issuance costs	(194)	(75)
Proceeds from exercise of stock options	3	—
Proceeds from Class A warrant exercises	183	—
Payments on revolving line of credit	(10,542)	(21,814)
Borrowings on revolving line of credit	9,329	21,785
Payments on capital lease obligations	(276)	(330)
Net cash used by financing activities	(1,513)	(1,022)
Effect of exchange rate changes	(4)	(1)
Net (decrease) increase in cash and cash equivalents	(323)	583
Cash and cash equivalents at beginning of year	1,304	721
Cash and cash equivalents at end of year	\$ 981	\$ 1,304
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 389	\$ 649
Cash paid for income taxes	\$ 17	\$ 3
Supplemental disclosure of non-cash financing activities:		
Preferred stock dividends paid in common shares	\$ (48)	\$ (81)
Equipment financed under capital leases	\$ 114	\$ —
Conversion of preferred shares to common shares	\$ 150	\$ —
Fair value of Class A Warrants exercised	\$ 854	\$ —

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

BIOANALYTICAL SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands unless otherwise listed)

1. DESCRIPTION OF THE BUSINESS

Bioanalytical Systems, Inc. and its subsidiaries (“We,” the “Company” or “BASi”) engage in contract laboratory research services and other services related to pharmaceutical development. We also manufacture scientific instruments for life sciences research, which we sell with related software for use in industrial, governmental and academic laboratories. Our customers are located throughout the world.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation

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

(b) Revenue Recognition

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

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

(c) Cash Equivalents

We consider all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. At September 30, 2014, we did not have any cash accounts that exceeded federally insured limits.

(d) Accounts Receivable

We perform periodic credit evaluations of our customers’ financial conditions and generally do not require collateral on trade accounts receivable. We account for trade receivables based on the amounts billed to customers. Past due receivables are determined based on contractual terms. We do not accrue interest on any of our trade receivables. The allowance for doubtful accounts is determined by management based on our historical losses, specific customer circumstances, and general economic conditions. Periodically, management reviews accounts receivable and adjusts the

allowance based on current circumstances and charges off uncollectible receivables when all attempts to collect have failed. Our allowance for doubtful accounts was \$54 and \$87 at September 30, 2014 and 2013, respectively.

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

	<u>2014</u>	<u>2013</u>
Opening balance	\$ 87	\$ 123
Charged to expense	12	41
Accounts recovered	—	(18)
Accounts written off	(45)	(59)
Ending balance	<u>\$ 54</u>	<u>\$ 87</u>

(e) *Inventories*

Inventories are stated at the lower of cost or market using the first-in, first-out (FIFO) cost method of accounting. We evaluate inventories on a regular basis to identify inventory on hand that may be obsolete or in excess of current and future projected market demand. For inventory deemed to be obsolete, we provide a reserve. Inventory that is in excess of current and projected use is reduced by an allowance to a level that approximates the estimate of future demand. A summary of activity in our inventory obsolescence is as follows for the years ended September 30:

	<u>2014</u>	<u>2013</u>
Opening Balance	\$ 359	\$ 310
Provision for Slow Moving & Obsolescence	29	49
Write-off of Obsolete & Slow Moving Inventory	(89)	-
Closing Balance	<u>\$ 299</u>	<u>\$ 359</u>

(f) *Property and Equipment*

We record property and equipment at cost, including interest capitalized during the period of construction of major facilities. We compute depreciation, including amortization on capital leases, using the straight-line method over the estimated useful lives of the assets, which we estimate to be: buildings and improvements, 34 to 40 years; machinery and equipment, 5 to 10 years, and office furniture and fixtures, 10 years. Depreciation expense was \$1,589 in fiscal 2014 and \$1,715 in fiscal 2013. Expenditures for maintenance and repairs are expensed as incurred.

Property and equipment, net, as of September 30, 2014 and 2013 consisted of the following:

	2014	2013
Land and improvements	\$ 914	\$ 914
Buildings and improvements	21,374	21,250
Machinery and equipment	18,135	17,571
Office furniture and fixtures	690	690
Construction in progress	13	92
	<u>41,126</u>	<u>40,517</u>
Less: accumulated depreciation	(25,177)	(23,604)
Net property and equipment	<u>\$ 15,949</u>	<u>\$ 16,913</u>

(g) *Long-Lived Assets including Goodwill*

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

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

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

The discount rate, gross margin and sales growth rates are material assumptions utilized in our calculations of the present value cash flows used to estimate the fair value of the reporting units when performing the annual goodwill impairment test. Our reporting units with goodwill at September 30, 2014 are Vetronics, which is included in our Products segment, bioanalytical services and preclinical services, which are both included in our contract research services segment, based on the discrete financial information available which is reviewed by management. We utilize a cash flow approach in estimating the fair value of the reporting units, where the discount rate reflects a weighted average cost of capital rate. The cash flow model used to derive fair value is sensitive to the discount rate and sales growth assumptions used.

We performed our annual goodwill impairment test for all reporting units mentioned above at September 30, 2014. The estimated fair value of our Vetronics reporting unit was less than its related book value and we determined that its goodwill balance was impaired. This was a result of the rates of growth, earnings and cash flow expectations for future performance that were below the Company's previous projections. In late 2014 we began shifting our market

focus and will no longer actively market the Vetronics product offering. However, we will continue to service the units in the field. Accordingly, step two of the goodwill impairment test was completed for the Vetronics reporting unit which resulted in an impairment charge totaling \$374 in the fourth fiscal quarter of fiscal 2014. There was no indication of impairment for the Bioanalytical Services and Preclinical Services reporting units as of September 30, 2014.

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

At September 30, 2014 and 2013, remaining recorded goodwill was \$1,009 and \$1,383, respectively. The changes in the carrying amount of goodwill for the year ended September 30, 2014, are as follows:

	Vetronics	Bioanalytical Services	Preclinical Services	Total
Balance as of October 1, 2013	\$ 374	\$ 971	\$ 38	\$ 1,383
Impairment loss	(374)	-	-	(374)
Balance as of September 30, 2014	\$ -	\$ 971	\$ 38	\$ 1,009

We amortize costs of patents and licenses. For the fiscal years ended September 30, 2014 and 2013, the amortization expense associated with these was \$8 and \$8, respectively.

(h) Advertising Expense

We expense advertising costs as incurred. Advertising expense was \$41 and \$40 for the years ended September 30, 2014 and 2013, respectively.

(i) Stock-Based Compensation

We have a stock-based employee compensation plan and a stock-based employee and outside director compensation plan, which are described more fully in Note 9. All options granted under these plans have an exercise price equal to the market value of the underlying common shares on the date of grant. We expense the estimated fair value of stock options over the vesting periods of the grants. Our policy is to recognize expense for awards subject to graded vesting using the straight-line attribution method, reduced for estimated forfeitures.

We use a binomial option-pricing model as our method of valuation for share-based awards, requiring us to make certain assumptions about the future, which are more fully described in Note 9.

(j) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which

those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. We record valuation allowances based on a determination of the expected realization of tax assets.

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

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

(k) *Fair Value of Financial Instruments*

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

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

In May 2011, we issued Class A and B Warrants that are measured at fair value on a recurring basis. We recorded these warrants as a liability determining the fair value at inception on May 11, 2011. Subsequent quarterly fair value measurements, using the Black Scholes model which is considered a level 2 measurement, are calculated with fair value changes charged to the statement of operations and comprehensive income (loss). Class B Warrants expired in May 2012 and the liability was reduced to zero. The assumptions used to compute the fair value of the warrants at September 30, 2014 and 2013 were as follows:

	<u>September 30, 2014</u>	<u>September 30, 2013</u>
	<u>Warrant A</u>	<u>Warrant A</u>
Risk-free interest rate	0.41%	0.51%
Dividend yield	0.00%	0.00%
Volatility of the Company's common stock	63.58%	71.15%
Expected life of the options (years)	1.6	2.6
Fair value per unit	\$0.846	\$0.444

The carrying amounts for cash and cash equivalents, accounts receivable, inventories, prepaid expenses and other assets, accounts payable and other accruals approximate their fair values because of their nature and respective

duration. The carrying value of the note payable entered into this fiscal year approximates fair value due to the variable nature of the interest rates.

We use an interest rate swap, designated as a hedge, to fix 60% of the debt from our new Huntington credit facility. We did not enter into this derivative transaction to speculate on interest rates, but to hedge interest rate risk. The swap is recognized on the balance sheet at its fair value. The fair value is determined utilizing a cash flow model that takes into consideration interest rates and other inputs observable in the market from similar types of instruments, and is therefore considered a level 2 measurement. Using a level 3 measurement, the fair value of the goodwill of the Vectronics reporting unit was \$0 with a carrying value of \$374, leading to the goodwill impairment expense in fiscal 2014 of \$374.

The following table summarizes fair value measurements by level as of September 30, 2014, for the Company's financial liabilities measured at fair value on a recurring basis:

	Level 1	Level 2	Level 3
Interest rate swap agreement	\$ -	\$ 21	\$ -
Class A warrant liability	\$ -	\$ 676	\$ -

The following table summarizes fair value measurements by level as of September 30, 2013, for the Company's financial liabilities measured at fair value on a recurring basis:

	Level 1	Level 2	Level 3
Interest rate swap agreement	\$ -	\$ -	\$ -
Class A warrant liability	\$ -	\$ 612	\$ -

(l) *Use of Estimates*

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

(m) *Research and Development*

In fiscal 2014 and 2013, we incurred \$658 and \$454, respectively, on research and development. Separate from our contract research services business, we maintain applications research and development to enhance our products business. We expense research and development costs as incurred.

(n) *Comprehensive Income (Loss)*

We report comprehensive income (loss) on our Consolidated Statements of Operations. Other comprehensive income (loss) represents changes in shareholders' equity and is comprised of foreign currency translation adjustments as well as changes in the fair value of our interest rate swap.

(o) *Foreign Currency*

For our subsidiary outside of the United States that operates in a local currency environment, income and expense items are translated to United States dollars at the monthly average rates of exchange prevailing during the year, assets and liabilities are translated at year-end exchange rates and equity accounts are translated at historical exchange rates. Translation adjustments are accumulated in a separate component of shareholders' equity in the consolidated balance sheets and are included in the determination of Accumulated Other Comprehensive Income (AOCI) in the consolidated statements of shareholders' equity. Transaction gains and losses are included in the determination of net income (loss) in the consolidated statements of operations and comprehensive income (loss). The balance in AOCI at September 30, 2014 and 2013 was \$28 and \$32, respectively.

(p) *Interest Rate Swap*

The Company uses an interest rate swap designated as a cash flow hedge to fix 60% of the Huntington debt due to mitigate changes in interest rates. The changes in the fair value of the interest rate swap are recorded in Accumulated Other Comprehensive Income (AOCI) to the extent effective. We assess on an ongoing basis whether the derivative that is used in the hedging transaction is highly effective in offsetting changes in cash flows of the hedged debt. The terms of the interest rate swaps match the terms of the underlying debt resulting in no ineffectiveness. When we determine that a derivative is not highly effective as a hedge, hedge accounting is discontinued and we reclassify gains or losses that were accumulated in AOCI to other income (expense), net on the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss). The balance in AOCI at September 30, 2014 and 2013 was (\$21) and \$0, respectively.

(q) *Reclassifications*

Certain amounts in the fiscal 2013 consolidated financial statements have been reclassified to conform to the fiscal 2014 presentation without affecting previously reported net income or stockholders' equity.

(r) *Debt issuance costs*

The Company capitalizes costs associated with the issuance of debt and amortizes them as additional interest expense over the lives of the debt on a straight-line basis. Upon prepayment of the related debt, the Company accelerates the recognition of an appropriate amount of the costs as refinancing or extinguishment of debt. Additional expense arising from such prepayments during fiscal 2014 was \$48.

On May 14, 2014, the Company entered into a Credit Agreement ("Agreement") with Huntington Bank. The Agreement includes a term loan maturing in May 2019. The term loan proceeds were used to pay off the Regions replacement note payable. In connection with the credit facility, the Company recorded fees of \$134 which were deferred and will be amortized over the life of the credit facility. In addition, the Company accelerated the recognition of the deferred issuance costs from the previous Regions replacement note payable extension.

(s) *New Accounting Pronouncements*

Effective October 1, 2017, the Company will be required to adopt the new guidance of ASC Topic 606, Revenue from Contracts with Customers (Topic 606), which will supersede the revenue recognition requirements in ASC Topic 605, Revenue Recognition. Topic 606 requires the Company to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance requires the Company to apply the following steps: (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when, or as, the Company satisfies a performance obligation. The Company will be required to adopt Topic 606 either on a full retrospective basis to each prior reporting period presented or on a modified retrospective basis with the cumulative effect of initially applying the new guidance recognized at the date of initial application. If the Company elects the modified retrospective approach, it will be required to provide additional disclosures of the amount by which each financial statement line item is affected in the current reporting period, as compared to the guidance that was in

effect before the change, and an explanation of the reasons for significant changes. The Company has not yet assessed the impact of the new guidance on its consolidated financial statements.

In July 2013, the Financial Accounting Standards Board (“FASB”) issued authoritative guidance that requires that an entity net its liability for unrecognized tax positions against a net operating loss carry forward, a similar tax loss or a tax credit carry-forward when settlement in this manner is available under the tax law. The Company will adopt this guidance effective at the beginning of its 2015 fiscal year. The adoption of this updated authoritative guidance is not expected to have a significant impact on the Company’s Consolidated Financial Statements.

In February 2013, the FASB issued authoritative guidance that amends the presentation of accumulated other comprehensive income and clarifies how to report the effect of significant reclassifications out of accumulated other comprehensive income. The guidance, which became effective for the Company on a prospective basis at the beginning of its 2014 fiscal year, requires footnote disclosures regarding the changes in accumulated other comprehensive income by component and the line items affected in the statements of operations.

3. SALE OF PREFERRED SHARES AND WARRANTS (not in thousands)

On May 11, 2011, we completed a registered public offering of 5,506 units at a price of \$1,000 per unit. Each unit consisted of one 6% Series A convertible preferred share which is convertible into 500 common shares, one Class A Warrant to purchase 250 common shares at an exercise price of \$2.00 per share, and one Class B Warrant to purchase 250 common shares at an exercise price of \$2.00 per share.

The designation, rights, preferences and other terms and provisions of the Series A preferred shares are set forth in the Certificate of Designation. Until May 11, 2014, the Series A preferred shares had a stated dividend rate of 6% per annum, payable quarterly in cash or, subject to certain conditions, in common shares or a combination of cash and common shares, at our election. After May 11, 2014, the Series A preferred shares participate in any dividends payable upon our common shares on an "as converted" basis. If the preferred shares had converted prior to May 11, 2014, we would have also been required to pay to the converting holder in cash, or subject to certain conditions, in common shares or a combination of cash and common shares, a “make-whole” payment of \$180 per \$1,000 of the stated value of the preferred shares less any dividends paid prior to conversion. The Class A Warrants are exercisable currently and expire in May 2016. The Class B Warrants expired in May 2012. The net proceeds from the sale of the units, after deducting the fees and expenses of the placement agent and other expenses were \$4.6 million. We used the proceeds for the purchase of laboratory equipment and for working capital and general corporate purposes.

The holders of the preferred shares are not entitled to vote together with common shareholders unless converted to common shares. The Series A preferred shares are considered to be an equity instrument. The warrants have been accounted for as a liability and valued using the Black Scholes pricing model. The total fair value of the Class A Warrants at issuance was \$1.973 million and the total fair value of the Class B Warrants at issuance was \$1.072 million for a total liability of \$3.045 million. The assumptions used to compute the fair value of the warrants at the time of issuance were as follows:

	<u>Warrant A</u>	<u>Warrant B</u>
Risk-free interest rate	1.87%	0.18%
Dividend yield	0.00%	0.00%
Volatility of the Company’s common stock	106.91%	116.01%
Expected life of the options (years)	5.0	1.0
Fair value per unit	\$1.433	\$0.779

The Series A preferred shares were valued using the common shares available upon conversion of all preferred shares of 2,753,000 and the closing market price of our stock on May 11, 2011 of \$1.86. Adding in the total possible dividend for the preferred shares of 18% over three years, or \$991,080, the total calculated fair value of the preferred shares was \$6.112 million. We then allocated the gross proceeds of the offering of \$5.506 million to the preferred shares after deducting the fair value of the warrants described above.

We have also recognized a beneficial conversion feature related to the Series A preferred shares, to the extent that the conversion feature, based on the proceeds allocated to the Series A preferred shares, was in-the-money at the time they were issued. Such beneficial conversion feature amounted to approximately \$2.461 million on May 11, 2011. Because the Series A preferred shares do not have a stated redemption date and may be converted by the holder at any time, the discount recognized by the allocation of proceeds to the beneficial conversion feature has been immediately charged through accumulated deficit as a deemed dividend to the holders of the Series A preferred shares in the amount of \$5.506 million. This will be the only deemed distribution recorded for the Series A preferred shares included in this offering. Further, because the preferred dividends or make-whole payments are payable any time after the closing on May 11, 2011 at the option of the holder, we recognized the full value, \$991,080, as a liability included in accounts payable and charged immediately through accumulated deficit. There will be no other dividends recorded for the Series A preferred shares included in this offering.

As of September 30, 2014, 4,321 preferred shares have been converted into 2,564,108 common shares and 217,366 common shares have been issued for quarterly preferred dividends for remaining outstanding, unconverted preferred shares. As of September 30, 2014, 577,897 warrants have been exercised. At September 30, 2014, 1,185 preferred shares and 798,603 warrants remained outstanding. Also at September 30, 2014, \$0 of the \$991,080 in preferred dividends remains accrued in accounts payable for future preferred dividends. All dividends have been paid according to the agreement. The assumptions used to compute the fair value of the warrants at September 30, 2014 and 2013 were as follows:

	<u>September 30, 2014</u>	<u>September 30, 2013</u>
	<u>Warrant A</u>	<u>Warrant A</u>
Risk-free interest rate	0.41%	0.51%
Dividend yield	0.00%	0.00%
Volatility of the Company's common stock	63.58%	71.15%
Expected life of the options (years)	1.6	2.6
Fair value per unit	\$0.846	\$0.444

The following table summarizes the change in the estimated fair value of the Company's Class A warrants as of September 30:

	<u>2014</u>	<u>2013</u>
Balance at beginning of year	\$ 612	\$1,213
Fair value of Class A warrants exercised	(854)	—
Increase (decrease) in fair value of Class A warrants	918	(601)
Balance at end of year	<u>\$ 676</u>	<u>\$ 612</u>

For the years ended September 30, 2014 and 2013, the Company recognized (expense) income of (\$918) and \$601, respectively, due to the change in the estimated fair value of the Company's warrants. This expense (income) was recorded as Change in fair value of warrant liability on the Company's consolidated statements of operations and comprehensive (loss) income for the respective periods.

4. INCOME (LOSS) PER SHARE

We compute basic income (loss) per share using the weighted average number of common shares outstanding. The Company has three categories of dilutive potential common shares: the Series A preferred shares issued in May 2011 in connection with the registered direct offering, the Warrants issued in connection with the same offering in May 2011, and shares issuable upon exercise of options. We compute diluted earnings per share using the if-converted

method for preferred stock and warrants and the treasury stock method for stock options. Shares issuable upon exercise of options were not considered in computing diluted income (loss) per share for the year ended September 30, 2014, because they were anti-dilutive. Warrants for 799 common shares and 592 common shares issuable upon conversion of preferred shares were not considered in computing diluted income (loss) per share for the year ended September 30, 2014, because they were also anti-dilutive.

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

	Years Ended September 30,	
	2014	2013
<i>Basic net income (loss) per share:</i>		
Net income (loss)	\$ (1,070)	\$ 773
Weighted average common shares outstanding	<u>7,960</u>	<u>7,664</u>
Basic net income (loss) per share	<u>\$ (0.13)</u>	<u>\$ 0.10</u>
<i>Diluted net income (loss) per share:</i>		
Net income (loss) applicable to common shareholders	<u>\$ (1,070)</u>	<u>\$ 773</u>
Weighted average common shares outstanding	7,960	7,664
Plus: Incremental shares from assumed conversions:		
Series A preferred shares	—	705
Dilutive stock options/shares	<u>—</u>	<u>2</u>
Diluted weighted average common shares outstanding	<u>7,960</u>	<u>8,371</u>
Diluted net income (loss) per share	<u>\$ (0.13)</u>	<u>\$ 0.09</u>

5. INVENTORIES

Inventories at September 30 consisted of the following:

	<u>2014</u>	<u>2013</u>
Raw materials	\$ 1,228	\$ 1,157
Work in progress	295	322
Finished goods	<u>340</u>	<u>259</u>
	\$ 1,863	\$ 1,738
Obsolescence reserve	<u>(299)</u>	<u>(359)</u>
	<u>\$ 1,564</u>	<u>\$ 1,379</u>

6. LEASE ARRANGEMENTS

The total amount of equipment capitalized under capital lease obligations as of September 30, 2014 and 2013 was \$5,892 and \$5,778, respectively. Accumulated amortization on capital leases at September 30, 2014 and 2013 was \$5,358 and \$5,083, respectively. Amortization of assets acquired through capital leases is included in depreciation expense.

In fiscal 2014, we had one new capital lease addition of \$114 for laboratory equipment at our Evansville facility. Due to restructuring activities outlined in Note 12, we terminated a capital lease for laboratory equipment in the UK. The activity resulted in a liability reduction of \$322. Future minimum lease payments on capital leases at September 30, 2014 for the next five years are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 279	\$ 29	\$ 308
2015	230	12	242
2016	27	4	31
2017	25	2	27
2018	16	-	16
	<u>\$ 577</u>	<u>\$ 47</u>	<u>\$ 624</u>

We lease office space and equipment under non-cancelable operating leases that terminate at various dates through 2016. The UK building lease expires in 2023 but includes an opt out provision after 7 years, or in fiscal 2015. Certain of these leases contain renewal options. Total rental expense under these leases was \$87 and \$66 in fiscal 2014 and 2013, respectively.

Future minimum lease payments for the following fiscal years under operating leases at September 30, 2014 are as follows:

2015	\$ 856
2016	16
2017	1
2018	-
2019	-
	<u>\$ 873</u>

[Remainder of page intentionally left blank.]

7. DEBT ARRANGEMENTS

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

	<u>2014</u>	<u>2013</u>
Term loan payable to a bank, payable in monthly principal installments of \$65. Interest is variable at LIBOR plus 325 basis points which was 3.4% at September 30, 2014. Collateralized by underlying property. Due May, 2019.	\$ 5,238	\$ -
Replacement note payable to a bank, payable in monthly principal installments of \$47 plus interest. The interest rate is 6%. Collateralized by West Lafayette and Evansville properties. Due October, 2014.	-	5,254
	\$ 5,238	\$ 5,254
Less: Current portion	786	613
	<u>\$ 4,452</u>	<u>\$ 4,641</u>

Cash interest payments of \$389 and \$649 were made in 2014 and 2013, respectively. The following table summarizes the annual principal payments under our term loan through maturity in May 2019:

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Total</u>
Term loan	\$ 786	\$ 786	\$ 786	\$ 785	\$ 2,095	\$ 5,238

Note payable

Prior to obtaining the new credit facility described below, we had a term loan from Regions Bank (“Regions”), which was secured by mortgages on our facilities in West Lafayette and Evansville, Indiana. Prior to termination in January 2014, we had a \$3,000 line of credit with EGC. The EGC line of credit was subject to availability limitations.

On November 9, 2012, we executed a sixth amendment with Regions which we further modified on December 21, 2012. In the sixth amendment, Regions agreed to extend the term loan and mortgage loan maturity dates to October 31, 2013. The unpaid principal on the notes was incorporated into a replacement note payable for \$5,786 bearing interest at LIBOR plus 400 basis points (minimum of 6.0%) with monthly principal payments of approximately \$47 plus interest. The replacement note payable was secured by real estate at our West Lafayette and Evansville, Indiana locations. The replacement note payable had a balance of \$5,254 at September 30, 2013.

On October 31, 2013, we executed a seventh amendment with Regions to extend the note payable maturity date to October 31, 2014.

Regions required us to maintain a fixed charge coverage ratio of not less than 1.25 to 1.00 and a total liabilities to tangible net worth ratio of not greater than 2.10 to 1.00. Failure to comply with those covenants would have been a default under the Regions loans, requiring us to negotiate with Regions regarding loan modifications or waivers. If we were unable to obtain such modifications or waivers, Regions could have accelerated the maturity of the loans and caused a cross default with our other lender. The Regions loan agreements contained cross-default provisions with each other and formerly with the revolving line of credit with EGC described below that was terminated in January 2014.

Revolving Line of Credit

On January 31, 2014, we paid off the remaining balance on our \$3,000 revolving line of credit agreement (“Credit Agreement”) with EGC. Pursuant to the terms of the Credit Agreement, the line of credit would have automatically renewed on January 31, 2014 unless either party gave a 60-day notice of intent to terminate or withdraw. On October 30, 2013, we informed EGC of our intent not to renew the line of credit on January 31, 2014 and the line of credit terminated on that date.

During the first four months of fiscal 2014, borrowings under the Credit Agreement bore interest at an annual rate equal to Citibank’s Prime Rate plus five percent (5%) with minimum monthly interest of \$15. Interest was paid monthly. The line of credit also carried an annual facilities fee of 2% and a 0.2% collateral monitoring fee. Borrowings under the Credit Agreement were secured by a blanket lien on our personal property, including certain eligible accounts receivable, inventory, and intellectual property assets, a second mortgage on our West Lafayette and Evansville real estate and all common stock of our U.S. subsidiaries and 65% of the common stock of our non-United States subsidiary. Borrowings were calculated based on 75% of eligible accounts receivable. Under the Credit Agreement, as amended, the Company had agreed to restrict advances to subsidiaries, limit additional indebtedness and capital expenditures and maintain a minimum tangible net worth of at least \$8,000. The Credit Agreement also contained cross-default provisions with the Regions loan and any future EGC loans. At September 30, 2013, we had \$1,415 outstanding on this line.

New Credit Facility

On May 14, 2014, we entered into a Credit Agreement (“Agreement”) with Huntington Bank. The Agreement includes both a term loan and a revolving loan and is secured by mortgages on our facilities in West Lafayette and Evansville, Indiana and liens on our personal property.

The term loan for \$5,500 bears interest at LIBOR plus 325 basis points with monthly principal payments of approximately \$65 plus interest. The term loan matures in May 2019. On May 15, 2014, we used the proceeds from the term loan to pay off the Regions replacement note payable. The balance on the term loan at September 30, 2014 was \$5,238.

The revolving loan for \$2,000 matures in May 2016 and bears interest at LIBOR plus 300 basis points with interest paid monthly. The revolving loan also carries a facility fee of .25%, paid quarterly, for the unused portion of the revolving loan. The revolving loan includes an annual clean-up provision that requires the Company to maintain a balance of not more than 20% of the maximum loan of \$2,000 for a period of 30 days in any 12 month period while the revolving loan is outstanding. The revolving loan balance was \$202 at September 30, 2014.

The Agreement requires us to maintain a fixed charge coverage ratio of not less than 1.10 to 1.00 and a maximum total leverage ratio of not greater than 3.00 to 1.00 from the date of the Agreement through September 30, 2015 and 2.50 to 1.00 commencing after October 1, 2015 until maturity. The Agreement also contains various other covenants, including restrictions on the incurrence of certain indebtedness, liens, investments, acquisitions, asset sales and cash dividends.

We entered into an interest rate swap agreement with respect to the above loans to fix the interest rate with respect to 60% of the value of the term loan at approximately 5.0%. We entered into this derivative transaction to hedge interest rate risk of the related debt obligation and not to speculate on interest rates. The changes in the fair value of the interest rate swap are recorded in Accumulated Other Comprehensive Income (AOCI) to the extent effective. We assess on an ongoing basis whether the derivative that is used in the hedging transaction is highly effective in offsetting changes in cash flows of the hedged debt. The terms of the interest rate swaps match the terms of the underlying debt resulting in no ineffectiveness.

We incurred \$134 of costs in connection with the issuance of the credit facility. These costs were capitalized and are being amortized to interest expense on a straight-line basis over five years based on the contractual term of the credit facility. As of September 30, 2014, the unamortized portion of debt issuance costs related to the credit facility was \$122, and was included in Debt issue costs, net on the consolidated balance sheets. We incurred \$60 of costs in

connection with the seventh amendment with Regions. These costs and \$21 of unamortized costs at September 30, 2013 were expensed during the year ended September 30, 2014.

8. INCOME TAXES

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

	<u>2014</u>	<u>2013</u>
Deferred tax assets - Current:		
Inventory	\$ 187	\$ 208
Accrued compensation and vacation	246	192
Accrued expenses and other	<u>178</u>	<u>185</u>
Total current deferred tax assets	611	585
Deferred tax liabilities – Current:		
Prepaid expenses	<u>(72)</u>	<u>(49)</u>
Total net current deferred tax assets	539	536
Deferred tax assets - Noncurrent:		
Domestic net operating loss carryforwards	4,828	5,737
Stock compensation expense	54	45
Foreign tax credit carryover	-	119
AMT credit carryover	<u>58</u>	<u>54</u>
Total noncurrent deferred tax assets	4,940	5,955
Deferred tax liabilities - Noncurrent:		
Unrealized gain/loss - warrant liability	(180)	(530)
Investment in subsidiary	(3,173)	(3,214)
Basis difference for fixed assets	<u>(408)</u>	<u>(461)</u>
	(3,761)	(4,205)
Total net noncurrent deferred tax assets	1,179	1,750
Valuation allowance for net deferred tax assets	<u>(1,718)</u>	<u>(2,286)</u>
Net deferred tax asset (liability)	<u>\$ -</u>	<u>\$ -</u>

[Remainder of page intentionally left blank.]

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

	<u>2014</u>	<u>2013</u>
Current:		
Federal	\$ 5	\$ 13
State and local	2	3
Foreign	-	-
Deferred:		
Federal	-	-
State and local	-	-
Foreign	-	-
Income tax (benefit) expense	<u>\$ 7</u>	<u>\$ 16</u>

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

	2014		2013	
Federal statutory income tax rate	34.0	%	34.0	%
Increases (decreases):				
State and local income taxes, net of Federal tax benefit, if applicable	(0.1)		0.3	
Nondeductible expenses	(15.2)		7.2	
Nontaxable foreign (gains) losses	-		-	
Uncertain tax positions	-		-	
Valuation allowance changes	(19.3)		(39.4)	
Other			-	
Effective income tax rate	<u>(0.6)</u>	<u>%</u>	<u>2.1</u>	<u>%</u>

An impairment of goodwill in the amount of \$374 was recorded that was not deductible for tax purposes. Therefore, no tax benefit was recorded.

In the prior year, we had foreign net operating loss carry forwards of \$8,626 under current UK tax law that will never be recognized due to the closure of the UK facility. Consequently, the deferred tax asset and the valuation allowance related to the foreign net operating losses have been removed.

Realization of deferred tax assets associated with the net operating loss carry forward and credit carry forward is dependent upon generating sufficient taxable income prior to their expiration. The valuation allowance in fiscal 2014 and 2013 was \$1,718 and \$2,286, respectively for our domestic operations. Payments made in fiscal 2014 and 2013 for income taxes amounted to \$17 and \$3, respectively.

At September 30, 2014, we had domestic net operating loss carry forwards of approximately \$11,959 for federal and \$15,744 for state, which expire from September 30, 2015 through 2032. Further, we have an alternative minimum tax credit carry forward of approximately \$58 available to offset future federal income taxes. This credit has an unlimited carry forward period.

We may recognize the tax benefit from an uncertain tax position only if it is more likely than not to be sustained upon regulatory examination based on the technical merits of the position. The amount of the benefit for which an exposure exists is measured as the largest amount of benefit determined on a cumulative probability basis that we believe is more likely than not to be realized upon ultimate settlement of the position. At September 30, 2014, a \$16 liability remained for other uncertain income tax positions.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Change in unrecognized tax benefits:

	<u>2014</u>	<u>2013</u>
Balance at beginning of the year	\$ 16	\$ 16
Additions based on tax positions related to the current year	-	-
Additions for tax positions of prior years	-	-
Reductions for tax positions of prior years	-	-
Settlements	-	-
Balance at end of the year	<u>\$ 16</u>	<u>\$ 16</u>

As noted in the table above, there has been no change in our gross uncertain tax positions during fiscal 2014 based on a state tax position.

We are no longer subject to U.S. federal tax examinations for years before 2010 or state and local for years before 2009, with limited exceptions. For federal purposes, the tax attributes carried forward could be adjusted through the examination process and are subject to examination 3 years from the date of utilization. Furthermore, we are no longer subject to income tax examinations in the United Kingdom for years prior to 2009.

We have assessed the application of Internal Revenue Code Section 382 regarding certain limitations on the future usage of net operating losses. No limitation applies as of September 30, 2014, and we will continue to monitor activities in the future.

9. STOCK-BASED COMPENSATION

Summary of Stock Option Plans and Activity

In March 2008, our shareholders approved the 2008 Stock Option Plan (the "Plan") to replace the 1997 Outside Director Stock Option Plan and the 1997 Employee Stock Option Plan. Future common shares will be granted from the 2008 Stock Option Plan. The purpose of the Plan is to promote our long-term interests by providing a means of attracting and retaining officers, directors and key employees. The Compensation Committee shall administer the Plan and approve the particular officers, directors or employees eligible for grants. Under the Plan, employees are granted the option to purchase our common shares at fair market value on the date of the grant. Generally, options granted vest and become exercisable in four equal installments commencing one year from date of grant and expire upon the earlier of the employee's termination of employment with us, or ten years from the date of grant. This plan terminates in fiscal 2018. The maximum number of common shares that may be granted under the Plan is 500 shares. At September 30, 2014, 234 shares remain available for grants under the Plan.

The Compensation Committee has also issued non-qualified stock option grants with vesting periods different from the Plan. As of September 30, 2014 and 2013, total non-qualified stock options outstanding were 155.

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

	<u>2014</u>	<u>2013</u>
Risk-free interest rate	2.36%	1.42%
Dividend yield	0.00%	0.00%
Volatility of the expected market price of the Company's common stock	94.50%- 94.70%	93.60%- 93.70%
Expected life of the options (years)	8.0	8.0

A summary of our stock option activity for all options and related information for the years ended September 30, 2014 and 2013, respectively, is as follows (in thousands except for share prices):

	Options (shares)	Weighted- Average Exercise Price	Weighted- Average Grant Date Fair Value	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding - October 1, 2012	354	\$ 1.99			
Exercised	(7)	\$ 1.35	\$ 1.14		
Granted	178	\$ 1.46	\$ 1.20		
Terminated	(46)	\$ 2.35			
Outstanding - September 30, 2013	<u>479</u>	\$ 1.77	\$ 1.35	7.9	\$ 43
Outstanding - October 1, 2013	479	\$ 1.77			
Exercised	(11)	\$ 1.14	\$ 0.95		
Granted	40	\$ 2.69	\$ 2.25		
Terminated	(82)	\$ 2.00			
Outstanding - September 30, 2014	<u>426</u>	\$ 1.83	\$ 1.41	7.2	\$ 348
Exercisable at September 30, 2014	<u>317</u>	\$ 1.83	\$ 1.38	6.7	\$ 279

The aggregate intrinsic value is the product of the total options outstanding and the net positive difference of our common share price on September 30, 2014 and the options' exercise price. A summary of non-vested options for the year ended September 30, 2014 is as follows:

	Number of Shares	Weighted- Average Grant Date Fair Value
Non-vested options at October 1, 2013	261	\$ 1.11
Granted	40	\$ 2.25
Vested	(131)	\$ 1.08
Forfeited	(61)	\$ 1.20
Non-vested options at September 30, 2014	<u>109</u>	\$ 1.51

Eight options with an intrinsic value of \$13 were exercised using a cashless exercise and 3 options with an intrinsic value of \$4 were exercised using cash in fiscal 2014, which resulted in the issuance of 7 common shares. In fiscal 2013, 7 options with an intrinsic value of \$1 were exercised using a cashless exercise, resulting in the issuance of 1 common share. As of September 30, 2014, our total unrecognized compensation cost related to non-vested stock options was \$116 and is expected to be recognized over a weighted-average service period of 1.06 years. As of September 30, 2014, there are 155 shares outstanding that were granted outside of the Plan. Stock-based compensation expense for employee stock options for the years ended September 30, 2014 and 2013 was \$84 and \$225, respectively.

The following table summarizes outstanding and exercisable options as of September 30, 2014 (in thousands except per share amounts):

<u>Range of Exercise Prices</u>	<u>Shares Outstanding</u>	<u>Weighted-Average Remaining Contractual Life (Years)</u>	<u>Weighted-Average Exercise Price</u>	<u>Shares Exercisable</u>	<u>Weighted-Average Exercise Price</u>
\$ 0.79 - 1.01	86	6.54	\$ 0.96	62	\$ 0.96
\$ 1.02 - 4.59	296	8.12	\$ 1.58	211	\$ 1.38
\$ 4.60 - 8.79	44	2.13	\$ 5.18	44	\$ 5.18

10. RETIREMENT PLAN

We have a 401(k) Retirement Plan (the “Plan”) covering all employees over twenty-one years of age with at least one year of service. Under the terms of the Plan, we contribute 1% of each participant’s total wages to the Plan and match 22% of the first 10% of the employee contribution. The Plan also includes provisions for various contributions which may be instituted at the discretion of the Board of Directors. The contribution made by the participant may not exceed 30% of the participant’s annual wages. We made no discretionary contributions under the plan in 2014 and 2013. Similar to fiscal 2013, we suspended our match of the employee contribution as part of our cost reduction efforts. Contribution expense was \$1 and \$1 in fiscal 2014 and 2013, respectively. The amounts recorded in fiscal 2013 relate to statutory contributions for our European location.

11. SEGMENT INFORMATION

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

[Remainder of page intentionally left blank.]

(a) *Operating Segments*

		Years Ended September 30,	
		2014	2013
Revenue:			
	Service	\$ 19,097	\$ 16,473
	Product	<u>5,487</u>	<u>5,595</u>
		\$ 24,584	\$ 22,068
Operating income (loss) :			
	Service	\$ 469	\$ 77
	Product	<u>(135)</u>	<u>753</u>
		\$ 334	\$ 830
Interest Expense		(488)	(649)
Change in fair value of warrant liability- (increase) decrease		(918)	601
Other income		<u>9</u>	<u>7</u>
(Loss) income before income taxes		<u>\$ (1,063)</u>	<u>\$ 789</u>

		Years Ended September 30,	
		2014	2013
Identifiable assets:			
	Service	\$ 14,132	\$ 15,149
	Product	5,837	6,399
	Corporate	<u>3,805</u>	<u>4,049</u>
		<u>\$ 23,774</u>	<u>\$ 25,597</u>
Goodwill, net:			
	Service	\$ 1,009	\$ 1,009
	Product	<u>—</u>	<u>374</u>
		<u>\$ 1,009</u>	<u>\$ 1,383</u>
Depreciation and amortization:			
	Service	\$ 1,421	\$ 1,519
	Product	<u>176</u>	<u>204</u>
		<u>\$ 1,597</u>	<u>\$ 1,723</u>
Capital Expenditures:			
	Service	\$ 426	\$ (1)
	Product	<u>64</u>	<u>9</u>
		<u>\$ 490</u>	<u>\$ 8</u>

(b) *Geographic Information*

	Years Ended September 30,	
	2014	2013
Sales to External Customers:		
North America	\$ 22,184	\$ 19,635
Pacific Rim	740	1,019
Europe	1,086	1,111
Other	574	303
	<u>\$ 24,584</u>	<u>\$ 22,068</u>
 Long-lived Assets:		
North America	\$ <u>17,119</u>	\$ <u>18,364</u>
	<u>\$ 17,119</u>	<u>\$ 18,364</u>

(c) *Major Customers*

In fiscal 2014 our preclinical services group significantly expanded its presence at two important existing customers. In fiscal 2014, Arrowhead accounted for approximately 12.1% of total sales and 18.5% of total trade accounts receivable at September 30, 2014. In fiscal 2013, Arrowhead accounted for approximately 0.4% of total sales and 4.6% of total trade accounts receivable at September 30, 2013. In fiscal 2014, Principia Biopharma accounted for approximately 8.7% of total sales and 8.4% of total trade accounts receivable at September 30, 2014. In fiscal 2013, Principia Biopharma accounted for approximately 0.4% of total sales and 7.1% of total trade accounts receivable at September 30, 2013. Both Arrowhead and Principia Biopharma are included in our contract research services segment.

In fiscal 2014, Boehringer Ingelheim remained an important customer, accounting for approximately 5.9% of total sales and 2.5% of total trade accounts receivable at September 30, 2014. In fiscal 2013, Boehringer Ingelheim accounted for approximately 6.0% of total sales and 2.6% of total trade accounts receivable at September 30, 2013. Pfizer, Inc. also remains an important large client, accounting for approximately 1.7% and 4.9% of our total revenues in fiscal 2014 and 2013, respectively. Pfizer, Inc. accounted for 1.5% and 3.3% of total trade accounts receivable at September 30, 2014 and 2013, respectively. Both Boehringer Ingelheim and Pfizer are included in our contract research services segment.

12. RESTRUCTURING

In March 2012, we announced a plan to restructure our bioanalytical laboratory operations. We consolidated our laboratory in McMinnville, Oregon into our 120,000 square foot headquarters facility in West Lafayette, Indiana. This plan was implemented to reduce operating costs and strengthen our ability to meet clients' needs by improving laboratory utilization. In the fourth fiscal quarter of 2012, we decided to initiate closure of our facility and bioanalytical laboratory in Warwickshire, United Kingdom after careful evaluation of its financial performance and analysis of our strategic alternatives. We continue to sell our products globally while further consolidating delivery of our CRO services into our Indiana locations. As part of the overall evaluation of our business, personnel reductions in the Selling, R&D and General and Administrative functions were also implemented at both of our Indiana locations during the second half of fiscal 2012. In total, 74 employees were terminated as part of the restructuring activities.

We reserved for lease payments at the cease use date and have considered free rent, sublease rentals and the number of days it would take to restore the space to its original condition prior to our improvements. In the first quarter

of fiscal 2013, we began amortizing into general and administrative expense, equally through the cease use date, the estimated rent income of \$200 when the reserve was originally established. We have been unsuccessful at subleasing the facility. Based on these, we have \$961 reserved for UK lease related costs.

The following table sets forth the rollforward of the restructuring activity for the year ended September 30, 2014.

	Balance, September 30, 2013	Total Charges	Cash Payments	Other	Balance, September 30, 2014
Lease related costs	\$ 877	\$ 84	\$ -	\$ -	\$ 961
Receivable from sale of equipment	(16)	-	-	16	-
Other costs	117	-	-	-	117
Total	<u>\$ 978</u>	<u>\$ 84</u>	<u>\$ -</u>	<u>\$ 16</u>	<u>\$ 1,078</u>

Other costs include legal and professional fees and other costs incurred in connection with transitioning services from sites being closed as well as costs incurred to remove improvements previously made to the UK facility. Other activity in the reserve rollforward primarily reflects a receivable for settlement of the capital lease in the UK.

13. SELF-INSURANCE

The Company is self-insured for certain costs related to its employee health plan. Costs resulting from noninsured losses are charged to income when incurred. The Company has purchased insurance which limits its exposure for individual claims to approximately \$75 and has an aggregating specific deductible of \$85 at September 30, 2014. The Company's expense related to the plan was \$1,055 and \$1,035 for the years ended September 30, 2014 and 2013.

14. MANAGEMENT'S PLAN

Our long-term strategic objective is to maximize the Company's intrinsic value per share. While we remain focused on reducing our costs through productivity and better processes and a continued emphasis on generating free cash flow, we are dedicated to the strategies that drive our top-line growth. We are intensifying our efforts to improve our processes, embrace change and wisely employ our stronger liquidity position.

Revenues for the year ended September 30, 2014 increased 11.4% to \$24,584 compared to \$22,068 for the year ended September 30, 2013. In fiscal 2014, we experienced increased demand in our Contract Research services segment. Most notably significant revenue gains were reported by the Preclinical Services which supports our clients' Phase II & III clinical trials. In our Product segment, revenue was down slightly compared to same period one year ago due in part from lower sales of certain analytical instruments. Cost of revenue for the year ended September 30, 2014 was \$16,622 or 67.6% of revenue compared to \$15,013 or 68.0% of revenue for the prior fiscal year. The main reason for the decrease was our ability to leverage the higher revenue in fiscal year 2014 over our fixed cost base as well as strict spend monitoring during the fiscal year.

As of September 30, 2014, we had \$981 of cash and cash equivalents as compared to \$1,304 of cash and cash equivalents at the end of fiscal 2013. In fiscal 2014, we generated \$1,684 in cash from operations primarily from the net income and working capital management as compared to \$1,594 in fiscal 2013. Total capital expenditures increased in fiscal 2014 to a level of \$490 reflecting our improved liquidity position.

On May 14, 2014, we entered into a Credit Agreement ("Agreement") with Huntington Bank. The Agreement includes both a term loan and a revolving loan and is secured by mortgages on our facilities and personal property in West Lafayette and Evansville, Indiana. We used the proceeds from the term loan to pay off the Regions Bank replacement note payable.

Over the past two years, we have focused on targeted initiatives that were designed to stabilize our business, improve our liquidity and lower our break-even point. While we remain dedicated to increasing our productivity and internal processes with the intent to continue to grow free cash flow, we are actively pursuing strategies to drive top-line growth. In fiscal 2015, we plan to focus on sales execution, operational excellence and building strategic partnerships with pharmaceutical and biotechnology companies, to differentiate our company and create value for our clients and shareholders. By improving revenue growth and managing our costs effectively, combined with the availability of a new credit facility with substantially more favorable terms than the long-term debt and line of credit it replaces, we enhance our ability to implement our growth plan. We have taken several steps to strengthen our management team in roles that will be vital to helping drive our top line performance. We are expanding our marketing efforts by building on the Company's inherent strengths in specialty assay and drug discovery, regulatory excellence, and our *Culex*® automated sampling system. We recognize that our growth depends upon our ability to continually improve and create new client relationships. In addition, strengthening the overall leadership team represents an important step forward in the Company's continuing program to build a management team with the depth, experience and dedication in order to position the Company to deliver profitable growth over the long-term. We are determined to follow through on the initiatives that support of our strategy to strengthen the Company for fiscal 2015 and beyond.

[Remainder of page intentionally left blank.]

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Bioanalytical Systems, Inc.

We have audited the consolidated balance sheets of Bioanalytical Systems, Inc. as of September 30, 2014 and 2013 and the related consolidated statements of operations and comprehensive (loss) income, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bioanalytical Systems, Inc. as of September 30, 2014 and 2013, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

/s/ McGladrey LLP
Indianapolis, Indiana
December 29, 2014

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

None.

ITEM 9A-CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to provide reasonable assurance to our management and board of directors that information required to be disclosed in the reports we file or submit to the Securities and Exchange Commission is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based on an evaluation conducted under the supervision and with the participation of the Company's management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2014, including those procedures described below, we, including our Chief Executive Officer and Chief Financial Officer, determined that those controls and procedures were effective as of September 30, 2014.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the 1992 framework in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based upon this evaluation, management determined that the Company's internal control over financial reporting was effective as of September 30, 2014.

Changes in Internal Controls

There were no changes in our internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, during fiscal 2014 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

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

ITEM 9B-OTHER INFORMATION

None.

PART III

ITEM 10-DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The following information concerns the persons who served as the directors of the Company as of September 30, 2014. Except as indicated in the following paragraphs, the principal occupations of these persons have not changed in the past five years. Information concerning the executive officers of the Company, including Ms. Lemke's biographical information, may be found in "Executive Officers of the Registrant" under Item 1 of this report, which is incorporated herein by reference.

Name	Age	Position
John B. Landis, Ph.D.	61	Chairman
Larry S. Boulet	68	Director
Merrill Osheroff, Ph.D.	60	Director
Richard A. Johnson	69	Director
David L. Omachinski	62	Director
A. Charlene Sullivan, Ph.D.	65	Director
Jacqueline M. Lemke	52	Director, President, Chief Executive Officer

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

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

Merrill Osheroff, Ph.D. was elected as a director of the Company on January 25, 2014. Dr. Osheroff is a board-certified toxicologist, drug development consultant, and President of Osheroff Consulting Services, LLC. He has 35 years of experience in the nonclinical CRO industry and as manager/managing director at Searle/Monsanto, Pharmacia, and Pfizer. His specialties include drug development planning and strategy, due diligence of compounds for in-licensing, generation of the nonclinical sections of regulatory submissions (IND, NDA, MAA), outsourcing and monitoring of nonclinical studies, report review expertise, mentoring of CRO study directors, outsourcing strategies, and white paper expert reports. Dr Osheroff received his B.S. in Animal Sciences from the University of Maryland and his Ph.D. in Experimental Pathology and Laboratory Medicine/Toxicology from the University of Wisconsin

Richard A. Johnson, Ph.D. was elected as a director of the Company on May 9, 2012. Dr. Johnson is currently an executive scientific consultant. From 1990 to 2008, he served as Founder and President of AvTech Laboratories. Prior to founding AvTech Laboratories, he served in various positions with The Upjohn Company, including Senior Research Scientist, Manager of Product Control, Manager of Quality Assurance Product Support and Director of Strategic Planning. Dr. Johnson received his Bachelor of Science in Chemistry from the Illinois Institute of

Technology and his Ph.D. in Chemical Physics from Michigan State University. Dr. Johnson brings to the Board of Directors knowledge and insight on scientific matters, stemming from his extensive experience in the pharmaceutical industry.

David L. Omachinski was elected as a director of the Company on October 8, 2009. Mr. Omachinski is currently an independent executive management consultant. He was President and Chief Executive Officer (from October 2005 to August 2006) of Magnum Products, LLC (since sold to Generac Holdings Inc.), a company which supplied light towers, mobile generators and other construction equipment for a variety of industries. Prior thereto, he was President and Chief Operating Officer (since February 2004), Executive Vice President, Chief Operating & Financial Officer, and Treasurer (since 2002) and Vice President-Finance, Chief Financial Officer & Treasurer (since 1993) of Oshkosh B' Gosh, Inc. Mr. Omachinski also serves on the board Of Anchor BanCorp, Wisconsin, Inc. (since 2002) and its wholly owned subsidiary Anchor Bank, fsb (since 1999). Mr. Omachinski received his Bachelor of Business Administration from the University of Wisconsin – Oshkosh and is a certified public accountant. Mr. Omachinski is the Chairman of the Board of Directors of Anchor Bancorp and the Bank and Chair of the Audit Committee of Anchor BanCorp. Anchor BanCorp and the Bank consented to the issuance of Orders to Cease and Desist (together, the "Orders") on June 26, 2009, and the Bank received a Prompt Corrective Action Directive on August 31, 2010 from federal bank examiners. These enforcement actions remain in place and require, among other things that the Bank comply with heightened capital requirements and a capital restoration plan, prepare and comply with a revised business plan that includes strategies for capital enhancement and an emphasis on reducing classified assets, the Bank and Anchor BanCorp to generally be prohibited from declaring or paying dividends or making and other capital distributions without receiving regulator prior written approval and restrictions on the Bank's ability to accept, renew, or roll over any brokered deposit or act as a deposit broker. The Orders further require, among other things that Anchor BanCorp and the Bank notify, and in some cases receive permission from, its regulators prior to making certain payments, incurring indebtedness, entering into certain contractual arrangements or changing its management or directors. Mr. Omachinski provides the Board of Directors insight and experience in financial management.

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

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

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

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and executive officers and persons who beneficially own more than ten percent of BASi's Common Shares and any other person subject to section 16(a) with respect to BASi to file with the Securities and Exchange Commission reports showing ownership of and changes in ownership of BASi's Common Shares and other equity securities. On the basis of information available to us, we believe that all filing requirements were met for fiscal 2014.

ITEM 11-EXECUTIVE COMPENSATION

The information included under the captions "Elections of Directors – Non-employee Director Compensation and Benefits" and "Compensation of Executive Officers" in the Proxy Statement for the 2015 Annual Meeting is incorporated herein by reference in response to this item.

ITEM 12-SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information contained under the "Principal Shareholders Table" in the Proxy Statement for the 2015 Annual Meeting and Item 5 of this report is incorporated by reference in response to this item.

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

ITEM 13-CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information included under the captions "Certain Relationships and Related Transactions" and "Election of Directors – Board Independence" in the Proxy Statement for the 2015 Annual Meeting is incorporated herein by reference in response to this item.

ITEM 14-PRINCIPAL ACCOUNTING FEES AND SERVICES

The information included under the caption "Selection of Independent Registered Accounting Firm" in the Proxy Statement for the 2015 Annual Meeting is incorporated herein by reference in response to this item.

PART IV

ITEM 15-EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this Report.

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

SIGNATURES

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

BIOANALYTICAL SYSTEMS, INC.
(Registrant)

Date: December 29, 2014

By: /s/ Jacqueline M. Lemke

Jacqueline M. Lemke
President and Chief Executive Officer

Date: December 29, 2014

By: /s/ Jeffrey Potrzebowski

Jeffrey Potrzebowski
Chief Financial Officer and Vice President of
Finance (Principal Financial Officer and
Principal Accounting Officer)

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

<u>Signature</u>	<u>Capacity</u>	<u>Date</u>
<u>/s/ Jacqueline M. Lemke</u> Jacqueline M. Lemke	President and Chief Executive Officer (Principal Executive Officer)	December 29, 2014
<u>/s/ John B. Landis, Ph.D.</u> John B. Landis, Ph.D.	Chairman	December 29, 2014
<u>/s/ Larry S. Boulet</u> Larry S. Boulet	Director	December 29, 2014
<u>/s/ Merrill Osheroff</u> Merrill Osheroff	Director	December 29, 2014
<u>/s/ Richard A. Johnson, Ph.D.</u> Richard A. Johnson, Ph.D.	Director	December 29, 2014
<u>/s/ David L. Omachinski</u> David L. Omachinski	Director	December 29, 2014
<u>/s/ A. Charlene Sullivan, Ph.D.</u> A. Charlene Sullivan, Ph.D.	Director	December 29, 2014

EXHIBIT INDEX

<u>Number</u>	<u>Description of Exhibits</u>
(3)	<p>3.1 Second Amended and Restated Articles of Incorporation of Bioanalytical Systems, Inc. as amended through May 9, 2011 (incorporated by reference to Exhibit 3.1 to Form-10Q for the quarter ended June 30, 2011).</p> <p>3.2 Second Amended and Restated Bylaws of Bioanalytical Systems, Inc., as subsequently amended (incorporated by reference to Exhibit 3.2 to Form 10-K for the fiscal year ended September 30, 2009).</p>
(4)	<p>4.1 Specimen Certificate for Common Shares (incorporated by reference to Exhibit 4.1 to Registration Statement on form S-1, Registration No. 333-36429).</p> <p>4.2 Form of Warrant (incorporated by reference to Exhibit 4.2 to Registration Statement on Form S-1, Registration No. 333-172508).</p> <p>4.3 Certificate of Designation of Preferences, Rights, and Limitations of Convertible Preferred Shares (incorporated by reference to Exhibit 3.1 on Form 8-K, dated May 12, 2011).</p> <p>4.4 Specimen Certificate for 6% Series A Convertible Preferred Shares (incorporated by reference to Exhibit 4.3 to Registration Statement on Form S-1, Registration No. 333-172508).</p>
(10)	<p>10.1 Loan Agreement between Bioanalytical Systems, Inc. and Regions Bank dated December 18, 2007 (incorporated by reference to Exhibit 10.7 of Form 10-K for the fiscal year ended September 30, 2007).</p> <p>10.2 Agreement for Lease, by and among Bioanalytical Systems, Inc., Bioanalytical Systems Limited and Pettifer Estates Limited, dated October 11, 2007 (incorporated by reference to Exhibit 10.1 to Form 8-K filed October 17, 2007).</p> <p>10.3 Form of Lease, by and among Bioanalytical Systems, Inc., Bioanalytical Systems Limited and Pettifer Estates Limited (incorporated by reference to Exhibit 10.2 to Form 8-K filed October 17, 2007).</p> <p>10.4 Bioanalytical Systems, Inc. 2008 Director and Employee Stock Option Plan (*) (incorporated by reference to Appendix A to the Revised Definitive Proxy Statement filed February 5, 2008, SEC File No. 000-23357).</p> <p>10.5 Form of Employee Incentive Stock Option Agreement under Bioanalytical Systems, Inc. 2008 Director and Employee Stock Option Plan (*) (incorporated by reference to Exhibit 10.31 to Form 10-K for the fiscal year ended September 30, 2008).</p> <p>10.6 Loan and Security Agreement by and between Bioanalytical Systems, Inc., and Entrepreneur Growth Capital LLC, executed January 13, 2010 (incorporated by reference to Exhibit 10.35 to Form 10-K for the fiscal year ended September 30, 2009).</p> <p>10.7 Amendment to Loan Agreement between Bioanalytical Systems, Inc., and Entrepreneur Growth Capital LLC, dated May 13, 2010 (incorporated by reference to Exhibit 10.9 to Form 10-Q for the fiscal quarter ended March 31, 2010).</p>

<u>Number</u>	<u>Description of Exhibits</u>
10.8	Fourth Amendment to Loan Agreement between Bioanalytical Systems, Inc. and Regions Bank, executed November 29, 2010 (incorporated by reference to Exhibit 10.1 for Form 8-K filed December 2, 2010).
10.9	Amendment to Loan Agreement between Bioanalytical Systems, Inc., and Entrepreneur Growth Capital LLC, dated December 23, 2010 (incorporated by reference to Exhibit 10.1 for Form 8-K filed December 30, 2010).
10.10	Fourth Amendment to Loan Agreement between Bioanalytical Systems, Inc. and Regions Bank, as amended on December 29, 2010 (incorporated by reference to Exhibit 10.1 for Form 8-K filed January 5, 2011).
10.11	Fifth Amendment to Loan Agreement between Bioanalytical Systems, Inc. and Regions Bank, executed February 22, 2011 and effective February 11, 2011 (incorporated by reference to Exhibit 10.1 for Form 8-K filed February 24, 2011).
10.12	Form of Securities Purchase Agreement between Bioanalytical Systems, Inc. and certain purchasers, dated May 5, 2011 (incorporated by reference to Exhibit 10.27 to Registration Statement on Form S-1, Registration No. 333-172508).
10.13	Non-Qualified Employee Stock Option Agreement between Jacqueline M. Lemke and Bioanalytical Systems, Inc., dated April 9, 2012 (incorporated by reference to Exhibit 10.4 to Form 10-Q for the fiscal quarter ended March 31, 2012).
10.14	Sixth Amendment to Loan Agreement between Bioanalytical Systems, Inc. and Regions Bank, executed November 9, 2012 and effective November 1, 2012 (incorporated by reference to Exhibit 10.1 for Form 8-K filed November 9, 2012).
10.15	Amended and Restated Sixth Amendment to Loan Agreement between Bioanalytical Systems, Inc. and Regions Bank, executed on December 21, 2012 (incorporated by reference to Exhibit 10.1 for Form 8-K filed December 27, 2012).
10.16	Amendment to Loan Agreement between Bioanalytical Systems, Inc. and Entrepreneur Growth Capital LLC, dated December 21, 2012 (incorporated by reference to Exhibit 10.1 for Form 8-K filed December 28, 2012).
10.17	Employee Incentive Stock Option Agreement between Jacqueline M. Lemke and Bioanalytical Systems, Inc., dated February 7, 2013(*) (incorporated by reference to Exhibit 10.1 for Form 10-Q filed May 15, 2013).
10.18	Seventh Amendment to Loan Agreement between Bioanalytical Systems, Inc. and Regions Bank, executed and effective October 31, 2013 (incorporated by reference to Exhibit 10.1 for Form 8-K filed November 5, 2013).
10.19	Notice of non-renewal to Entrepreneur Growth Capital LLC, dated October 30, 2013 (incorporated by reference to Exhibit 10.22 to Form 10-K filed December 30, 2014).
10.20	Severance Agreement between Lori D. Payne and Bioanalytical Systems, Inc., dated October 25, 2013 (incorporated by reference to Exhibit 10.3 to Form 10-Q filed February 14, 2014).
10.21	Credit Agreement between Bioanalytical Systems, Inc and The Huntington National Bank, dated May 14, 2014 (incorporated by reference to Exhibit 10.1 to Form 10-Q filed August 14, 2014).

<u>Number</u>	<u>Description of Exhibits</u>
10.22	Offer letter by and between Bioanalytical Systems, Inc. and Dr. James S. Bourdage, effective June 2, 2014 (filed herewith).*
10.23	Offer Letter by and between Bioanalytical Systems, Inc. and Jeffrey Potrzebowski, effective June 9, 2014 (incorporated by reference to Exhibit 10.2 to Form 10-Q filed August 14, 2014).
10.24	Second Amended and Restated Employment Agreement by and between Bioanalytical Systems, Inc. and Jacqueline M. Lemke, effective July 1, 2014 (filed herewith).*
10.25	Offer Letter by and between Bioanalytical Systems, Inc. and Connie Dougherty, effective September 15, 2014 (filed herewith).*
10.26	Separation Agreement between John P. Devine, Jr. and Bioanalytical Systems, Inc., effective October 3, 2014 (filed herewith).*
(14)	14.1 Code of Ethics (incorporated by reference to Exhibit 14 to Form 10-K for the fiscal year ended September 30, 2006).
(21)	21.1 Subsidiaries of the Registrant (filed herewith).
(23)	23.1 Consent of Independent Registered Public Accounting Firm McGladrey LLP (filed herewith).
(31)	31.1 Certification of Chief Executive Officer (filed herewith).
	31.2 Certification of Chief Financial Officer (filed herewith).
(32)	32.1 Written Statement of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350) (filed herewith):
	32.2 Written Statement of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350) (filed herewith):
	101 XBRL data file (filed herewith).

* Management contract or compensatory plan or arrangement.