BIOANALYTICAL SYSTEMS INC
Form 424B3
August 15, 2014

Filed Pursuant to Rule 424(b)(3)

File Numbers 333-172508, 333-173976

PROSPECTUS SUPPLEMENT NO. 2

Bioanalytical Systems, Inc.

Issuance of up to 1,492,735 Common Shares upon Conversion of Convertible Preferred Shares

and Exercise of Warrants

Prospectus Supplement No. 2

to Prospectus dated March 7, 2014

This Prospectus Supplement No. 2 updates and supplements our Prospectus dated March 7, 2014.

This Prospectus Supplement No. 2 contains our Quarterly Report, on Form 10-Q for the three and nine months ended June 30, 2014, which we filed with the Securities and Exchange Commission on August 14, 2014. This Prospectus Supplement No. 2 is not complete without, and may not be delivered or used except in connection with, the Prospectus. This Prospectus Supplement No. 2 is qualified by reference to the Prospectus, except to the extent that the information in this Prospectus Supplement No. 2 updates and supersedes the information contained in the Prospectus,

including any supplements or amendments thereto.

Pursuant to Rule 429 under the Securities Act of 1933, as amended, our Prospectus, dated March 7, 2014, filed with the Securities and Exchange Commission June 4, 2014, as supplemented by this Prospectus Supplement No. 2, is a combined prospectus and relates to shares registered under Registration Statement Nos. 333- 172508 and 333-173976.

Our common shares are quoted on the NASDAQ Capital Market under the symbol “BASI”. The last reported sale price of our common shares on August 14, 2014 was $2.39 per share. There is no established public trading market for our Series A preferred shares or our warrants and we do not expect such a market to develop.

See the “Risk Factors” section beginning on page 4 of the Prospectus for a discussion of certain risks that you should consider before investing in our securities.

NEITHER THE U.S. SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS SUPPLEMENT IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this Prospectus Supplement No. 2 is August 15, 2014.

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended June 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)

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

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

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

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

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

As of August 11, 2014, 8,072,738 of the registrant's common shares were outstanding.

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BIOANALYTICAL SYSTEMS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

	June 30, 2014 (Unaudited)	September 30, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 736	$ 1,304
Accounts receivable		
Trade, net of allowance $88 at June 30, 2014 and $87 at September 30, 2013, respectively	2,646	3,621
Unbilled revenues and other	1,303	691
Inventories	1,535	1,379
Refundable income taxes	11	—
Prepaid expenses	892	238
Total current assets	7,123	7,233
Property and equipment, net	16,180	16,913
Goodwill	1,383	1,383
Debt issue costs, net	129	21
Other assets	41	47
Total assets	$ 24,856	$ 25,597
Liabilities and shareholders’ equity		
Current liabilities:		
Accounts payable	$ 3,369	$ 3,584
Accrued expenses	1,332	1,689
Customer advances	3,322	2,815
Income tax accruals	16	30
Revolving line of credit	—	1,415
Fair value of warrant liability	852	612
Current portion of capital lease obligations	288	268
Current portion of long-term debt	786	613
Total current liabilities	9,965	11,026
Fair value of interest rate swap	41	—
Capital lease obligations, less current portion	363	471
Long-term debt, less current portion	4,649	4,641
Total liabilities	15,018	16,138
Shareholders’ equity:		
Preferred shares, authorized 1,000,000 shares, no par value:		
	1,185	1,335

1,185 Series A shares at $1,000 stated value issued and outstanding at June 30, 2014 and 1,335 at September 30, 2013 2013		
Common shares, no par value:		
Authorized 19,000,000 shares; 8,072,738 shares issued and outstanding at June 30, 2014 and 7,703,891 shares at September 30, 2013	1,980	1,887
Additional paid-in capital	21,133	19,925
Accumulated deficit	(14,386)	(13,720)
Accumulated other comprehensive income (loss)	(74)	32
Total shareholders' equity	9,838	9,459
Total liabilities and shareholders' equity	$ 24,856	$ 25,597

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

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BIOANALYTICAL SYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

AND COMPREHENSIVE INCOME (LOSS)

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2014	2013	2014	2013
Service revenue	$ 4,754	$ 4,156	$ 14,196	$ 12,493
Product revenue	1,278	1,444	3,968	4,067
Total revenue	6,032	5,600	18,164	16,560
Cost of service revenue	3,368	2,897	10,021	9,509
Cost of product revenue	680	671	2,002	1,905
Total cost of revenue	4,048	3,568	12,023	11,414
Gross profit	1,984	2,032	6,141	5,146
Operating expenses:				
Selling	399	317	1,315	979
Research and development	167	124	480	332
General and administrative	1,162	1,153	3,523	3,103
Total operating expenses	1,728	1,594	5,318	4,414
Operating income	256	438	823	732
Interest expense	(123)	(163)	(408)	(492)
Change in fair value of warrant liability – decrease (increase)	66	318	(1,095)	293
Other income	1	1	6	6
Net Income (loss) before income taxes	200	594	(674)	539
Income tax (benefit) expense	(15)	18	(8)	18
Net Income (loss)	$ 215	$ 576	$ (666)	$ 521
Other comprehensive income (loss):				
Fair value adjustment of interest rate swap	(41)	—	(41)	—
Foreign currency translation adjustment	(31)	11	(65)	66

Comprehensive income (loss)	$ 143	$ 587	$ (772)	$ 587
Basic net income (loss) per share	$ 0.03	$ 0.08	$ (0.08)	$ 0.07
Diluted net income (loss) per share	$ 0.02	$ 0.07	$ (0.08)	$ 0.06
Weighted average common shares outstanding:				
Basic	8,068	7,673	7,922	7,656
Diluted	9,625	8,400	7,922	8,353

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

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BIOANALYTICAL SYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended June 30,	
	2014	2013
Operating activities:		
Net income (loss)	$(666)	$521
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	1,195	1,313
Change in fair value of warrant liability – increase (decrease)	1,095	(293)
Employee stock compensation expense	65	187
Provision for doubtful accounts	2	9
Loss (Gain) on sale of property and equipment	1	(13)
Changes in operating assets and liabilities:		
Accounts receivable	361	942
Inventories	(156)	177
Income taxes	(25)	15
Prepaid expenses and other assets	(641)	36
Accounts payable	(166)	(19)
Accrued expenses	(357)	(822)
Customer advances	507	(635)
Net cash provided by operating activities	1,215	1,418
Investing activities:		
Capital expenditures	(343)	(15)
Proceeds from sale of equipment	—	20
Net cash (used) provided by investing activities	(343)	5
Financing activities:		
Payments of long-term debt	(5,319)	(439)
Borrowings on long-term debt	5,500	—
Payments of debt issuance costs	(121)	(75)
Proceeds from exercise of stock options	1	—
Payments on revolving line of credit	(9,543)	(16,770)
Borrowings on revolving line of credit	8,128	15,658
Proceeds from Class A warrant exercises	183	—
Payments on capital lease obligations	(203)	(265)
Net cash used by financing activities	(1,374)	(1,891)

Effect of exchange rate changes	(66)	60
Net decrease in cash and cash equivalents	(568)	(408)
Cash and cash equivalents at beginning of period	1,304	721
Cash and cash equivalents at end of period	$736	$313
Supplemental disclosure of non-cash financing activities:		
Preferred stock dividends paid in common shares	$44	$60
Fair value of warrants exercised	$854	$—
Conversion of preferred shares to common shares	$150	$—

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

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BIOANALYTICAL SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands except per share data or as otherwise indicated)

(Unaudited)

1. DESCRIPTION OF THE BUSINESS AND BASIS OF PRESENTATION

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.

We have prepared the accompanying unaudited interim condensed consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) regarding interim financial reporting. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles (“GAAP”), and therefore should be read in conjunction with our audited consolidated financial statements, and the notes thereto, included in the Company’s annual report on Form 10-K for the year ended September 30, 2013. In the opinion of management, the condensed consolidated financial statements for the three and nine months ended June 30, 2014 and 2013 include all adjustments which are necessary for a fair presentation of the results of the interim periods and of our financial position at June 30, 2014. The results of operations for the three and nine months ended June 30, 2014 are not necessarily indicative of the results for the year ending September 30, 2014.

2. NEW ACCOUNTING PRONOUNCEMENTS

Effective January 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.

3. STOCK-BASED COMPENSATION

The 2008 Stock Option Plan (“the Plan”) is used to promote our long-term interests by providing a means of attracting and retaining officers, directors and key employees and aligning their interests with those of our shareholders. The Plan is described more fully in Note 9 in the Notes to the Consolidated Financial Statements in our Form 10-K for the year ended September 30, 2013. All options granted under the Plan had 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. We recognize expense for awards subject to graded vesting using the straight-line attribution method, reduced for estimated forfeitures. Forfeitures are revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates and an adjustment is recognized at that time. The assumptions used to compute the fair value of options granted are detailed in Note 9 to the Consolidated Financial Statements in our Form 10-K for the year ended September 30, 2013 as well as in the second table below for current fiscal year grants. The Compensation Committee may also issue non-qualified stock option grants with vesting periods different from the Plan. As of June 30, 2014, there are 155 shares issuable upon the exercise of outstanding options that were granted outside of the Plan.. Stock based compensation expense for the three and nine months ended June 30, 2014 was $19 and $65, respectively. Stock based compensation expense for the three and nine months ended June 30, 2013 was $52 and $187, respectively.

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A summary of our stock option activity for the nine months ended June 30, 2014 is as follows (in thousands except for share prices):

	Options (shares)	Weighted-Average Exercise Price	Weighted-Average Grant Date Fair Value
Outstanding - October 1, 2013	479	$ 1.77	$ 1.35
Exercised	(9)	1.17	0.97
Granted	30	2.81	2.35
Terminated	(77)	2.05	1.54
Outstanding - June 30, 2014	423	$ 1.80	$ 1.39

During the nine months ended June 30, 2014, we granted options for 30 common shares under the Plan. The fair value of the option grants are estimated on the date of the grant. The weighted-average assumptions used to compute the fair value of these options were as follows:

Risk-free interest rate	2.26% - 2.45%
Dividend yield	0.00%
Expected volatility	94.62% - 94.65%
Expected life of the options (years)	8.0
Forfeitures	3.00%

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 income (loss) 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 nine months ended June 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 nine months ended June 30, 2014, because they were also anti-dilutive. Warrants for 1,377 common shares were not considered in computing diluted income (loss) per share for the three and nine months ended June 30, 2013, respectively, because they were anti-dilutive.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2014	2013	2014	2013
Basic net income (loss) per share:				
Net Income (loss) applicable to common shareholders	$ 215	$ 576	$ (666)	$ 521
Weighted average common shares outstanding	8,068	7,673	7,922	7,656
Basic net income (loss) per share	$ 0.03	$ 0.08	$ (0.08)	$ 0.07
Diluted net income (loss) per share:				
Net Income (loss) applicable to common shareholders	$ 215	$ 576	$ (666)	$ 521
Change in Fair Value of Warrant Liability	(66)	-	-	-
Diluted net income (loss) applicable to common shareholders	$ 149	$ 576	$ (666)	$ 521
Weighted average common shares outstanding	8,068	7,673	7,922	7,656
Series A preferred shares	592	696	-	696
Class A warrants	810	-	-	-
Dilutive stock options/shares	155	31	-	1
Diluted weighted average common shares outstanding	9,625	8,400	7,922	8,353
Diluted net income (loss) per share:	$ 0.02	$ 0.07	$ (0.08)	$ 0.06

5. INVENTORIES

Inventories consisted of the following:

	June 30, 2014	September 30, 2013
Raw materials	$ 1,200	$ 1,157
Work in progress	300	322
Finished goods	384	259
	$ 1,884	$ 1,738
Obsolescence reserve	(349)	(359)
	$ 1,535	$ 1,379

6. SEGMENT INFORMATION

We operate in two principal segments - research services and research products. Our Services segment provides research and development support on a contract basis directly to pharmaceutical companies. Our Products segment provides liquid chromatography, electrochemical and physiological monitoring products to pharmaceutical companies, universities, government research centers and medical research institutions. Our accounting policies in these segments are the same as those described in the summary of significant accounting policies found in Note 2 to Consolidated Financial Statements in our annual report on Form 10-K for the year ended September 30, 2013.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2014	2013	2014	2013
Revenue:				
Service	$ 4,754	$ 4,156	$ 14,196	$ 12,493
Product	1,278	1,444	3,968	4,067
	$ 6,032	$ 5,600	$ 18,164	$ 16,560
Operating income (loss):				
Service	$ 293	$ 222	$ 669	$ 71
Product	(37)	216	154	661
	$ 256	$ 438	$ 823	$ 732
Interest expense	(123)	(163)	(408)	(492)
Change in fair value of warrant liability – decrease (increase)	66	318	(1,095)	293
Other income	1	1	6	6
Income (loss) before income taxes	$ 200	$ 594	$ (674)	$ 539

7. INCOME TAXES

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

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

At June 30, 2014 and September 30, 2013, we had a $16 liability for uncertain income tax positions. The difference between the federal statutory rate of 34% and our effective rate of (1.2%) is due to changes in our valuation allowance on our net deferred tax assets.

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.

We file income tax returns in the U.S., several U.S. States, and the United Kingdom. We remain subject to examination by taxing authorities in the jurisdictions in which we have filed returns for years after 2008.

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8. DEBT

Mortgages and note payable

We had a term loan from Regions Bank (“Regions”), which was secured by mortgages on our facilities in West Lafayette and Evansville, Indiana.

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. At September 30, 2013, the replacement note payable had a balance of $5,254.

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 both contained cross-default provisions with each other and with the revolving line of credit with Entrepreneur Growth Capital LLC (“EGC”) described below.

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 and terminated the related Credit Agreement. 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.

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 The Huntington National Bank ("Huntington"). 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.

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 June 30, 2014 was $5,435.

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. Pursuant to the Agreement, the revolving loan also carries 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 balance on the revolving loan at June 30, 2014 was $0.

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, and asset sales

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.

9. 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 in 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 factors, we have $941 reserved for UK lease related costs in accounts payable on the condensed consolidated balance sheets.

The following table sets forth the rollforward of the restructuring activity for the nine months ended June 30, 2014.

	Balance, September 30, 2013	Total Charges	Cash Payments	Other	Balance, June 30, 2014
One-time termination benefits	$ -	$ -	$ -	$ -	$ -
Lease related costs	877	-	-	64	941
Equipment moving costs and method transfers	-	-	-	-	-
Travel and relocation costs	-	-	-	-	-
Loss on sale of equipment	(16)	-	-	16	-
Other costs	117	-	-	-	117
Total	$ 978	$ -	$ -	$ 80	$ 1,058

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.

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10. 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 June 30, 2014 and September 30, 2013 are as follows:

	June 30, 2014 Warrant A		September 30, 2013 Warrant A	
Risk-free interest rate	0.42	%	0.51	%
Dividend yield	0.00	%	0.00	%
Volatility of the Company's common stock	64.48	%	71.15	%
Expected life of the options (years)	1.87		2.6	
Fair value per unit	$ 1.067		$ 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 fair value of the revolving credit facility and certain long-term debt is equal to their carrying values due to the variable nature of their interest rates. Our long-term fixed rate debt was initiated in February 2011 and renewed

on October 31, 2013.

We use an interest rate swap, designated as a hedge, to fix the interest rate on 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. The following table presents the fair value outstanding at June 30:

	Balance Sheet Classification	Fair Value at: June 30, 2014	June 30, 2013
Interest rate swap agreement	Other long-term liabilities	$ 41	$ -

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11. 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. We will continue to take actions to make BASi a stronger company.

During the first nine months of fiscal 2014, revenues improved 9.6%, gross margin improved by 19.3% and operating income improved by 12.4% from the comparable period in fiscal 2013. We also generated $1,094 in cash from operations, maintained strict controls on expenditures and paid down our line of credit $1.4 million, while meeting all of our other obligations.

In May 2014, we entered into a new Credit Agreement with Huntington for both a term loan of $5,500 and a revolving loan of $2,000 and used a portion of the proceeds from those loans to pay off the Regions replacement note payable, as more fully described in Note 8.

For the remainder of fiscal 2014, we will focus on growing our revenues and continue initiatives to control costs and improve productivity to further reduce our break-even point and achieve our financial objectives. We expect to see improvement in the volume of new bookings in fiscal 2014 along with maintaining improved gross profit margins. We have debt service and lease obligations of approximately $0.9 million in fiscal 2014.

Based on our expected revenue, the impact of the cost reductions implemented and restructuring activities during fiscal 2012, the payoff of the prior note payable as well the ability to draw from the new revolving loan, we project that we will have the liquidity required to meet our fiscal 2014 operations and debt obligations.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This report contains statements that constitute forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear in a number of places in this Report and may include, but are not limited to, statements regarding our intent, belief or current expectations with respect to (i) our strategic plans; (ii) trends in the demand for our products and services; (iii) trends in the industries that consume our products and services; (iv) our ability to develop new products and services; (v) our ability to make capital expenditures and finance operations; (vi) global economic conditions, especially as they impact our markets; (vii) our cash position; (viii) our ability to integrate a new sales and marketing team; (ix) our ability to service our outstanding indebtedness and (x) our expectations regarding the volume of new bookings, pricing, gross profit margins and liquidity. Readers are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Actual results may differ materially from those in the forward looking statements as a result of various factors, many of which are beyond our control.

In addition, we have based these forward-looking statements on our current expectations and projections about future events. Although we believe that the assumptions on which the forward-looking statements contained herein are based are reasonable, actual events may differ from those assumptions, and as a result, the forward-looking statements based upon those assumptions may not accurately project future events. The following discussion and analysis should be read in conjunction with the unaudited condensed 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 contained in our annual report on Form 10-K for the fiscal year ended September 30, 2013. Our actual results could differ materially from those discussed in the forward-looking statements.

The following amounts are in thousands, unless otherwise indicated.

General

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 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 increasingly diverse operations, which will necessitate additional capital investment. Our ability to generate capital to reinvest in our capabilities, both through operations and financial transactions, is critical to our success. While we are currently committed to fully utilizing 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. In the first nine months of fiscal 2014, we experienced an increase in the demand for our services as compared to the first nine months of fiscal 2013 resulting in higher levels of new orders. We believe in the fundamentals of the market. For the remainder of fiscal 2014, 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. In the first nine months of fiscal 2014, we had a 9.6% increase in revenues over the same period in fiscal 2013. Gross profit and operating income also increased in the first nine months of the current fiscal year compared to the prior fiscal year period by 19.3% and 12.4%, respectively. The improved margins and earnings were due to the revenue increase as well as dedication to cost monitoring. For a detailed discussion of our revenue, margins, earnings and other financial results for the nine months ended June 30, 2014, see “Results of Operations” below.

As of June 30, 2014, we had $736 of cash and cash equivalents as compared to $1,304 of cash and cash equivalents at the end of fiscal 2013. In the first nine months of fiscal 2014, we generated $1,215 in cash from operations partially due to the higher operating income we reported in the first nine months of fiscal 2014 versus the first nine months of fiscal 2013. Total capital expenditures were $343 in fiscal 2014, as compared to $5 of cash provided by investing activities for fiscal 2013 due to proceeds from the sale of equipment. We successfully paid off our line of credit in January 2014 and, on May 14, 2014, we entered into a new Credit Agreement with The Huntington National Bank ("Huntington") for both a replacement term loan and a new revolving line of credit. We are poised for increased capacity utilization and potential strategic growth and are focused on continuing to improve our cash flow from operations in the remainder of fiscal 2014.

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 smaller 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 recently launched our Enhanced Drug Discovery services as part of this strategy, utilizing our proprietary Culex® technology to provide early experiments in our laboratories that previously would have been conducted in the sponsor's facilities. 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 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 take actions to make BASi a stronger company.

For the remainder of fiscal 2014, we will focus on growing our revenues and continue initiatives to control costs and improve productivity to further reduce our break-even point and achieve our financial objectives. We expect to see improvement in the volume of new bookings in fiscal 2014 along with maintaining improved gross profit margins.

Results of Operations

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

	Three Months Ended June 30,				Nine Months Ended June 30,			
	2014		2013		2014		2013	
Service revenue	78.8	%	74.2	%	78.2	%	75.4	%
Product revenue	21.2		25.8		21.8		24.6	
Total revenue	100.0		100.0		100.0		100.0	
Cost of service revenue ***(a)***	70.8		69.7		70.6		76.1	
Cost of product revenue ***(a)***	53.2		46.4		50.4		46.8	
Total cost of revenue	67.1		63.7		66.2		68.9	
Gross profit	32.9		36.3		33.8		31.1	

Total operating expenses	28.7		28.5		29.3		26.7	
Operating income	4.2		7.8		4.5		4.4	
Other income (expense)	(0.9	)	2.8		(8.2	)	(1.1	)
Income (loss) before income taxes	3.3		10.6		(3.7	)	3.3	
Income tax (benefit) expense	(0.3	)	0.3		0.0		0.1	
Net income (loss)	3.6	%	10.3	%	(3.7	)%	3.2	%

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

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Three Months Ended June 30, 2014 Compared to Three Months Ended June 30, 2013

Service and Product Revenues

Revenues for the fiscal quarter ended June 30, 2014 increased 7.7% to $6,032 compared to $5,600 for the same period last year.

Our Service revenue increased 14.4% to $4,754 in the current quarter compared to $4,156 for the prior year period primarily as a result of higher toxicology and other laboratory services revenues partially offset by lower bioanalytical analysis revenues. Toxicology revenues increased due to an increase in the volume of new orders while bioanalytical analysis revenues in our third fiscal quarter of 2014 were negatively impacted by studies delayed by clients and fewer samples received

	Three Months Ended June 30,			
	2014	2013	Change	%
Bioanalytical analysis	$1,573	$2,264	$(691)	-30.5%
Toxicology	2,521	1,314	1,207	91.9%
Other laboratory services	660	578	82	14.2%

Sales in our Products segment decreased 11.5% in the current fiscal quarter from $1,444 to $1,278 when compared to the same period in the prior fiscal year. The majority of the decrease stems from lower sales of our Culex automated *in vivo* sampling systems compared to the same period in the prior fiscal year.

	Three Months Ended June 30,			
	2014	2013	Change	%
Culex®, in-vivo sampling systems	$ 555	$ 659	$(104)	-15.8%
Analytical instruments	556	542	14	2.6%
Other instruments	167	243	(76)	-31.3%

Cost of Revenues

Cost of revenues for the current quarter was $4,048 or 67.1% of revenue, compared to $3,568, or 63.7% of revenue for the prior year period.

Cost of Service revenue as a percentage of Service revenue increased slightly to 70.8% in the current quarter from 69.7% in the comparable period last year. This increase was due to slightly higher costs in our Toxicology site for increased use of outside scientific professional services and higher overtime pay as the site is conducting a higher volume of studies in the current quarter.

Cost of Products revenue as a percentage of Product revenue in the current quarter increased to 53.2% versus 46.4% from the comparable prior year period. The increase is mainly due to the mix of products sold and the rise in raw material costs.

Operating Expenses

Selling expenses for the three months ended June 30, 2014 increased 25.9% to $399 from $317 for the comparable period last year. This increase stems from higher personnel related expenses in the current quarter as compared to the same period in fiscal 2013. We hired new sales employees in our third quarter of fiscal 2013.

Research and development expenses for the third quarter of fiscal 2014 increased 34.7% over the comparable period last year to $167 from $124. The increase was primarily due to new employees and increased utilization of outsourced professional engineering services in the current quarter.

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General and administrative expenses for the current quarter increased only 0.8% to $1,162 from $1,153 for the comparable prior year period. Building repairs, corporate insurance and employee search fees were higher in the current quarter.

Other Expense

Other expense (income) for the current fiscal quarter increased to $56 from ($156) for the same quarter of the prior fiscal year. The primary reason for the change is the change in the fair value of the warrant liability, including warrant exercises, partially offset by lower interest expense in fiscal 2014 due to the payoff of the Entrepreneur Growth Capital LLC line of credit and the more favorable interest rates under the credit facility with Huntington described under New Credit Facility below.

Income Taxes

Our effective tax rate for the quarters ended June 30, 2014 and 2013 was (7.5%) and 3.0%, respectively. No net benefits have been provided on taxable losses in the current fiscal year. We continue to maintain a full valuation allowance on our U.S. and UK subsidiary deferred income tax balances.

Nine Months Ended June 30, 2014 Compared to Nine Months Ended June 30, 2013

Service and Product Revenues

Revenues for the nine months ended June 30, 2014 increased 9.7% to $18,164 compared to $16,560 for the same period last year.

Our Service revenue increased 13.6% to $14,196 in the first nine months of fiscal 2014 compared to $12,493 for the prior year period primarily as a result of higher toxicology and other laboratory services revenues partially offset by lower bioanalytical analysis revenues. Toxicology and other laboratory services revenues increased due to an increase in the volume of new orders. Bioanalytical analysis revenues were negatively impacted by study cancellations by clients, a lower number of samples assayed as well as more time spent on method development and validations, which have lower revenues.

	Nine Months Ended June 30,			
	2014	2013	Change	%
Bioanalytical analysis	$5,262	$6,197	$(935)	-15.1%
Toxicology	6,939	4,667	2,272	48.7%
Other laboratory services	1,995	1,629	366	22.5%

Sales in our Products segment decreased 2.4% in the first nine months of fiscal 2014 from $4,067 to $3,968 when compared to the same period in the prior fiscal year. The majority of the decrease stems from lower sales of analytical products and a decrease in hardware maintenance and service.

	Nine Months Ended June 30,			
	2014	2013	Change	%
Culex®, in-vivo sampling systems	$1,812	$1,658	$154	9.3%
Analytical instruments	1,568	1,730	(162)	-9.4%
Other instruments	588	679	(91)	-13.4%

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Cost of Revenues

Cost of revenues for the first nine months of fiscal 2014 was $12,023 or 66.2% of revenue, compared to $11,414, or 68.9% of revenue for the prior year period.

Cost of Service revenue as a percentage of Service revenue decreased to 70.6% in the first nine months of fiscal 2014 from 76.1% in the comparable period of the prior year. The principal cause of this decrease was the increase in service revenues which led to higher absorption of the fixed costs in our Service segment. A significant portion of our costs of productive capacity in the Service segment are fixed. Thus, increases in revenues lead to decreases in costs as a percentage of revenue.

Cost of Products revenue as a percentage of Product revenue in the first nine months of fiscal 2014 increased to 50.4% from 46.8% in the comparable prior year period. This increase is mainly due to a change in the mix of products sold and increases in raw material costs in the first nine months of fiscal 2014 .

Operating Expenses

Selling expenses for the nine months ended June 30, 2014 increased 34.3% to $1,315 from $979 for the comparable period last year. This increase stems mainly from hiring new sales employees in the second half of fiscal 2013.

Research and development expenses for the first half of fiscal 2014 increased 44.6% over the comparable period of prior year to $480 from $332. The increase was primarily due to personnel costs of new employees and increased utilization of outsourced professional engineering services in the current year.

General and administrative expenses for the first half of fiscal 2014 increased 13.5% to $3,523 from $3,103 for the comparable prior year period. The increase stems mainly from outside services and consulting expenses to repair and maintain multiple building services during the unusually harsh winter as well as higher utilities costs and employee search fees in the current year.

Other Expense

Other expense for the first nine months of fiscal 2014 increased to $1,497 from $193 for the same period of the prior fiscal year. The primary reason for the increase is the change in the fair value of the warrant liability, including warrant exercises, offset slightly by lower interest expense in fiscal 2014 due to the payoff of the Entrepreneur Growth Capital LLC line of credit and the more favorable interest rates under the credit facility with Huntington described under New Credit Facility below.

Income Taxes

Our effective tax rate for the nine months ended June 30, 2014 and 2013 was 1.2% and 3.5%, respectively. No net benefits have been provided on taxable losses in the current fiscal year. We continue to maintain a full valuation allowance on our U.S. and UK subsidiary deferred income tax balances.

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 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 in 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 factors, we have $941 reserved for UK lease related costs.

The following table sets forth the rollforward of the restructuring activity for the nine months ended June 30, 2014.

	Balance, September 30, 2013	Total Charges	Cash Payments	Other	Balance, June 30, 2014
One-time termination benefits	$ -	$ -	$ -	$ -	$ -
Lease related costs	877	-	-	64	941
Equipment moving costs and method transfers	-	-	-	-	-
Travel and relocation costs	-	-	-	-	-
Loss on sale of equipment	(16)	-	-	16	-
Other costs	117	-	-	-	117
Total	$ 978	$ -	$ -	$ 80	$ 1,058

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.

Liquidity and Capital Resources

Comparative Cash Flow Analysis

At June 30, 2014, we had cash and cash equivalents of $736, compared to $1,304 at September 30, 2013.

Net cash provided by operating activities was $1,215 for the nine months ended June 30, 2014, compared to $1,418 for the nine months ended June 30, 2013. The decrease in cash provided by operating activities in the current year partially results from increases in inventory and prepaid expenses in the current year versus the prior year. Other factors contributing to our cash from operations for the first nine months of fiscal 2014 were noncash charges of $1,195 for depreciation and amortization and an increase in the fair value of warrant liability of $1,095 as well as a decrease in accounts receivable of $361, offset by a decrease in accounts payable of $166, along with a decrease in

accrued expenses of $357. Included in operating activities for the first nine months of fiscal 2013 are non-cash charges of $1,313 for depreciation and amortization, a net decrease in accounts receivable of $942, offset slightly by cash paid during the year for restructuring activities of $546 and a net decrease in customer advances of $635.

Investing activities used $343 in the first nine months of fiscal 2014 due to capital expenditures as compared to $5 provided by investing activities in the first nine months of fiscal 2013. Our principal investments were for laboratory equipment and general building infrastructure and maintenance.

Financing activities used $1,374 in the first nine months of fiscal 2014 as compared to $1,891 used for the first nine months of fiscal 2013. Cash used by financing activities in the first nine months of 2014 was impacted by the paydown of the EGC line of credit of $1,415 as well as payments of capital lease obligations of $203 offset by proceeds from Class A warrant exercises and stock option exercises of $184 along with net proceeds from the new credit facility of $181. The main use of cash in the first nine months of fiscal 2013 was for long-term debt and capital lease payments of $704 as well as net payments on our prior line of credit of $1,112.

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. 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 is 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. 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.

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 June 30, 2014 was $5,435.

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 $0 at June 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, and asset sales At June 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 meet our fiscal 2014 operations and debt obligations.

Critical Accounting Policies

"Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Liquidity and Capital Resources" discuss the unaudited condensed 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 by 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 June 30, 2014 are Vetronics, which is included in our Products segment, bioanalytical services and preclinical services, which are both included in our 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.

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 our 10-K for the fiscal year ended September 30, 2013. There have been no significant events since the timing of our impairment tests that have triggered additional impairment testing.

At June 30, 2014, remaining recorded goodwill was $1,383.

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 $19 and $65 during the three and nine months ended June 30, 2014, respectively. We recognized stock based compensation related to stock options of $52 and $187 for the three and nine months ended June 30, 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 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 the first three and nine months of 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 to be recognized in fiscal 2014 and future periods.

Income Taxes

As described in Note 6 to the condensed 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 carryforwards. We measure deferred tax assets and liabilities using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. We recognize the effect on deferred tax assets and liabilities of a change in tax rates in income in the period that includes the enactment date. We record valuation allowances based on a determination of the expected realization of tax assets.

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

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

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

We file income tax returns in the U.S., several U.S. states, and the foreign jurisdiction of the United Kingdom. We remain subject to examination by taxing authorities in the jurisdictions in which we have filed returns for years after 2008.

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

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. For the first nine months of fiscal 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:

Evaluation Date	Fair Value per Share		Fair Value in $$			Change in Fair Value
	Warrant A	Warrant B	Warrant A	Warrant B	Total	(Income) Expense
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)

Interest Rate Swap

The Company uses an interest rate swap designated as a cash flow hedge to fix the interest rate on 60% of the Huntington debt due to 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).

ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

A smaller reporting company is not required to provide the information required by this Item 3.

ITEM 4 - 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 June 30, 2014, we, including our Chief Executive Officer and Chief Financial Officer, determined that those controls and procedures were effective as of June 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 the first nine months of fiscal 2014 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II

ITEM 1A - RISK FACTORS

You should carefully consider the risks described in our Annual Report on Form 10-K for the year ended September 30, 2013, including those under the heading "Risk Factors" appearing in Item 1A of Part I of the Form 10-K and other information contained in this Quarterly Report before investing in our securities. Realization of any of these risks could have a material adverse effect on our business, financial condition, cash flows and results of operations.

ITEM 6 - EXHIBITS

(a) Exhibits:

Number		**Description of Exhibits**
(10)	10.1	Credit Agreement between Bioanalytical Systems, Inc and The Huntington National Bank, dated May 14, 2014 (filed herewith).
	10.2	Offer Letter by and between Bioanalytical Systems, Inc. and Jeffrey Potrzebowski, effective June 9, 2014 (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 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).

SIGNATURES

Pursuant to the requirements 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:	August 14, 2014	By: /s/ Jacqueline M. Lemke Jacqueline M. Lemke President and Chief Executive Officer

		BIOANALYTICAL SYSTEMS, INC. (Registrant)
Date:	August 14, 2014	By: /s/ Jeffrey Potrzebowski Jeffrey Potrzebowski Chief Financial Officer and Vice President of Finance

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EXHIBIT INDEX

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