BIOANALYTICAL SYSTEMS INC
Form 10-K
December 30, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended September 30, 2013.

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	35-1345024
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2701 KENT AVENUE WEST LAFAYETTE, INDIANA	47906
(Address of principal executive offices)	(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 x

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

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

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 x 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. x

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 x

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

Based on the closing price on the NASDAQ Capital Market on March 31, 2013, the aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was $10,147,000. As of December 13, 2013, 7,703,891 of registrant's common shares were outstanding.

TABLE OF CONTENTS

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 contained beginning on page 12 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 fail to project actual events and, as a result, the forward-looking statements based upon those assumptions could prove to 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

We are an international contract research organization providing drug discovery and development services and analytical instruments. Our clients and partners include pharmaceutical, biotechnology, academic and government 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 35 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 products.

In fiscal 2012, to reduce operating costs, strengthen our ability to meet clients' needs by improving laboratory utilization and better position the Company for growth, we announced plans to restructure our bioanalytical operations. We consolidated our laboratory in McMinnville, Oregon into our headquarters facility in West Lafayette, Indiana and closed our facility and laboratory in Warwickshire, United Kingdom. In total, 74 employees were terminated as part of these restructuring activities. These activities are discussed further in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations and in Note 12 to our Consolidated Financial Statements.

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 postmarket 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 35 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.

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 services segment were $16.5 million for fiscal 2013. 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 $5.6 million for fiscal 2013. 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 11% of our revenues are generated from customers outside of North America.

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

We had a Preferred Provider Agreement ("PPA") with Pharmasset, Inc. which expired under its own terms, though they remain a large client of the Company. Pharmasset, Inc., now known as Gilead Sciences, Inc. ("Gilead") via acquisition, accounted for approximately 4.4% and 7.3% of our total revenues in fiscal 2013 and 2012, respectively, and 0.7% and 7.4% of total trade accounts receivable at September 30, 2013 and 2012, respectively.

Pfizer, Inc. remains a large client, accounting for approximately 4.9% and 3.4% of our total revenues in fiscal 2013 and 2012, respectively. Pfizer, Inc. accounted for 3.3% and 8.4% of total trade accounts receivable at September 30, 2013 and 2012, respectively.

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. In fiscal 2012, Boehringer Ingelheim accounted for approximately 3.3% of total sales and 4.3% of total trade accounts receivable at September 30, 2012.

There can be no assurance that our business will not continue to be dependent on continued relationships with Gilead, Pfizer, Inc. and Boehringer Ingelheim or other clients, or that annual results will not be dependent on a few large projects. In addition, there can be no assurance that significant clients in any one period will continue to be significant clients in other periods. In any given year, there is a possibility that a single pharmaceutical company may account for 5% or more of our total revenue. Since we do not have long-term contracts with most of our clients, the importance of a single client may vary dramatically from year to year.

Sales and Marketing

With both large and small pharmaceutical and biotechnology companies, 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, 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 speaking and the presentation of papers at national and international professional trade meetings and the publication of scientific articles in medical and pharmaceutical journals. Through these presentations and publications, we seek to further our reputation for professional excellence.

We currently have 9 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.

Backlog

Generally, the contracts, pursuant to which we provide our services, are terminable upon written notice of 30 days or less. We maintain projections based on bids and contracts to optimize asset utilization. We have increased the use of sales forecasts in manufacturing our products, with the result that we rarely have a significant backlog for Products. For Services, backlog generally includes work to be performed under signed agreements (i.e., contracts and letters of intent). Once work under a signed agreement begins, net revenues are recognized over the life of the project. Some of our studies and projects are performed over an extended period of time, which may exceed several years. We maintain an order backlog to track anticipated net revenues yet to be earned for work that has not been performed.

Backlog can provide meaningful information to our management with respect to a particular study. We believe that our backlog for Services as of any date can be a meaningful indicator of our future results, but relying on the backlog has risks for a variety of reasons. Studies vary in duration; the scope of studies may change, which may either increase or decrease their value; and studies may be terminated, or delayed at any time by the client or regulatory authorities.

Competition

Services

We compete with in-house research, development, quality control and other support service departments of pharmaceutical and biotechnology companies. There are also full-service Contract Research Organizations ("CROs") that compete in this industry. Several of our competitors have significantly greater financial resources 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

Founded as a provider of instrumentation and products utilized in life and physical sciences research laboratories, we continue to serve these product niches today. 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. 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 October 2004, we have been audited, on a routine basis, by the FDA fourteen times. The FDA has visited ten times in West Lafayette and four times at the Evansville location. Of the fourteen FDA audits, nine 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 EPA 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. Besides being licensed by the USDA as a research facility, we are also accredited by the Association for Assessment and Accreditation of Laboratory Animal Care International ("AAALAC") and have registered assurance with the NIH.

Quality Assurance and Information Technology

To assure compliance with applicable regulations, we have established quality assurance programs at our facilities that audit test data, train personnel and review procedures and regularly inspect facilities. In addition, FDA regulations and guidelines serve as a basis for our Standard Operating Procedures (“SOPs”) where applicable. On an ongoing basis, we endeavor to standardize SOPs across all relevant operations. In addition, we have both developed and purchased software to ensure compliant documentation, handling and reporting of laboratory-generated study data. In fiscal 2004, we purchased 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 2013, 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 all laboratory specimens, including the regulations of the Environmental Protection Agency, the Department of Transportation, the National Fire Protection Agency and the Resource Conservation and Recovery Act. Although we believe that we are currently in compliance in all material respects with such federal, state and local laws, failure to comply could subject us to denial of the right to conduct business, fines, criminal penalties and other enforcement actions.

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

Safety

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

HIPAA

The 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 the current European Union and HIPAA requirements. 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 come into effect.

Product Liability and Insurance

We maintain product liability and professional errors and omissions liability insurance, providing approximately $3.0 million in coverage on a claims-made basis. Additionally, in certain circumstances, we seek to manage our liability risk through contractual provisions 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 2013 and 2012, we spent $454 and $542, 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 federally registered trademarks. We also have two pending patents, one on the Dried Blood Spot (DBS) sampling card for the Culex Automated Blood Sampling Instrumentation and the second for the No Blood Waste technology also for the Culex instrument. The former (DBS) reduces the cost of bio-sample collection, shipment and storage and the latter is important for the precise sampling of bio-fluids of very small volume from animals such as mice. We also generate client value through continuing client support, hardware and software upgrades, system reliability and accuracy. In addition to these formal intellectual property rights, we rely on trade secrets, unpatented know-how and continuing applications research which we seek to protect through means of reasonable business procedures, such as confidentiality agreements. We believe that the greatest value that we generate for our clients comes from these trade secrets, know-how and applications research.

Raw Materials

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

Employees

At September 30, 2013, 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, 2013. Except as indicated in the following paragraphs, the principal occupation of this person has not changed in the past three years. Officers are elected annually at the annual meeting of the board of directors.

Name	Age	Position
Jacqueline M. Lemke	51	President and Chief Executive Officer, Chief Financial Officer, Vice President-Finance
Lori Payne, Ph.D. *	53	Vice President, Bioanalytical Services
John P. Devine, Jr.	52	Vice President, Non-Clinical Services

*As stated below, Dr. Payne resigned effective as of November 15, 2013.

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.

Lori Payne, Ph.D. joined the Company in 2001 and was Vice President, Bioanalytical Services, from fiscal 2012 until October 25, 2013, when she notified the President and CEO of the Company of her intent to resign as Vice-President of Bioanalytical Services of the Company effective as of November 15, 2013 in order to pursue other opportunities. Prior to joining BASi, Dr. Payne was a group leader in the Pharmacokinetics and Drug Metabolism Department of a major pharmaceutical company. The group was in charge of the development, validation and use of bioanalytical methods for quantification of veterinary pharmaceuticals and their metabolites in biological matrices as well as the determination of the metabolic pathways of new drugs and their pharmacokinetics. Dr. Payne has written several publications and given numerous presentations at professional meetings. Her work has contributed to several successful FDA registrations of new drugs. Dr. Payne earned her bachelor's degree in environmental biochemistry from the University of California-Davis and a Ph.D. in chemistry from Louisiana State University.

John P. Devine, Jr., joined the Company in 1989 and has been Vice President, Non-Clinical Services, since fiscal 2011. Mr. Devine is responsible for BASi's in vivo discovery services and toxicology. During his 20 plus years of tenure at BASi, he has helped develop a novel blood collection method in swine and authored more than 350 preclinical study reports. 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.

Investor Information

We file various reports with, or furnish them to, the Securities and Exchange Commission (the "SEC"), including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to such reports. These reports are available free of charge upon written request or by visiting www.BASinc.com/invest. Other media inquiries and requests for reports or investor's kits should be directed to:

BASi Investor Relations, Corporate Center

2701 Kent Avenue, West Lafayette, IN 47906 USA

Phone 765-463-4527, Fax 765-497-1102, basi@BASinc.com

Inquiries from shareholders, security analysts, portfolio managers, registered representatives and other interested parties should be directed to:

Neil G. Berkman Associates

11835 West Olympic Blvd., Suite 405E, Los Angeles, CA 90064

Phone 310-477-3118, nberkman@berkmanassociates.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 occurs, our business and financial performance could be adversely affected, our actual results could differ materially from our expectations and the market value of our stock could decline. The risks and uncertainties discussed below are not the only ones we face. There may be additional risks and uncertainties not currently known to us or that we currently do not believe are material that may adversely affect our business and financial performance.

If we fail to meet our current debt covenants, refinance our existing indebtedness or extend the maturity date of our loans with Regions Bank, our business and financial condition could be materially and adversely affected.

We have a note payable to Regions Bank (“Regions”) that is secured by mortgages on our facilities in West Lafayette and Evansville, Indiana. We also have a line of credit with Entrepreneur Growth Capital LLC ("EGC" and together with Regions, the "Lenders"). Borrowings under the EGC credit agreement are 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, Indiana real estate, and all common stock of our U.S. subsidiaries and 65% of the common stock of our non-United States subsidiary. The Regions loans contain cross-default provisions with each other and with the revolving line of credit with EGC. The EGC credit agreement also contains cross-default provisions with the Regions loans and any future EGC loans.

The agreements governing the Regions and EGC indebtedness include certain financial covenants with which we must comply each quarter, including a fixed charge coverage and a tangible net worth covenant. A breach of any of these covenants or our inability to comply with any required financial ratios could result in a default under one or more credit agreements, unless we are able to obtain the necessary waivers or amendments to the credit agreements. Upon the occurrence of an event of default that is not waived, and subject to any appropriate cure periods, the lenders under the affected credit agreements could elect to exercise any of their available remedies, which may include the right to not lend any additional amounts to us or, in certain instances, to declare all outstanding borrowings, together with accrued interest and other fees, to be immediately due and payable. If we are unable to repay the borrowings with respect to such credit facility when due, the lenders would be permitted to proceed against their collateral. In addition, EGC could refuse to make further advances to us under our line of credit. If the Lenders take any or all of these steps, our operating results and financial condition will be materially adversely affected and we may be unable to continue to fund our operations.

The Regions loans originally matured on October 31, 2013. We secured an extension of that maturity date to October 31, 2014. All amounts due under this credit facility are due and payable on the maturity date. We are pursuing alternatives to refinance the Regions indebtedness, including borrowing from another lending institution and a sale and leaseback of our West Lafayette, Indiana building. In the event we are unable to refinance or further extend the maturity of our Regions indebtedness, Regions would be entitled to exercise remedies against us, including its right to foreclose or otherwise enforce the mortgage liens and security interests in our assets. If Regions takes any or all of these steps, our operating results and financial condition will be materially adversely affected and we may be unable to continue to fund our operations.

On October 31, 2013, we notified EGC of our intention not to renew the line of credit which expires on January 31, 2014. We are pursuing alternatives with other banks for a new revolving line of credit. In the event we are unable to replace the EGC line of credit with another line of credit prior to January 31, 2014, we will be required to rely on cash from operating activities to fund our continued operations. In that event, if our operations do not generate sufficient cash flow to enable us to pay our expenses when they come due, we may be unable to continue to fund our operations.

We have experienced periods of losses on our operating activities.

Our overall strategy includes increasing revenue and reducing/controlling operating expenses. We have concentrated our efforts in ongoing, Company-wide efficiency activities intended to increase productivity and reduce costs including personnel reductions, reduction or elimination of other expenses and realigning and streamlining operations. We cannot assure that our efforts will result in any increased profitability, or if our efforts result in profit, that profits will continue, for any meaningful period of time.

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. As a result of the issues that led to the restatement of our consolidated financial statements in Form 10-K/A for the year ended September 30, 2012 as discussed in Note 3 to the consolidated financial statements, our Chief Executive Officer and Chief Financial Officer reassessed the effectiveness of our internal control over financial reporting and our disclosure controls and procedures as of September 30, 2012 as described in Item 9A of this report and have concluded that our internal control over financial reporting and our disclosure controls and procedures were not effective as of September 30, 2012. The internal control deficiency resulted in the misstatement of our financial statements and financial disclosures for the years ended September 30, 2011 and 2012 and the quarters ended June 30 and December 31, 2011, March 31, June 30, and December 31, 2012, and March 31, 2013. If we are unable to effectively remediate this material weakness or we are otherwise unable to maintain effective internal controls over financial reporting or disclosure controls and procedures, it could result in another 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 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 10.7% of our total revenue in fiscal 2012 and three customers accounted for approximately 15.3% of our total revenues in fiscal 2013. Our agreement with one of those large customers that required the customer to use us as their preferred provider for toxicology services expired on July 29, 2012. Although the parties continue to operate under substantially the same economic terms and conditions as are set forth in the preferred provider agreement, neither we nor our customer are obliged to do so. 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 in any one period may not continue to be significant clients in other periods. In any given year, there is a possibility that a single pharmaceutical company may account for 5% or more of our total revenue. Since we do not have long-term contracts with 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.

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.

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

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

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

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

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.

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.

In particular, during fiscal 2012, we experienced substantial turnover throughout our organization due to our restructuring efforts. Our Chief Executive Officer and Vice President of Business Development and Marketing resigned and the Senior Vice Presidents of the Instruments Division and Human Resources retired during fiscal 2012. We replaced our Chief Financial Officer earlier in fiscal 2012. Also, our Vice President, Bioanalytical Services notified us of her intent to resign effective November 15, 2013. We are currently evaluating and rebuilding our organization. There is no assurance that our efforts will be successful.

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

Any failure on our part to comply with existing regulations could result in the termination of ongoing research or the disqualification of data for submission to regulatory authorities. 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 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.

Our products business depends on our intellectual property.

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

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

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

- inability to develop products that address our customers' needs;
- competitive products with superior performance;

- patent conflicts or unenforceable intellectual property rights;
- demand for the particular product; and
- other factors that could make the product uneconomical.

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

Providing CRO services 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 may expand our business through acquisitions.

We occasionally review acquisition candidates and acquisitions which we have already made. 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.

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

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

Privacy regulations could increase our costs or limit our services.

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

We may be affected by health care reform.

In March 2010, the United States Congress enacted 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 may significantly impact the pharmaceutical and biotechnology industries if it is fully 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.

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.

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.

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

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.

On August 15, 2013, the Company received a letter from the NASDAQ Listing Qualification Department stating that the Company no longer complies with the listing rules for continued listing of the Company's common shares on the NASDAQ Capital Market, because the Company did not timely file its Form 10-Q for the period ended June 30, 2013 with the Securities and Exchange Commission. This letter further states that, under the listing rules, the Company has until October 14, 2013 to submit a plan to regain compliance. The Company submitted a plan by October 14, 2013 and filed the late Form 10-Q on October 18, 2013, regaining compliance. 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 117,000 square feet of operations, manufacturing, and administrative space. Both the services segment and the products segment conduct operations at this facility. The building has been financed by mortgages. On July 12, 2012, we listed the facility for sale with the intent to leaseback 80% of that square footage in which to continue our laboratory and manufacturing operations.

- **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 services segment conducts operations at this facility.

- **Bioanalytical Systems, Ltd.** was located in Warwickshire, UK. This leased facility was closed in our fourth fiscal quarter of 2012. The UK building lease expires in 2023, but includes an opt-out provision after seven years, or in fiscal 2015.

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, 2013, 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, 2011 through September 30, 2013.

	High	Low
Fiscal Year Ended September 30, 2012		
First Quarter	$1.58	$1.22
Second Quarter	1.39	1.12
Third Quarter	1.45	0.82
Fourth Quarter	1.40	0.86
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

Holders

There were approximately 2,700 holders of record of our common stock as of December 23, 2013.

Dividends

We did not pay any cash dividends on our common shares in fiscal years 2012 or 2013 and do not anticipate paying cash dividends in the foreseeable future. We pay quarterly dividends on our Series A preferred shares as 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

This report contains statements that constitute forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Those statements appear in a number of places in this Report and may include statements regarding our intent, belief or current expectations with respect to, but are not limited to (i) our strategic plans; (ii) trends in the demand for our products and services; (iii) trends in the industries that consume our products and services; (iv) our ability to 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; and (viii) our ability to refinance our outstanding indebtedness. 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 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. We do not undertake any obligation to update any forward-looking statement.

References to years or portions of years in the 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 35

years.

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 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.

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 recent additions to 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 2013, we experienced decreased demand for our products and services as compared to fiscal 2012. We believe in the fundamentals of the market and that it will continue to slowly rebound in future periods. For 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. Revenues declined approximately 21.8% in fiscal 2013, but gross margin increased 3.2% from fiscal 2012. Operating expenses declined 33.3% in fiscal 2013 from fiscal 2012. As a result of the improved gross margin and decline in operating expenses, we had operating income of $830 in fiscal 2013 compared to an operating loss of $2,491 before restructuring charges in fiscal 2012.

In fiscal 2012, we consolidated our bioanlaytical laboratories into our headquarters in West Lafayette, Indiana, closing facilities in McMinnville, Oregon and the UK to reduce operating costs and strengthen our ability to meet clients’ needs by improving laboratory utilization. We also implemented personnel reductions and other cost cutting measures in Selling, R&D and General and Administrative functions. We will continue initiatives to control costs and improve productivity to achieve our financial objectives. For a detailed discussion of our revenue, margins, earnings and other financial results for the fiscal year ended September 30, 2013, see “Results of Operations – 2013 Compared to 2012” below.

As of September 30, 2013, we had $1,304 of cash and cash equivalents as compared to $721 of cash and cash equivalents at the end of fiscal 2012. In fiscal 2013, we generated $1,519 in cash from operations primarily from the net income we reported versus net loss in fiscal 2012. Total capital expenditures declined in fiscal 2013, as we limited spending to only necessary expenditures and disposed of assets related to the two closed sites. We negotiated an amendment on our loan with Regions Bank, extending the maturity date to October 2014. We listed for sale our headquarters facility in West Lafayette, Indiana with the intent to leaseback 80% of that square footage in which to continue our laboratory and manufacturing operations. Further, we announced the launch of Culex® NxT, the latest generation of the Company’s proprietary in vivo automated sampling system in fiscal 2013. We believe we are poised for increased capacity utilization and potential strategic growth in 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 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.

We are focused on improving our total revenues and cash flow from operations in fiscal 2014 to reduce our reliance on our line of credit. If we are unable to increase cash flow from operations in fiscal 2014, we may not have sufficient liquidity to continue our business. Based on our expected revenue, the impact of the cost reductions implemented and restructuring activities during fiscal 2012, we project that we will have the liquidity required to meet our fiscal 2014 operations and debt obligations. Though our current line of credit expires on January 31, 2014, as of November 30, 2013, we have reduced our balance on our line of credit to $207 from $1,415 at September 30, 2013 while continuing to meet all other debt obligations and working capital requirements.

Patient Protection and Affordable Care Act

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

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

We have experienced increases in the costs of our health benefit programs in excess of inflation rates, and expect those trends to continue. We are exploring options in plan funding, delivery of benefits and employee wellness in our continuing effort to obtain maximum benefit for our health care expenditures, while maintaining quality programs for our employees. We do not expect these efforts to have a material financial impact on the Company.

Results of Operations

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

	Year Ended September 30,			
	2013		2012	
Service revenue	74.6	%	75.6	%
Product revenue	25.4		24.4	
Total revenue	100.0	%	100.0	%
Cost of service revenue [(a)]	75.4		86.7	
Cost of product revenue [(a)]	46.4		42.0	

Total cost of revenue	68.0		75.8	
Gross profit	32.0		24.2	
Operating expenses	28.2		33.1	
Restructuring charges	0.0		11.3	
Operating income (loss)	3.8		(20.2	)
Other expense	0.2		2.2	
Income (loss) before income taxes	3.6		(22.4	)
Income tax expense	0.1		0.0	
Net income (loss)	3.5	%	(22. 4	)%

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

24

2013 Compared to 2012

Service and Product Revenues

Revenues for the year ended September 30, 2013 decreased 21.8% to $22,068 compared to $28,208 for the year ended September 30, 2012.

Our Services revenue decreased 22.7% to $16,473 compared to $21,312 for the prior fiscal year. The consolidation of the McMinnville, Oregon laboratory into the West Lafayette location as well as the closure of the UK facility, both in fiscal 2012, contributed to the decline in bioanalytical analysis revenues in the current fiscal year offset slightly by an increase in the number of samples to assay at our West Lafayette facility. Pharmaceutical analysis and toxicology revenues were negatively impacted by study delays by clients. The following table shows more detail for our Service revenue.

	Fiscal Year Ended September 30,			
	2013	2012	Change	%
Bioanalytical analysis	$7,930	$10,983	$(3,053)	-27.8%
Toxicology	6,532	7,449	(917)	-12.3%
Other laboratory services	2,011	2,880	(869)	-30.2%

Sales in our Products segment decreased 18.9% from $6,896 to $5,595 when compared to the prior fiscal year. The majority of the decline stems from lower sales of our Culex®, in-vivo sampling systems over the same period of the prior fiscal year primarily due to the delayed launch of Culex Nxt and the sales of lower-priced refurbished units. The following table shows more detail for our Product revenue.

	Fiscal Year Ended September 30,			
	2013	2012	Change	%
Culex, in-vivo sampling systems	$2,322	$3,693	$(1,371)	-37.1%
Analytical instruments	2,399	2,554	(155)	-6.1 %
Other instruments	874	649	225	34.7 %

Cost of Revenue

Cost of revenue for the year ended September 30, 2013 was $15,013 or 68.0% of revenue compared to $21,370, or 75.8% of revenue for the prior fiscal year.

Cost of Service revenue as a percentage of Service revenue decreased to 75.4% in the current fiscal year from 86.7% in the prior year. The principal cause of this decrease was the restructuring activities in the second half of fiscal 2012 that reduced our fixed cost base, as well as strict spend monitoring in the current fiscal year.

Cost of Product revenue as a percentage of Product revenue in the current fiscal year increased to 46.4% from 42.0% in the prior fiscal year. This increase is mainly due to a change in the mix of products sold in the current fiscal year as well as an increase in the obsolescence reserve.

Operating Expenses

Selling expenses for the year ended September 30, 2013 decreased by 58.1% to $1,366 from $3,263 for the year ended September 30, 2012. This decrease stems from restructuring activities in the prior year, as well as reductions in commissions, travel, advertising and consulting expenses in the current fiscal year.

Research and development expenses for the year ended September 30, 2013 decreased 16.2% to $454 from $542 for the year ended September 30, 2012. This decline is mainly due to the personnel reductions as part of restructuring activities in fiscal 2012 offset slightly by higher consulting services costs in fiscal 2013.

General and administrative expenses for the current fiscal year decreased 20.3% to $4,405 from $5,524 for the prior year. The principal reasons for the decrease were lower salaries and benefits due to restructuring activities in fiscal 2012, as well as lower consulting fees and employee search expenses in the current fiscal year as we monitored spend closely.

Other Income/Expense

Other income (expense), net, was $41 for the year ended September 30, 2013 as compared to $(629) for the year ended September 30, 2012. The primary reason for the change is due to the change in fair value of the warrant liability as well as lower lease interest in fiscal 2013 as a result of maturities.

Income Taxes

Our effective tax rate for the year ended September 30, 2013 was 2.1% compared to (0.1%) for the prior fiscal year. Current year income is the primary reason for the increase in the effective rate. The prior year expense primarily relates to state franchise taxes. 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 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. In total, 74 employees were terminated as part of the restructuring activities this fiscal year.

The following table sets forth the costs incurred in connection with these restructuring activities during the year ended September 30, 2012.

Description	Amount
One-time termination benefits	$ 1,454
Lease related costs	861
Equipment moving costs and method transfers	153
Travel and relocation costs	47
Loss on sale of equipment	446
Other costs	234
Total	$ 3,195

Restructuring related costs incurred during fiscal 2012 totaled $1,360 in our Services segment, $0 in our Products segment and $1,835 in corporate expenses.

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 $877 reserved for UK lease related costs.

The following table sets forth the rollforward of the restructuring activity for the year ended September 30, 2013.

	Balance, September 30, 2012	Total Charges	Cash Payments	Other	Balance, September 30, 2013
One-time termination benefits	$ 448	$ -	$ (448)	$ -	$ -
Lease related costs	800	77	-	-	877
Equipment moving costs and method transfers	49	-	(49)	-	-
Travel and relocation costs	4	-	(4)	-	-
Loss on sale of equipment	(93)	-	-	77	(16)
Other costs	197	-	(80)	-	117
Total	$ 1,405	$ 77	$ (581)	$ 77	$ 978

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 September 30, 2013, we had cash and cash equivalents of $1,304 compared to $721 at September 30, 2012.

Net cash provided by operating activities was $1,519 for the year ended September 30, 2013, compared to $200 cash used for the year ended September 30, 2012. The increase in cash provided by operating activities in the current fiscal year partially results from our current operating income versus operating loss in the prior year period. Other contributing factors to our cash from operations were noncash charges of $1,723 for depreciation and amortization, $225 for stock option expense and a decrease of $277 in inventory offset slightly by cash paid during the current year for restructuring activities of $580 and a decline in customer advances of $197. Included in operating activities for fiscal 2012 are non-cash charges of $2,278 for depreciation and amortization as well as an increase in accounts payable of $2,375, partially due to the restructuring liabilities of $1,405, and cash paid for restructuring activities of $1,251.

Investing activities provided $12 in fiscal 2013. The proceeds from sale of equipment relate to the equipment disposed of in our West Lafayette facility. The decrease in capital spending from fiscal 2012 is a result of cost containment initiatives during the year as well as an increase in disposals related to the site closures.

Financing activities used $947 in the current fiscal year as compared to $1,164 used in fiscal 2012. The main use of cash in fiscal 2013 was for long-term debt and capital lease payments of $918 as well as net payments on our line of credit of $29. The main use of cash in fiscal 2012 was for long-term debt and capital lease payments of $1,390. These were slightly offset by net borrowings on our line of credit of $98 and a direct common share purchase by Company executives and directors, which provided $128.

Capital Resources

Property and equipment, net, spending totaled $8 and $1,090 in fiscal 2013 and 2012, respectively. The decrease in spending in fiscal 2013 is the result of cost containment initiatives as well as an increase in disposals during the year.

We have a note payable to Regions Bank (“Regions”) for $5,254 at September 30, 2013, which is secured by mortgages on our facilities in West Lafayette and Evansville, Indiana and a $3,000 line of credit with Entrepreneur Growth Capital LLC (EGC). The EGC line of credit is subject to availability limitations that may substantially reduce or eliminate our borrowing capacity at any time.

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 and $5,842 at September 30, 2012.

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

Regions requires 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. At September 30, 2013, we were in compliance with the fixed charge coverage and the total liabilities to tangible net worth ratios in the Regions agreements. Failure to comply with those covenants in future quarters would be a default under the Regions loans, requiring us to negotiate with Regions regarding loan modifications or waivers. If we are unable to obtain such modifications or waivers, Regions could accelerate the maturity of the loans and cause a cross default with our other lender.

The Regions loan agreements both contain cross-default provisions with each other and with the revolving line of credit with EGC described below.

The replacement note payable with Regions matures in the first quarter of fiscal 2015. We intend to refinance the amounts in lieu of making balloon payments for the remaining principal balances or sell the building in West Lafayette, Indiana. We have listed for sale our 7.25 acres and 120,000 square foot facility at 2701 Kent Avenue, West Lafayette, Indiana with the intent to leaseback 80% of that square footage in which to continue our laboratory and manufacturing operations. We enlisted a new realtor in the third quarter of fiscal 2013 and changed the asking price to $10,800. We performed an impairment analysis on the building when we listed it for sale, but noted no impairment. As of September 30, 2013, the net book value of the facility and land was $9,230.

We may be unsuccessful in renegotiating the terms of the Regions debt or they may be unfavorable to us. For these reasons, if we are unsuccessful at refinancing our long-term debt, our operating results and financial condition could be adversely affected.

Revolving Line of Credit

We have a $3,000 revolving line of credit agreement (“Credit Agreement”) with EGC. The term of the Credit Agreement expires on January 31, 2014. If we terminate prior to the expiration of the term, then we are subject to an early termination fee equal to the minimum interest charges of $15 for each of the months remaining until expiration.

Borrowings under the Credit Agreement bear interest at an annual rate equal to Citibank’s Prime Rate plus five percent (5%), or 8.25% as of September 30, 2013, with minimum monthly interest of $15. Interest is paid monthly. The line of credit also carries an annual facilities fee of 2% and a 0.2% collateral monitoring fee. Borrowings under the Credit

Agreement are 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 are calculated based on 75% of eligible accounts receivable. Under the Credit Agreement, as amended, the Company has 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 contains cross-default provisions with the Regions loans and any future EGC loans. At September 30, 2013, we were in compliance with the minimum tangible net worth covenant requirement. At September 30, 2013, we had available borrowing capacity of $2,238 on this line, of which $1,415 was outstanding and $1,313 of cash on hand. We had an increase in our total borrowing capacity of $311, from $1,927 to $2,238, from the fiscal year ended September 30, 2012 primarily as a result of higher eligible accounts receivable as well as our success in collecting receivables.

Based on our current business activities and cash on hand, we expect to borrow on our revolving credit facility in our first fiscal quarter of 2014 to finance working capital. Failure to comply with the minimum tangible net worth covenant or any other event of default under the Credit Agreement would allow EGC to stop rendering advances and to accelerate the maturity of the outstanding balance. To conserve cash, we instituted a freeze on non-essential capital expenditures and are monitoring all spending closely.

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. We are actively pursuing alternatives to replace this line of credit with more favorable terms. We are focused on growing our revenues and improving our cash flow from operations in fiscal 2014 to reduce our reliance on our line of credit. We may be unsuccessful in obtaining a new line of credit by the maturity date of our current line of credit. If we are unable to continue to increase cash flow from operations in fiscal 2014 or obtain a new line of credit, we may not have sufficient liquidity to continue our business.

For fiscal 2014, we expect to see continued improvement in the volume of new bookings with little improvement in pricing. We also expect to maintain improved gross profit margins due to cost controls implemented in fiscal 2012 and 2013 and our restructuring activities. Based on our expected revenue, the impact of the cost reductions and restructuring activities in fiscal 2012, we project that we will have the liquidity required to meet our fiscal 2014 operations and debt obligations. Should operations materially fail to meet our expectations for the coming fiscal year, we may not be able to comply with all of our debt covenants, requiring that we obtain a waiver at that time. If that situation arises, we will be required to negotiate with our lending bank again to obtain loan modifications or waivers as described above. We cannot predict whether our lenders will provide those waivers, if required, what the terms of any such waivers might be or what impact any such waivers will have on our liquidity, financial condition or results of operations.

The following table summarizes the cash payments under our contractual term debt and other obligations at September 30, 2013 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.

	2014	2015	2016	2017	2018	Total
Notes payable and interest	$916	$4,665	$—	$ —	$ —	$5,581
Capital lease obligations	307	281	214	4	—	806
Operating leases	610	276	14	—	—	900
	$1,833	$5,222	$228	$ 4	$ —	$7,287

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 have a stated dividend rate of 6% per annum, payable quarterly in cash or, subject to certain conditions, in common shares or a combination of cash and common shares, at our election. After May 11, 2014, the Series A preferred shares will participate in any dividends payable upon our common shares on an "as converted" basis. If the preferred shares are converted prior to May 11, 2014, we must also 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). Class A Warrants are exercisable immediately and expire in May 2016. Class B Warrants expired in May 2012. The Class A and B 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 dividends subsequent to the fiscal quarter ended June 30, 2011.

As of September 30, 2013, 4,171 preferred shares have been converted into 2,486,127 common shares and 199,573 common shares have been issued for quarterly preferred dividends for remaining outstanding, unconverted preferred shares. No warrants have been exercised as of September 30, 2013. At September 30, 2013, 1,335 preferred shares and 1,376,500 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 service contracts involve the processing of bioanalytical samples for pharmaceutical companies. These contracts generally provide for a fixed fee for each assay method developed or sample processed and revenue is recognized under the specific performance method of accounting. Under the specific performance method, revenue and related direct costs are recognized when services are performed. Other service contracts generally consist of preclinical studies for pharmaceutical companies. Service revenue is recognized under the proportional performance method of accounting. Revisions in profit estimates are reflected on a cumulative basis in the period in which such revisions become known. The establishment of contract prices and total contract costs involves estimates made by the Company at the inception of the contract period. These estimates could change during the term of the contract which could impact the revenue and costs reported in the consolidated financial statements. Revisions to estimates have not been material. Service contract fees received upon acceptance are deferred and classified within customer advances, until earned. Unbilled revenues represent revenues earned under contracts in advance of billings.

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

Long-Lived Assets, Including Goodwill

Long-lived assets, such as property and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized 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, 2013 are Vetronics, which is included in our Products segment, bioanalytical services and preclinical services located in Evansville, Indiana, 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.

Due to the closure of the McMinnville, Oregon site, we tested for impairment of the bioanalytical business at the end of our third fiscal quarter of 2012 using the cash flow approach as explained above. This test resulted in no impairment to the goodwill valuation as currently recorded on the books.

We performed our annual impairment test for all reporting units mentioned above at September 30, 2013, which indicated no impairment.

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, 2013, 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 $225 and $83 during the fiscal years ended September 30, 2013 and 2012, 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 2013 and 2012 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 carryforwards. We measure deferred tax assets and liabilities using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. We recognize the effect on deferred tax assets and liabilities of a change in tax rates in income in the period that includes the enactment date. We record valuation allowances based on a determination of the expected realization of tax assets.

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

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

As of September 30, 2013 and 2012, we had a $16 liability for uncertain income tax positions, respectively.

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

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.

New Accounting Pronouncements

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 carryforward, a similar tax loss or a tax credit carryforward 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 Company is currently evaluating the impact of this pronouncement on its 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 becomes 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.

In December 2011, the FASB issued updated authoritative guidance to amend the presentation of comprehensive income in financial statements. This new guidance allows companies the option to present other comprehensive income in either a single continuous statement or in two separate but consecutive statements. It eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. Under both alternatives, companies are required to present each component of net income and comprehensive income. The amendment is effective for fiscal years and interim periods beginning on or after December 15, 2011 on a retrospective basis. The adoption of this guidance will not change the previously reported amounts of comprehensive income. The Company has presented other comprehensive income on the face of the condensed consolidated statements of operations for all periods presented. The adoption of this updated authoritative guidance had no effect on our financial condition, results of operations or cash flow.

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

BIOANALYTICAL SYSTEMS, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

	As of September 30,	
	2013	2012
Assets		
Current assets:		
Cash and cash equivalents	$1,304	$721
Accounts receivable		
Trade, net of allowance of $87 and $123 at September 30, 2013 and 2012, respectively	3,621	3,366
Unbilled revenues and other	691	921
Inventories	1,379	1,656
Prepaid expenses	238	228
Total current assets	7,233	6,892
Property and equipment, net	16,913	18,628
Goodwill	1,383	1,383
Debt issue costs, net	21	18
Other assets	47	54
Total assets	$25,597	$26,975
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	$3,584	$3,934
Accrued expenses	1,689	2,067
Customer advances	2,815	3,012
Income tax accruals	30	17
Revolving line of credit	1,415	1,444
Fair value of warrant liability	612	1,213
Current portion of capital lease obligation	268	330
Current portion of long-term debt	613	583
Total current liabilities	11,026	12,600
Capital lease obligation, less current portion	471	739
Long-term debt, less current portion	4,641	5,259
Total liabilities	16,138	18,598
Shareholders' equity:		
Preferred shares, authorized 1,000,000 shares, no par value:		
1,335 Series A shares at $1,000 stated value issued and outstanding at September 30, 2013 and 1,335 at September 30, 2012	1,335	1,335
Common shares, no par value:		

Authorized 19,000,000 shares; 7,703,891 issued and outstanding at September 30, 2013 and 7,638,738 at September 30, 2012	1,887	1,871
Additional paid-in capital	19,925	19,635
Accumulated deficit	(13,720)	(14,493)
Accumulated other comprehensive income	32	29
Total shareholders' equity	9,459	8,377
Total liabilities and shareholders' equity	$25,597	$26,975

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

BIOANALYTICAL SYSTEMS, INC.

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

	For the Years Ended September 30,	
	2013	2012
Service revenue	$ 16,473	$ 21,312
Product revenue	5,595	6,896
Total revenue	22,068	28,208
Cost of service revenue	12,416	18,472
Cost of product revenue	2,597	2,898
Total cost of revenue	15,013	21,370
Gross profit	7,055	6,838
Operating expenses:		
Selling	1,366	3,263
Research and development	454	542
General and administrative	4,405	5,524
Total operating expenses	6,225	9,329
Restructuring charges	—	3,195
Operating income (loss)	830	(5,686)
Interest expense	(649)	(714)
Change in fair value of warrant liability - decrease	601	73
Other income	7	12
Income (loss) before income taxes	789	(6,315)
Income tax expense	16	2
Net income (loss)	$ 773	$ (6,317)
Other comprehensive income (loss):		
Foreign currency translation adjustment	3	(22)
Comprehensive income (loss)	$ 776	$ (6,339)
Basic net earnings (loss) per share:	$ 0.10	$ (0.88)
Diluted net earnings (loss) per share:	$ 0.09	$ (0.88)
Weighted common shares outstanding:		

Basic	7,664	7,158
Diluted	8,371	7,158

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-	Accumulated	Accumulated other comprehensive	Total shareholders'
	Number	Amount	Number	Amount	in capital	deficit	income (loss)	equity
Balance at October 1, 2011	2,135	$ 2,135	6,945,631	$ 1,698	$ 18,592	$ (8,176)	$ 51	$ 14,300
Comprehensive loss:								
Net loss						(6,317)		(6,317)
Foreign currency translation adjustments							(22)	(22)
Stock based compensation expense					83			83
Conversion of preferred shares to common shares	(800)	(800)	400,000	100	700			-
Common shares issued for dividends/make-whole payment	-	-	191,607	48	157			205
Direct common share purchase from Directors	-	-	101,500	25	103			128
Balance at September 30, 2012	1,335	$ 1,335	7,638,738	$ 1,871	$ 19,635	$ (14,493)	$ 29	$ 8,377
Comprehensive income:								
Net income						773		773
Foreign currency translation adjustments							3	3
Stock based compensation expense					225			225
Stock option exercise			1,372	-	-			-
			63,781	16	65			81

Common shares issued for dividends/make-whole payment								
Balance at September 30, 2013	1,335	$ 1,335	7,703,891	$ 1,887	$ 19,925	$ (13,720)	$ 32	$ 9,459

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,	
	2013	2012
Operating activities:		
Net income (loss)	$ 773	$ (6,317)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	1,723	2,278
Employee stock compensation expense	225	83
Change in fair value of warrant liability - decrease	(601)	(73)
(Gain) loss on sale of property and equipment	(13)	451
Changes in operating assets and liabilities:		
Accounts receivable	(25)	902
Inventories	277	(20)
Income tax accruals	13	(39)
Prepaid expenses and other assets	(9)	414
Accounts payable	(269)	2,375
Accrued expenses	(378)	305
Customer advances	(197)	(559)
Net cash provided (used) by operating activities	1,519	(200)
Investing activities:		
Capital expenditures	(8)	(1,090)
Proceeds from sale of equipment	20	230
Net cash provided (used) by investing activities	12	(860)
Financing activities:		
Direct common shares purchased by CEO and Board of Directors	—	128
Payments of long-term debt	(588)	(735)
Payments on revolving line of credit	(21,814)	(27,695)
Borrowings on revolving line of credit	21,785	27,793
Payments on capital lease obligations	(330)	(655)
Net cash (used) provided by financing activities	(947)	(1,164)
Effect of exchange rate changes	(1)	(18)
Net increase (decrease) in cash and cash equivalents	583	(2,242)
Cash and cash equivalents at beginning of year	721	2,963
Cash and cash equivalents at end of year	$ 1,304	$ 721
Supplemental disclosure of cash flow information:		

Cash paid for interest	$ 649	$ 715
Cash paid for income taxes	$ 3	$ 12
Supplemental disclosure of non-cash financing activities:		
Preferred stock dividends paid in common shares	$ (81)	$ (106)
Equipment financed under capital leases	—	$ 356
Termination of capital lease obligation	—	$ 322

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

BIOANALYTICAL SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands unless otherwise listed)

1. DESCRIPTION OF THE BUSINESS

Bioanalytical Systems, Inc. and its subsidiaries (the "Company" or "BASi" or "we") engage in research services and other services related to pharmaceutical development. We also manufacture scientific instruments for medical research, which we sell with related software for use in industrial, governmental and academic laboratories. We conduct our businesses through our research and manufacturing facilities in Indiana. Our customers are located throughout the world.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation

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

(b) Revenue Recognition

The majority of our 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.

One or more of the financial institutions holding the Company's cash accounts are participating in the FDIC's Transaction Account Guarantee Program. Under that program, through December 31, 2010, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. Pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC-insured institutions.

For financial institutions opting out of the FDIC's Transaction Account Guarantee Program or interest-bearing cash accounts, the FDIC's insurance limits were permanently increased to $250,000, effective July 21, 2010. At September 30, 2013, the Company 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 $87 and $123 at September 30, 2013 and 2012, respectively.

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

	2013	2012
Opening balance	$123	$108
Charged to expense	41	84
Accounts recovered	(18)	15
Accounts written off	(59)	(84)
Ending balance	$87	$123

(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 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.

(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 $1,715 in fiscal 2013 and $2,217 in fiscal 2012. Expenditures for maintenance and repairs are expensed as incurred.

Property and equipment, net, as of September 30, 2013 and 2012 consisted of the following:

	2013	2012
Land and improvements	$914	$914
Buildings and improvements	21,250	21,278
Machinery and equipment	17,571	19,496
Office furniture and fixtures	690	701
Construction in progress	92	35
	40,517	42,424
Less: accumulated depreciation	(23,604)	(23,796)
Net property and equipment	$16,913	$18,628

(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 due to the restructuring circumstances. Then, we followed 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, 2013 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.

Due to the closure of the McMinnville, Oregon site, we tested for impairment of the bioanalytical business at the end of our third fiscal quarter of 2012 using the cash flow approach as explained above. This test resulted in no impairment to the goodwill valuation as currently recorded on the books.

We also performed our annual impairment test for all reporting units mentioned above at September 30, 2013, which indicated no impairment.

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, 2013 and 2012, remaining recorded goodwill was $1,383, and the net balance of other intangible assets was $0.

Amortization expense for intangible assets for fiscal years ended September 30, 2013 and 2012 was $0 and $54, respectively. As of September 30, 2012, all intangible assets have been fully amortized. We also amortize costs of patents and licenses. For the fiscal years ended September 30, 2013 and 2012, the amortization expense associated with these was $8 and $7, respectively.

(h) Advertising Expense

We expense advertising costs as incurred. Advertising expense was $40 and $203 for the years ended September 30, 2013 and 2012, 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 carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. We record valuation allowances based on a determination of the expected realization of tax assets.

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) *New Accounting Pronouncements*

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 carryforward, a similar tax loss or a tax credit carryforward 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 Company is currently evaluating the impact of this pronouncement on its 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 becomes 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.

In December 2011, the FASB issued updated authoritative guidance to amend the presentation of comprehensive income in financial statements. This new guidance allows companies the option to present other comprehensive income in either a single continuous statement or in two separate but consecutive statements. It eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. Under both alternatives, companies are required to present each component of net income and comprehensive income. The amendment is effective for fiscal years and interim periods beginning on or after December 15, 2011 on a retrospective basis. The adoption of this guidance will not change the previously reported amounts of comprehensive income. The Company has presented other comprehensive income on the face of the condensed consolidated statements of operations for all periods presented. The adoption of this updated authoritative guidance had no effect on our financial condition, results of operations or cash flow.

(l) *Fair Value*

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, 2013 and 2012 were as follows:

	September 30, 2013 Warrant A		September 30, 2012 Warrant A	
Risk-free interest rate	0.51	%	0.41	%

Dividend yield	0.00	%	0.00	%
Volatility of the Company's common stock	71.15	%	117.30	%
Expected life of the options (years)	2.6		3.6	
Fair value per unit	$ 0.444		$ 0.881	

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.

(m) 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.

(n) Research and Development

In fiscal 2013 and 2012, we incurred $454 and $542, 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.

(o) 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.

(p) 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 comprehensive income (loss) 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).

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 have a stated dividend rate of 6% per annum, payable quarterly in cash or, subject to certain conditions, in common shares or a combination of cash and common shares, at our election. After May 11, 2014, the Series A preferred shares will participate in any dividends payable upon our common shares on an "as converted" basis. If the preferred shares are converted prior to May 11, 2014, we must also 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. Class A Warrants are exercisable immediately and expire in May 2016. 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:

	Warrant A		Warrant B	
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. 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, 2013, 4,171 preferred shares have been converted into 2,486,127 common shares and 199,573 common shares have been issued for quarterly preferred dividends for remaining outstanding, unconverted preferred shares. No warrants have been exercised as of September 30, 2013. At September 30, 2013, 1,335 preferred shares and 1,376,500 warrants remained outstanding. Also at September 30, 2013, $48,852 of the $991,080 in preferred dividends remains accrued in accounts payable for future preferred dividends. The assumptions used to compute the fair value of the warrants at September 30, 2013 and 2012 were as follows:

	September 30, 2013 Warrant A		September 30, 2012 Warrant A	
Risk-free interest rate	0.51	%	0.41	%
Dividend yield	0.00	%	0.00	%
Volatility of the Company's common stock	71.15	%	117.30	%
Expected life of the options (years)	2.6		3.6	

Fair value per unit	$ 0.444	$ 0.881

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 the treasury stock method for stock options and warrants. Shares issuable upon exercise of options were not considered in computing diluted earnings per share for the fiscal year ended September 30, 2012 because they were anti-dilutive. Warrants for 1,376,500 common shares and 936,000 common shares issuable upon conversion of preferred shares were not considered in computing diluted earnings per share for fiscal 2012 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,	
	2013	2012
Basic net income (loss) per share:		
Net income (loss)	$773	$(6,317)
Weighted average common shares outstanding	7,664	7,158
Basic net income (loss) per share	$0.10	$(0.88)
Diluted net income (loss) per share:		
Net income (loss) applicable to common shareholders	$773	$(6,317)
Weighted average common shares outstanding	7,664	7,158
Plus: Incremental shares from assumed conversions:		
Series A preferred shares	705	—
Dilutive stock options/shares	2	—
Diluted weighted average common shares outstanding	8,371	7,158
Diluted net income (loss) per share	$0.09	$(0.88)

5. INVENTORIES

Inventories at September 30 consisted of the following:

	2013	2012
Raw materials	$1,157	$1,407
Work in progress	322	283
Finished goods	259	276
	$1,738	$1,966
Obsolescence reserve	(359)	(310)
	$1,379	$1,656

6. LEASE ARRANGEMENTS

The total amount of equipment capitalized under capital lease obligations as of September 30, 2013 and 2012 was $5,778 and $5,778, respectively. Accumulated amortization on capital leases at September 30, 2013 and 2012 was $5,083 and $4,775, respectively. Amortization of assets acquired through capital leases is included in depreciation expense.

In fiscal 2013, we had no new capital lease additions. During fiscal 2012, we added $356 in computer equipment through new capital lease arrangements. 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, 2013 for the next five years are as follows:

	Principal	Interest	Total
2014	$ 268	$ 39	$307
2015	259	22	281
2016	208	6	214
2017	4	-	4
2018	-	-	-
	$ 739	$ 67	$806

We lease office space and equipment under noncancelable 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 $66 and $1,284 in fiscal 2013 and 2012, respectively. The decrease in fiscal 2013 is due to the fiscal 2012 accrual in restructuring for the UK building lease through the opt out date.

Future minimum lease payments for the following fiscal years under operating leases at September 30, 2013 are as follows:

2014	$709
2015	224
2016	14
2017	—
	$947

7. DEBT ARRANGEMENTS

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

	2013	2012
Mortgage note payable to a bank, payable in monthly principal and interest installments of $40. Interest is fixed at 4.1%. Collateralized by underlying property. Due October, 2013.	$-	$3,236
Mortgage note payable to a bank, payable in monthly principal and interest installments of $17. Interest is fixed at 4.1%. Collateralized by underlying property. Due October, 2013.	-	1,532
Note payable to a bank, payable in monthly principal installments of $14 plus interest. The interest rate is 4.5%. Collateralized by West Lafayette and Evansville properties. Due October, 2013.	-	1,074

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	-
	$5,254	$5,842
Less: Current portion	613	583
	$4,641	$5,259

47

Our principal payment obligation for the year ending September 30, 2014 is $613. Cash interest payments of $649 and $715 were made in 2013 and 2012, respectively.

Note payable

We have a note payable to Regions Bank (“Regions”) for $5,254 at September 30, 2013, which is 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 is secured by real estate at our West Lafayette and Evansville, Indiana locations.

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

Regions requires 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 in future quarters would be a default under the Regions loans, requiring us to negotiate with Regions regarding loan modifications or waivers. If we are unable to obtain such modifications or waivers, Regions could accelerate the maturity of the loans and cause a cross default with our other lender.

The Regions loan agreement contains cross-default provisions with the revolving line of credit with Entrepreneur Growth Capital LLC (“EGC”) described below.

The replacement note payable with Regions matures in the first quarter of fiscal 2015. We intend to refinance the amounts in lieu of making balloon payments for the remaining principal balances or sell the building in West Lafayette, Indiana. We have listed for sale our 7.25 acres and 120,000 square foot facility at 2701 Kent Avenue, West Lafayette, Indiana with the intent to leaseback 80% of that square footage in which to continue our laboratory and manufacturing operations. We enlisted a new realtor in the third fiscal quarter of 2013 and changed the asking price to $10,800. We performed an impairment analysis on the building when we listed it for sale, but noted no impairment necessary. As of September 30, 2013, the net book value of the facility and land was $9,230.

We may be unsuccessful in renegotiating the terms of the debt or they may be unfavorable to us. For these reasons, if we are unsuccessful at refinancing our long-term debt, our operating results and financial condition could be adversely affected.

Revolving Line of Credit

On January 13, 2010, we entered into a new $3,000 revolving line of credit agreement ("Credit Agreement") with EGC. The term of the Credit Agreement expires on January 31, 2014. If we terminate prior to the expiration of the term, then we are subject to an early termination fee equal to the minimum interest charges of $15 for each of the months remaining until expiration.

Borrowings under the Credit Agreement bear interest at an annual rate equal to Citibank's Prime Rate plus five percent (5%), or 8.25% as of September 30, 2012, with minimum monthly interest of $15. Interest is paid monthly. The line of credit also carries an annual facilities fee of 2% and a 0.2% collateral monitoring fee. Borrowings under the Credit Agreement are 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 are calculated based on 75% of eligible accounts receivable. Under the Credit Agreement, as amended, the Company has 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 contains cross-default provisions with the Regions loan and any future EGC loans. At September 30, 2013, we had available borrowing capacity of $2,238 on this line, of which $1,415 was outstanding. At September 30, 2012, we had $1,444 outstanding on this line.

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. We are actively pursuing alternatives to replace this line of credit. We are focused on growing our revenues and improving our cash flow from operations in fiscal 2014 to reduce our reliance on our line of credit.

8. INCOME TAXES

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

	2013	2012
Deferred tax assets - Current:		
Inventory	$208	$202
Accrued compensation and vacation	192	255
Accrued expenses and other	185	252
Total current deferred tax assets	585	709
Deferred tax liabilities – Current:		
Prepaid expenses	(49)	(74)
Total net current deferred tax assets	536	635
Deferred tax assets - Noncurrent:		
Domestic net operating loss carryforwards	5,737	2,483
Stock compensation expense	45	14
Foreign net operating loss	-	2,334
Foreign tax credit carryover	119	119
AMT credit carryover	54	42
Total noncurrent deferred tax assets	5,955	4,992
Deferred tax liabilities - Noncurrent:		
Unrealized gain/loss - warrant liability	(530)	(296)
Worthless stock deduction	(3,214)	-
Basis difference for fixed assets	(461)	(459)
	(4,205)	(755)
Total net noncurrent deferred tax assets	1,750	4,237
Valuation allowance for net deferred tax assets	(2,286)	(4,872)
Net deferred tax asset (liability)	$-	$-

49

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

	2013	2012
Current:		
Federal	$ 13	$ (3)
State and local	3	5
Foreign	-	-
Deferred:		
Federal	-	-
State and local	-	-
Foreign	-	-
Income tax expense	$ 16	$ 2

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

	2013	2012
Statutory federal income tax rate	34.0 %	34.0 %
Increases (decreases):		
State and local income taxes, net of Federal tax benefit, if applicable	0.3	(0.1)
Nondeductible expenses	7.2	(0.5)
Valuation allowance changes	(39.4)	(33.5)
Other	—	—
Effective income tax rate	2.1 %	(0.1)%

We had foreign net operating loss carryforwards 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 related the valuation allowance related to the foreign net operating losses have been removed.

Realization of deferred tax assets associated with the net operating loss carryforward and credit carryforward is dependent upon generating sufficient taxable income prior to their expiration. The valuation allowance in fiscal 2013 and 2012 was $2,286 and $2,538, respectively for our domestic operations. Payments made in fiscal 2013 and 2012 for income taxes amounted to $3 and $12, respectively.

At September 30, 2013, we had domestic net operating loss carryforwards of approximately $12,742 for federal and $16,326 for state, which expire from September 30, 2014 through 2029. Also, we have a foreign tax credit

carryforward of approximately $119, which expires September 30, 2016. Further, we have an alternative minimum tax credit carryforward of approximately $54 available to offset future federal income taxes. This credit has an unlimited carryforward 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, 2013, 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:	2013	2012
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	$ 16	$ 16

As noted in the table above, there has been no change in our gross uncertain tax positions during fiscal 2013 based on a state tax position.

We are no longer subject to U.S. federal tax examinations for years before 2009 or state and local for years before 2008, 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 2008.

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, 2013, 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,

2013, 197 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, 2013 and 2012, 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:

	2013	2012
Risk-free interest rate	1.42%	1.39%
Dividend yield	0.00%	0.00%
Volatility of the expected market price of the Company's common stock	93.60%-93.70%	93.00%-97.00%
Expected life of the options (years)	8.0	7.0 - 8.0

A summary of our stock option activity for all options and related information for the years ended September 30, 2013 and 2012, 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, 2011	673	$ 2.65			
Exercised	-	$ -			
Granted	200	$ 1.30	$ 1.05		
Terminated	(519)	$ 2.58			
Outstanding - September 30, 2012	354	$ 1.99	$ 1.46	8	$ 42
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	479	$ 1.77	$ 1.35	7.9	$ 43
Exercisable at September 30, 2013	218	$ 2.27	$ 1.64	7	$ 20

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, 2013 and the options' exercise price. A summary of non-vested options for the year ended September 30, 2013 is as follows:

	Number of Shares	Weighted-Average Grant Date Fair Value
Non-vested options at October 1, 2012	260	$ 1.06
Granted	178	$ 1.20
Vested	(152)	$ 1.25
Forfeited	(25)	$ 1.05
Non-vested options at September 30, 2013	261	$ 1.11

Seven options with an intrinsic value of $1 were exercised using a cashless exercise in fiscal 2013, which resulted in the issuance of 1 common shares, and no options were exercised in fiscal 2012. As of September 30, 2013, our total unrecognized compensation cost related to non-vested stock options was $171 and is expected to be recognized over a weighted-average service period of 1.01 years. As of September 30, 2013, 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, 2013 and 2012 was $225 and $83, respectively.

The following table summarizes outstanding and exercisable options as of September 30, 2013 (in thousands except per share amounts):

Range of Exercise Prices	**Shares Outstanding**	**Weighted-Average Remaining Contractual Life (Years)**	**Weighted-Average Exercise Price**	**Shares Exercisable**	**Weighted-Average Exercise Price**
$0.79-1.01	108	7.40	$ 0.97	49	$ 0.98
$1.02-4.59	314	8.91	$ 1.43	112	$ 1.35
$4.60-8.79	57	3.24	$ 5.22	57	$ 5.22

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 2013 and 2012. Similar to fiscal 2012, we suspended our match of the employee contribution as part of our cost reduction efforts. Contribution expense was $1 and $17 in fiscal 2013 and 2012, respectively. The amounts recorded in fiscal 2013 and 2012 relate to statutory contributions for our European location.

11. SEGMENT INFORMATION

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

(a) *Operating Segments*

	Years Ended September 30,	
	2013	2012
Revenue:		
Service	$16,473	$21,312
Product	5,595	6,896
	$22,068	$28,208
Operating income (loss):		
Service	$77	$(3,863)
Product	753	12
Corporate	—	(1,835)
	$830	$(5,686)
Interest Expense	(649)	(714)
Change in fair value of warrant liability- decrease	601	73
Other income	7	12
Income (loss) before income taxes	$789	$(6,315)

Restructuring costs of $1,360 and $1,835 are included in the operating losses for fiscal 2012 for the Service and Corporate segments, respectively.

	Years Ended September 30,	
	2013	2012
Identifiable assets:		
Service	$15,149	$15,864
Product	6,399	7,262
Corporate	4,049	3,849
	$25,597	$26,975
Goodwill, net:		
Service	$1,009	$1,009
Product	374	374
	$1,383	$1,383
Depreciation and amortization:		
Service	$1,519	$2,036
Product	204	242
	$1,723	$2,278
Capital Expenditures:		
Service	$(1)	$864
Product	9	226
	$8	$1,090

(b) *Geographic Information*

	Years Ended September 30,	
	2013	2012
Sales to External Customers:		
North America	$19,635	$25,042
Pacific Rim	1,019	961
Europe	1,111	1,858
Other	303	347
	$22,068	$28,208
Long-lived Assets:		
North America	$18,364	$20,083
Europe	—	—
	$18,364	$20,083

(c) *Major Customers*

The Preferred Provider Agreement (“PPA”) with Pharmasset, Inc., expired under its own terms, though they remain a large client of the Company. Pharmasset, Inc., now known as Gilead Sciences, Inc. (‘Gilead’) via acquisition, accounted for approximately 4.4% and 7.3% of our total revenues in fiscal 2013 and 2012, respectively, and 0.7% and 7.4% of total trade accounts receivable at September 30, 2013 and 2012, respectively. Pfizer, Inc. remains a large client, accounting for approximately 4.9% and 3.4% of our total revenues in fiscal 2013 and 2012, respectively. Pfizer, Inc. accounted for 3.3% and 8.4% of total trade accounts receivable at September 30, 2013 and 2012, respectively. 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. In fiscal 2012, Boehringer Ingelheim accounted for approximately 3.3% of total sales and 4.3% of total trade accounts receivable at September 30, 2012.

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 this fiscal year.

The following table sets forth the costs incurred in connection with these restructuring activities during the year ended September 30, 2012.

Description	2012
One-time termination benefits	$1,454
Lease related costs	861
Equipment moving costs and method transfers	153
Travel and relocation costs	47
Loss on sale of equipment	446
Other costs	234
Total	$3,195

Restructuring related costs incurred during fiscal 2012 totaled $1,360 in our Services segment, $0 in our Products segment and $1,835 in corporate expenses.

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 $877 reserved for UK lease related costs.

The following table sets forth the rollforward of the restructuring activity for the year ended September 30, 2013.

	Balance, September 30, 2012	Total Charges	Cash Payments	Other	Balance, September 30, 2013
One-time termination benefits	$ 448	$ -	$ (448)	$ -	$ -
Lease related costs	800	77	-	-	877
Equipment moving costs and method transfers	49	-	(49)	-	-
Travel and relocation costs	4	-	(4)	-	-
Loss on sale of equipment	(93)	-	-	77	(16)
Other costs	197	-	(80)	-	117
Total	$ 1,405	$ 77	$ (581)	$ 77	$ 978

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 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, 2013. The Company's expense related to the plan was $1,035 and $1,231 for the years ended September 30, 2013 and 2012.

14. MANAGEMENT'S PLAN

Our long-term strategic objective is to maximize the Company's intrinsic value per share. However, in response to our financial performance through the second quarter of fiscal 2012, we began to operate the business in a manner designed to place more emphasis on cash flow generation. Thus, our short-term tactical objective is to maximize free cash flow from operating activities.

Revenues declined approximately 21.8%, but gross margin increased 3.2% from fiscal 2012. Operating expenses declined 33.3% in fiscal 2013 from fiscal 2012. As a result of the improved gross margin and decline in operating expenses, we had operating income of $830 in fiscal 2013 compared to an operating loss of $2,491 before restructuring charges in fiscal 2012.

In fiscal 2012, we consolidated our bioanalytical laboratories into our headquarters in West Lafayette, Indiana, closing facilities in McMinnville, Oregon and the UK to reduce operating costs and strengthen our ability to meet clients' needs by improving laboratory utilization. We also implemented personnel reductions and other cost cutting measures in Selling, R&D and General and Administrative functions.

As of September 30, 2013, we had $1,304 of cash and cash equivalents as compared to $721 of cash and cash equivalents at the end of fiscal 2012. In fiscal 2013, we generated $1,519 in cash from operations versus cash used of $200 in fiscal 2012.

We negotiated an amendment on our loans with Regions Bank, extending the maturity date to October 2014. Plus, we listed for sale our headquarters facility in West Lafayette, Indiana with the intent to leaseback 80% of that square footage in which to continue our laboratory and manufacturing operations.

In 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 the continued improvements in gross profit margins. We have debt and lease obligations of approximately $1.6 million in fiscal 2014. Based on our expected revenue, the impact of the cost reductions implemented and restructuring activities during fiscal 2012, we project that we will have the liquidity required to meet our fiscal 2014 operations and debt obligations. Though our current line of credit expires on January 31, 2014, as of November 30, 2013, we have reduced our balance on our line of credit to $207(unaudited) from $1,415 at September 30, 2013 while continuing to meet all other debt obligations and working capital requirements. Although management believes our cash flow from operations will generate sufficient cash flow for our debt obligations, working capital requirements and capital expenditures, we are pursuing alternatives to replace this line of credit.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders

Bioanalytical Systems Inc.

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bioanalytical Systems, Inc as of September 30, 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 30, 2013

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors

Bioanalytical Systems Inc.

We have audited the consolidated balance sheet of Bioanalytical Systems, Inc. as of September 30, 2012, and the related consolidated statements of operations and comprehensive income (loss), shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bioanalytical Systems, Inc as of September 30, 2012, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

The September 30, 2012 financial statements have been restated to reflect revised accounting treatment for stock warrants in which the classification was determined to be a liability rather than equity as was previously reported.

/s/ Crowe Horwath LLP

Fort Wayne, Indiana

December 31, 2012 (October 11, 2013 as to the effects of the restatement discussed in our report).

58

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, 2013, including those procedures described below, we, including our iChief Executive Officer and Chief Financial Officer, determined that those controls and procedures were effective as of September 30, 2013.

Management's Report on Internal Control over Financial Reporting

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

Earlier in fiscal 2013, management identified material weaknesses which resulted in the improper accounting treatment of the warrants issued in connection with the May 2011 public offering. A material weakness is a control deficiency, or combination of control deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

In May 2011, we sold units of convertible preferred shares and warrants in a public offering which raised new capital for the Company. We erroneously recorded the warrants as equity instead of a liability. This error caused other calculations related to the offering, such as the beneficial conversion feature and deemed dividend, to be misstated. Further, other income from the change in the fair value of the warrant liability was misstated because we did not correctly record the fair value of the warrants at each reporting period. Based on the erroneous recording of the warrants as equity instead of a liability, we restated our previously issued consolidated financial statements for the fiscal years ended September 30, 2012 and 2011 and the first two quarters of fiscal 2013.

As a corrective action, we implemented a new internal control which includes management seeking the counsel of other experts in accounting before discussions with our auditors on future unusual and non-recurring transactions. Based on the implementation of this new control during fiscal 2013, management determined that the Company's internal control over financial reporting was effective as of September 30, 2013.

Changes in Internal Controls

There were no other 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 2013 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, 2013. 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 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.	60	Chairman
Larry S. Boulet	67	Director
David W. Crabb, M.D.	60	Director
Richard A. Johnson	68	Director
David L. Omachinski	61	Director
A. Charlene Sullivan, Ph.D.	64	Director
Jacqueline M. Lemke	51	Director, President, Chief Executive Officer and Chief Financial 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.

David W. Crabb, M.D. has served as a director of the Company since February, 2004. He has been Chairman of the Indiana University Department of Medicine since 2001. He has been a member of the faculty of the Departments of Medicine and Biochemistry and Molecular Biology since 1983. He served as Vice Chairman for Research for the department and as an Assistant Dean for Research from 1993 to 2000. Dr. Crabb is the Director of the Indiana Alcohol Research Center, serves on several editorial boards and is a member of the Boards of Directors of Polymer Technology Sciences, Inc. and The Regenstrief Institute. He was a recipient of a NIH Merit award and numerous other research and teaching awards. Dr. Crabb brings to the Board of Directors particular knowledge of and experience in the health care and pharmaceutical industries.

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 form 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.

Jacqueline M. Lemke, was elected as a director of the Company in February 2013. Ms. 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. Ms Lemke provides our Board of Directors with insight and perspective on financial 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 2013.

ITEM 11-EXECUTIVE COMPENSATION

NON-EMPLOYEE DIRECTOR COMPENSATION AND BENEFITS

BASi's compensation package for non-employee directors is generally comprised of cash (annual retainers and board and committee meeting fees) and has also included periodic stock option awards. The annual pay package is designed to attract and retain highly-qualified, independent professionals to represent BASi's shareholders and reflect BASi's position in the industry. With the 2008 Stock Option Plan, BASi intended to better align director and shareholder interests through the use of stock option awards to directors. Actual annual pay varies among directors based on Board committee memberships, committee chair responsibilities and meetings attended. BASi has not adopted guidelines with respect to non-employee director ownership of common shares. Directors, who are employees, if any, receive no additional compensation for their service on the Board.

Compensation for non-employee directors during the 2013 fiscal year consisted of the following:

Type of Compensation	Amount ($)
Annual retainer for Board membership	3,300
Annual retainer for director serving as Chair of the Audit Committee	2,000
Annual retainer for director serving as Chair of the Compensation Committee	1,000
Annual retainer for director serving as Chair of the Nominating Committee	500
Meeting fee for Board meeting, in person	1,000
Meeting fee for Board meeting, by phone	500
Committee meetings, non-Board meeting days, in person	500
Committee meetings, non-Board meeting days, by phone	250
Daily fee for consultation with management	1,000

For meetings of the standing Board committees held in conjunction with a meeting of the Board, no additional fees are paid.

Option Awards

In fiscal 2013, there were no common stock options awarded to non-employee directors.

Business Expenses

The directors are reimbursed for their business expenses related to their attendance at BASi meetings, including room, meals and transportation to and from Board and committee meetings. Directors are also encouraged to attend educational programs related to Board issues and corporate governance, which are reimbursed by the Company.

Non-Employee Directors' Compensation Table

The following table shows information regarding the compensation of BASi's non-employee directors for the 2013 fiscal year. Ms. Lemke did not receive any compensation for her service as a director.

DIRECTOR COMPENSATION FOR FISCAL 2013

Name (1)	Fees paid in cash ($)	All Other Compensation ($) (3)	Total ($)
Larry S. Boulet	18,950	-	18,950
David W. Crabb, M.D.	14,950	-	14,950
Richard A. Johnson, Ph.D.	10,125	-	10,125
John B. Landis, Ph.D.	14,450	-	14,450
David L. Omachinski	14,950	950	15,900
A. Charlene Sullivan, Ph.D.	18,450	-	18,450

(1) Total options outstanding for each director at fiscal year-end 2013 are as follows: 10,000 outstanding options for each of Mr. Omachinski and Dr. Sullivan, respectively; 15,000 outstanding options for each of Mr. Boulet, Dr. Johnson and Dr. Landis.

(2) Reimbursement for travel expenses associated with Board meetings.

COMPENSATION OF EXECUTIVE OFFICERS

Compensation Committee and Compensation Methodology

During the 2013 fiscal year, the Compensation Committee of the Board was responsible for administering the compensation and benefit programs for BASi's team members, including the executive officers. Historically, the Compensation Committee annually reviewed and evaluated cash compensation and stock option award recommendations along with the rationale for such recommendations, as well as summary information regarding the aggregate compensation, provided to BASi's executive officers. The Compensation Committee examined these recommendations in relation to BASi's overall objectives and made compensation recommendations to the Board for final approval. The Compensation Committee also historically sent to the Board for approval its recommendations on compensation for the President and Chief Executive Officer, who does not participate in the decisions of the Board as to her compensation package. The President and Chief Executive Officer was elected to the Board of Directors on February 7, 2013.

BASi has not hired a compensation consultant to review its compensation practices. BASi's executive compensation practices are also affected by the highly competitive nature of the biotechnology industry and the location of BASi's executive offices in West Lafayette, Indiana. The fact that West Lafayette, Indiana is a small city in a predominantly rural area can present challenges to attracting executive talent from other industries and parts of the country. However, the favorable cost of living in this area and the small number of competitive employers in this market, enable the Company to pay generally lower salaries for comparable positions to others in its industry. The Company has also recruited a number of key employees from Purdue University, particularly for scientific and technical responsibilities.

The Compensation Committee, in collaboration with management, is in the process of reviewing the compensation structure of the Company in order to provide the proper incentives and necessary retention of key employees, including the named executive officers, to achieve financial success and an appropriate return to shareholders. These efforts will be ongoing in the current fiscal year.

The Company intends to develop compensation packages for BASi's executive officers that meet each of the following three criteria: (1) market competitive - levels competitive with companies of similar size and performance to BASi; (2) performance-based "at risk" pay that is based on both short- and long-term goals; and (3) shareholder-aligned incentives that are structured to create alignment between the shareholders and executives with respect to short- and long-term objectives. Severance arrangements with executives as well as payments for resignations, retirements and terminations have traditionally been determined on a case-by-case basis.

On February 7, 2013, the Board of Directors approved an Annual Incentive Bonus Plan (“AIBP”) for all salaried and hourly employees of BASi, including BASi’s Named Executive Officers or “NEOs”. This AIBP has been established in order to align all participants with the annual goals and objectives of the Company and to create a direct link between compensation and the annual financial and operational performance of the Company. Under the terms of the AIBP, salaried and hourly employees, including the NEOs, will be eligible to receive performance-based incentive bonuses for the Company’s achievement of specific EBITDA levels for the fiscal year ended September 30, 2013, as well as the individual’s accomplishment of specific performance goals. Determinations of any awards for fiscal 2013 have not yet been made.

Compensation Risks

The Company has considered the components of the Company's compensation policies and practices. We believe that risks arising from our compensation policies and practices for our employees, including our executive officers, are not likely to have a material adverse effect on us. In addition, the committee believes that the mix and design of the elements of executive compensation do not encourage management to assume excessive risk.

The Company has reviewed the elements of executive compensation to determine whether any portion of executive compensation encouraged excessive risk taking. It concluded that:

- The combination of base salary and incentive compensation, including annual incentive compensation and long-term incentive compensation, reduces the significance of any one particular compensation element.

- Our customary four year equity vesting period encourages long-term perspectives among award recipients.

- The Company's performance goals are appropriately set in order to avoid targets that, if not met, result in a large percentage loss of compensation;

- The Compensation Committee oversees the design of BASi’s annual incentive and long-term incentive compensation plans.

- Our system of internal control over financial reporting, among other things, reduce the likelihood of manipulation of our financial performance to enhance payments under incentive compensation plans.

Based on the foregoing, we have concluded that our compensation policies and practices do not create risks that are reasonably likely to have a material adverse effect on BASi.

Recent Changes in Senior Management

During the 2013 fiscal year, there were no significant changes in BASi's executive management team.

Employment Agreements and Post-Termination Payments

BASi has Employment Agreements with Ms. Lemke, Ms. Payne and Mr. Devine.

Employment Agreement with Jacqueline M. Lemke

On April 9, 2012, BASi entered into an Employment Agreement with Jacqueline M. Lemke to serve as Chief Financial Officer and Vice President of Finance of BASi. Pursuant to the terms of the agreement between BASi and Ms. Lemke, the agreement had an initial term that ending on February 28, 2015, but this employment term could be extended for successive one year periods unless either BASi or Ms. Lemke gave the other party written notice at least 90 days before the end of the term. The Employment Agreement provided that (a) Ms. Lemke’s base salary would be $17,683.33 per month, and (b) she would receive an annual cash bonus equal to two percent (2%) of the consolidated earnings before interest expense, income tax expense, depreciation expense and amortization expense of the Company for the year ("EBITDA Bonus"). Ms. Lemke was also eligible for a standard relocation package during the first year of employment.

The Agreement provides that Ms. Lemke could be entitled to severance benefits following the termination of her employment, as is further described below under the heading, “Change-in Control Agreements.” If she is terminated by BASi without "cause", or if Ms. Lemke terminates her employment for "good reason" she would be entitled to the following:

- Ms. Lemke’s base salary, payable monthly for 12 months following termination;
- all vacation accrued as of the date of termination;
- all bonus amounts earned but not paid as of the date of termination; and
- all salary earned but not paid through the date of termination.

On July 5, 2012, Ms. Lemke was elected as the interim President and Chief Executive Officer of BASi in addition to her position as Chief Financial Officer and Vice President of Finance. On October 15, 2012, BASi and Ms. Lemke agreed upon an addendum that is attached to and made a part of Ms. Lemke's Employment Agreement. The addendum provides that, during any period Ms. Lemke serves as Interim President and Chief Executive Officer of BASi, she will receive (a) a cash bonus of $20,000 on the first regular pay date of the Company following each of October 15, 2012 and January 5, 2013; and (b) a cash bonus equal to two percent (2%) of the consolidated earnings before interest expense, income tax expense, depreciation expense, amortization expense and restructuring charges of BASi for that period ("EBITDAR Bonus"). In addition to reimbursement of business expenses in accordance with BASi's standard reimbursement policies, Ms. Lemke will be entitled to a $1,400 monthly commuting allowance. BASi has also agreed to provide Ms. Lemke with term life insurance of two times her base salary.

On February 7, 2013, Ms. Lemke was elected as the President and Chief Executive Officer of the Company with continuing responsibility as Vice President - Finance and Chief Financial Officer. In connection with her election, the Company and Ms. Lemke entered into an Amended and Restated Employment Agreement (the "Employment Agreement"). The Employment Agreement provides that (a) Ms. Lemke's base salary will be $24,183.33 per month, and (b) for fiscal year 2013 only, she will receive an annual cash bonus in an amount equal to the greater of (i) two percent (2%) of the consolidated earnings before interest expense, income tax expense, depreciation expense, amortization expense and restructuring charges of the Company for the year or (ii) the amount which Ms. Lemke becomes entitled to receive pursuant to the Annual Incentive Bonus Plan (AIBP), if any. For fiscal years subsequent to 2013, Ms. Lemke will receive an annual cash bonus based upon the Company Annual Incentive Bonus Plan, if any. Ms. Lemke will continue to receive a $1,400 monthly commuting allowance in addition to reimbursement of business expenses in accordance with the Company's standard reimbursement policies.

Employment Agreement with Lori Payne

On March 15, 2012, BASi entered into an Employment Agreement with Lori Payne, Ph.D. to serve as Vice President of Bioanalytical Services of BASi. Pursuant to the terms of the agreement between BASi and Dr. Payne, the agreement has an initial term that ends on February 28, 2015, but this employment term can be extended for successive one year periods unless either BASi or Dr. Payne gives the other party written notice at least 90 days before the end of the term.

The Employment Agreement provides that Dr. Payne's base salary will be $13,333.33 per month. Dr. Payne received a one-time bonus of $10,000 following the successful completion of the transition project. This transition project consisted of the consolidation of our laboratory in McMinnville, Oregon into our headquarters facility in West Lafayette, Indiana. Dr. Payne is also eligible for any bonus plans adopted by the Company at the discretion of the Compensation Committee of the Board of Directors and for a standard relocation package during the first year of employment. In addition to reimbursement of business expenses in accordance with BASi's standard reimbursement policies, Dr. Payne is entitled to reimbursement of reasonable living expenses in the Lafayette, Indiana area during the first year of employment, and reasonable travel expenses for travel to and from her residence in McMinnville, Oregon.

The Agreement provides that Dr. Payne could be entitled to severance benefits following the termination of her employment, as is further described below under the heading, “Change-in Control Agreements.” If she is terminated by BASi without "cause", or if Dr. Payne terminates her employment for "good reason" she would be entitled to the following:

- Dr. Payne’s base salary, payable monthly for 12 months following termination;
- all vacation accrued as of the date of termination;
- all bonus amounts earned but not paid as of the date of termination; and
- all salary earned but not paid through the date of termination.

On October 25, 2013, Dr. Payne notified the Company of her intent to resign as Vice-President of Bioanalytical Services of the Company effective as of November 15, 2013 in order to pursue other opportunities. In connection with Dr. Payne’s resignation, the Board of Directors approved a severance payment to Dr. Payne of $13,333.33 per month, her monthly salary, through the payroll period ending January 15, 2014. In addition, the Company will pay Dr. Payne for any accrued, but unused, vacation time. In exchange for these payments, Dr. Payne has agreed to release the Company from any and all possible claims. Dr. Payne will continue to be bound by the confidentiality and non-solicitation provisions of her employment agreement.

Employment Agreement with John P. Devine

On October 1, 2011, BASi entered into an Employment Agreement with John P. Devine to serve as Vice President of Toxicology of BASi. Pursuant to the terms of the agreement between BASi and Mr. Devine, the agreement has an initial term that ends on December 30, 2014, but this employment term can be extended for successive one year periods unless either BASi or Mr. Devine gives the other party written notice at least 90 days before the end of the term.

The Employment Agreement provides that Mr. Devine's base salary will be $12,083.34 per month. Mr. Devine is also eligible for any bonus plans adopted by the Company at the discretion of the Compensation Committee of the Board of Directors.

The Agreement provides that Mr. Devine could be entitled to severance benefits following the termination of his employment, as is further described below under the heading, "Change-in Control Agreements." If he is terminated by BASi without "cause", or if Mr. Devine terminates his employment for "good reason" he would be entitled to the following:

- Mr. Devine's base salary, payable monthly for 12 months following termination;
- all vacation accrued as of the date of termination;
- all bonus amounts earned but not paid as of the date of termination; and
- all salary earned but not paid through the date of termination.

Change-in-Control Agreements

Ms. Lemke's, Dr. Payne's and Mr. Devine's Employment Agreements contain a change in control feature. Under these Employment Agreements, if Ms. Lemke, Dr. Payne or, Mr. Devine is "involuntarily terminated" for any reason following a change in control, Mr. Devine would receive an amount equal to his monthly base salary for the 12 months prior to termination payable for at least 2 years and Ms. Lemke or Dr. Payne would receive an amount equal to her monthly base salary for the 12 months prior to termination payable for at least one year. Each would also be eligible for any special bonus program and be eligible to participate in Company sponsored benefits, savings and retirement plans, practices, policies and programs, with the employee contribution paid by the employee.

"Involuntarily terminated" is defined in the Employment Agreements as resulting from a "change in control" of the Company, and due to either (1) the elimination or diminution of the Employee's position, authority, duties and responsibilities relative to the most significant of those held, exercised and assigned at any time during the six month

period immediately preceding a “change in control”; or (2) a change in location requiring the Employee’s services to be performed at a location other than the location where the Employee was employed immediately preceding a “change in control,” other than any office which is the headquarters of the Company and is less than 35 miles from such location.

A "change in control" is defined in Ms. Lemke’s, Dr. Payne’s and Mr. Devine’s Employment Agreements as (1) approval by shareholders of the Company of (a) any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of stock of the Company would be converted into cash, securities or other property, other than a consolidation or merger of the Company in which holders of its common shares immediately prior to the consolidation or merger have substantially the same proportionate ownership of voting common stock of the surviving corporation immediately after the consolidation or merger as immediately before, or (b) a sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all the assets of the Company; (2) a change in the majority of members of the Board of Directors of the Company within a twenty-four (24) month period unless the election, or nomination for election by the Company shareholders, of each new director was approved by a vote of two-thirds (2/3) of the directors then still in office who were in office at the beginning of the twenty-four (24) month period; or (3) the Company combines with another company and is the surviving corporation but, immediately after the combination, the shareholders of the Company immediately prior to the combination do not hold, directly or indirectly, more than fifty percent (50%) of the share of voting common stock of the combined company (there being excluded from the number of shares held by such shareholders, but not from the shares of voting common stock of the combined company, any shares received by affiliates (as defined in the rules of the SEC) of such other company in exchange for stock of such other company).

Executive Compensation Tables

Fiscal 2013 Summary Compensation Table

For fiscal 2013, our Named Executive Officers or “NEOs” were Jacqueline M. Lemke, Lori Payne, Ph.D., and John P. Devine, Jr. The following narrative, tables and footnotes describe the "total compensation" earned during the Company’s fiscal 2013 by our NEOs. The total compensation presented below does not reflect the actual compensation received by the Company’s NEOs or the target compensation of the Company’s NEOs during fiscal 2013. The individual components of the total compensation calculation reflected in the Summary Compensation Table are broken out below:

Salary. Base salary earned during the Company’s 2013 and 2012 fiscal years. The terms of the Employment Agreements governed the base salary for each NEO.

Bonus. The amount presented as bonus for Ms. Lemke represents an accrued cash bonus of 2% of EBITDAR per her employment agreement. The amount presented as bonus for Ms. Payne is related to her efforts in successfully consolidating our McMinnville, Oregon laboratory into our company headquarters as part our restructuring activities in fiscal 2012. No other bonuses were paid or accrued in fiscal 2013 or 2012 for any other NEO.

Option Awards. The awards disclosed under the heading "Option Awards" consist of the aggregate grant date fair value of the stock option awards granted in fiscal 2013 and 2012 computed in accordance with FASB ASC Topic 718. The grant date fair value of the option awards may vary from the actual amount ultimately realized by the NEO based on a number of factors. The factors include the Company’s actual operating performance, common share price fluctuations, differences from the valuation assumptions used, the limited liquidity in the trading of the Company’s shares and the timing of exercise or applicable vesting. Assumptions used in the calculation of the grant date fair value are included in Note 9 in the Notes to Consolidated Financial Statements.

All Other Compensation. The amounts included under “All Other Compensation” are described in the footnotes to the table.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary ($)	Bonus ($)	Option Awards ($)	All Other Compensation ($)	Total ($)

					(1)					
Jacqueline M. Lemke, President and Chief Executive Officer, Vice President Finance and Chief Financial Officer	(2)	2012	101,890	31,267	(3)	139,500	(5)	-		272,657
		2013	262,807	102,783	(4)	125,276	(6)	17,558	(7)	508,424
Lori Payne, Ph.D., Vice President, Bioanalytical Services		2012	150,467	10,000	(8)	22,320	(9)	17,332	(11)	200,119
		2013	160,000	-		576	(10)	28,561	(12)	189,137
John P. Devine, Jr., Vice President, Toxicology		2012	145,000	-		-		-		145,000
		2013	145,000	-		576	(13)	-		145,576

(1) Represents the aggregate grant date fair value of the stock option awards granted in fiscal years 2013 and 2012 in accordance with FASB ASC Topic 718. There were three stock option grants to an NEO in fiscal 2013 and two grants to an NEO in fiscal 2012.

(2) Ms. Lemke was hired on April 9, 2012, as Chief Financial Officer and Vice President of Finance. On July 5, 2012, Ms. Lemke was elected interim President and Chief Executive Officer. On February 7, 2013, Ms. Lemke was elected President and Chief Executive Officer.

(3) EBITDAR bonus per employment agreement accrued in fiscal 2012, paid in fiscal 2013.

(4) $40,000 bonus paid plus EBITDAR bonus per employment agreement accrued in fiscal 2013.

(5) Grant date fair value of new grant on April 9, 2012 for 125,000 options on common shares, vesting evenly on March 31, 2013 and March 31, 2014.

(6) Grant date fair values of new grants as follows: On October 15, 2012, 50,000 options on common shares were granted, fully vesting on February 4, 2013. On January 16, 2013, 500 options on common shares were granted, vesting evenly on January 16, 2014 and January 16, 2015. On February 7, 2013, 50,000 options on common shares were granted, with half vesting on December 20, 2013 and the other half vesting evenly on February 7, 2014, 2015 and 2016, respectively.

(7) Includes $1,400 monthly car allowance and company paid life insurance premiums per addendum to the employment agreement signed October 15, 2012.

(8) Bonus related to efforts in successfully consolidating our McMinnville, Oregon laboratory into our company headquarters as part our restructuring activities in fiscal 2012.

(9) Grant date fair value of new grant on April 9, 2012 for 20,000 options on common shares, vesting evenly beginning April 9, 2014 and each successive year through April 9, 2017.

(10) Grant date fair value of new grant on January 16, 2013 for 500 options on common shares, vesting evenly on January 16, 2014 and January 16, 2015.

(11) Reimbursement of reasonable living and travel expenses per employment agreement.

(12) Reimbursement of reasonable living and travel expenses per employment agreement.

(13) Grant date fair value of new grant on January 16, 2013 for 500 options on common shares, vesting evenly on January 16, 2014 and January 16, 2015.

Outstanding Equity Awards at Fiscal Year-End Table

The Company has awarded stock options to members of its senior management and other team members. The terms of these awards typically provide for vesting over a defined period of time. Option awards generally have a four-part vesting schedule in which the first of the four installments vests on the second anniversary of the grant date. Each subsequent one-fourth installment thereafter vests on the anniversary of the grant date for the next three years; however, the Compensation Committee and the Board have the ability to alter, and occasionally do alter, the vesting schedule to meet specific objectives. The options expire if not exercised within ten years from the date of grant. The following table shows the equity awards granted to the Company's NEOs that were outstanding as of the end of the Company's 2013 fiscal year.

OUTSTANDING EQUITY AWARDS AT FISCAL 2013 YEAR-END

	OPTION AWARDS				
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	(#) Unexercisable		Option Exercise Price ($)	Option Expiration Date
Jacqueline M. Lemke	62,500	62,500	(1)	1.38	April 8, 2022
	50,000	—		1.32	October 14, 2022
	—	500	(2)	1.40	January 16, 2023
	—	50,000	(3)	1.70	February 6, 2023
Lori Payne	5,000	—		5.74	July 25, 2015
	5,000	—		5.09	September 4, 2018
	5,000	5,000	(4)	1.01	August 15, 2020
	—	20,000	(4)	1.38	April 8, 2022
	—	500	(4)	1.40	January 16, 2023
John P. Devine	4,000	—		5.00	December 30, 2014
	5,000	—		5.09	September 4, 2018
	5,000	5,000	(5)	1.01	August 15, 2020
	—	500	(6)	1.40	January 16, 2023

(1) Options on 62,500 shares vest on March 31, 2014.

(2) Options on 250 shares vest on January 16, 2014 and 250 shares vest on January 16, 2015.

(3) Options on 25,000 shares vested on December 20, 2013, 8,333 shares vest on February 7, 2014, 8,333 shares vest on February 7, 2015 and 8,334 shares vest on February 7, 2016.

(4) Dr. Payne's options were forfeited upon her resignation effective November 15, 2013.

(5) Options on 2,500 shares vest on August 16, 2014 and 2,500 shares vest on August 16, 2015.

(6) Options on 250 shares vest on January 16, 2014 and 250 shares vest on January 16, 2015.

Fiscal 2012 Option Exercises

There were no options exercised by NEOs in fiscal 2012.

ITEM 12-SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

PRINCIPAL SHAREHOLDERS

Common Stock

The following table shows, as of December 25, 2013, the number of common shares owned by our directors, executive officers named in the Summary Compensation Table below, our current directors and executive officers as a group, and beneficial owners known to us to hold more than 5% of our outstanding common shares. As of December 25, 2013, there were 7,703,891 common shares outstanding.

NAME	Shares Owned		%
Peter T. Kissinger (1)	1,275,767		16.6
Candice B. Kissinger(2)	1,275,767		16.6
Seth W. Hamot (3)	871,605		11.3
Jacqueline M. Lemke (4)	158,500	(5)	2.1
John B. Landis, Ph.D. (4)	35,000	(6)	0.5
Larry S. Boulet (4)	27,500	(7)	0.4
David L. Omachinski (4)	25,000	(8)	0.3
A. Charlene Sullivan, Ph.D. (4)	15,000	(9)	0.2
Richard A. Johnson, Ph.D. (4)	15,000	(10)	0.2
John P. Devine (4)	14,100	(11)	0.2
David W. Crabb (4)	11,300		0.1
Lori Payne (4)	—	(12)	*
9 Executive Officers and Directors as a group	301,400		3.9

* Less than 0.1%

(1) Dr. Kissinger's shares owned beneficially include 427,547 shares over which he has sole voting and dispositive power and 848,220 shares over which he shares voting and dispositive power with his spouse, including 1.354 shares indirectly held by Ms. Kissinger as custodian for the benefit of their children. The address for the Dr. Kissinger is 111 Lorene Place, West Lafayette, Indiana 47906. The information is based on a Form 13D/A filed with the Securities and Exchange Committee on January 29, 2010.

(2) Ms. Kissinger's shares owned beneficially include 252,310 shares over which she has sole voting and dispositive power, including 1,354 shares indirectly held by Ms. Kissinger as custodian for the benefit of their children, and

1.023,457 shares over which she shares voting and dispositive power with her spouse. The address for the Ms. Kissinger is 111 Lorene Place, West Lafayette, Indiana 47906. The information is based on a Form 13D/A filed with the Securities and Exchange Committee on January 29, 2010.

(3) Shares owned beneficially include 500,000 shares issuable upon conversion of the Company's Series A convertible preferred stock and 250,000 shares issuable upon exercise of warrants. The address for Mr. Hamot is 222 Berkeley Street, 17th floor, Boston, Massachusetts, 02116.

(4) Addresses are in care of BASi at 2701 Kent Avenue, West Lafayette, Indiana 47906.

(5) Shares owned include 137,500 exercisable stock options as of December 25, 2013.

(6) Shares owned include 5,000 exercisable stock options as of December 25, 2013.

(7) Shares owned include 12,500 exercisable stock options as of December 25, 2013.

(8) Shares owned include 5,000 exercisable stock options as of December 25, 2013

(9) Shares owned include 5,000 exercisable stock options as of December 25, 2013.

(10) Shares owned include 5,000 exercisable stock options as of December 25, 2013.

(11) Shares owned include 14,000 exercisable stock options as of December 25, 2013.

(12) Dr. Payne's stock options were forfeited upon her resignation effective November 15, 2013.

EQUITY COMPENSATION PLAN INFORMATION

We maintain a stock option plan that allows for the granting of common stock options to certain key employees and directors. The following table gives information about equity awards under our stock option plans as of September 30, 2013 (in thousands except per share amounts):

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options	Weighted Average Exercise Price per share of Outstanding Options	Number of Securities Remaining Available for Future Issuance under the Equity Compensation Plan (Excluding Securities Reflected in First Column)
Equity compensation plans approved by security holders	324	$ 2.00	197
Equity compensation plans not approved by security holders [1]	155	$ 1.28	—
Total	479	$ 1.77	197

(1) Refers to an option to purchase 125,000 shares at $1.38 granted to Jacqueline M. Lemke on April 9, 2012 and an option to purchase 15,000 shares at $0.86 granted to each of Dr. John Landis and Dr. Richard Johnson on July 5, 2012.

For additional information regarding our stock option plans approved by security holders, please see Note 9 to the Notes to Consolidated Financial Statements included in Item 8 of this report.

On August 17, 2012, the Company sold 101,500 common shares directly to our CEO and members of our Board of Directors at $1.26 per share, the closing price on the previous day on the NASDAQ Capital Market. These shares were sold pursuant to an exemption set forth in Rule 504 of the Securities Act of 1933, as amended.

ITEM 13-CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Board of Directors has determined that Larry S. Boulet, David W. Crabb M.D., David Omachinski, John B. Landis, Ph.D., Richard A. Johnson, Ph.D., and A. Charlene Sullivan, Ph.D. have no relationship with the Company that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director and that such individuals meet the current independence requirements of the NASDAQ Marketplace Rules, as well as the independence requirements of the Securities and Exchange Commission ("SEC").

The Board reviews transactions with related parties, but has no formal policies in place with respect to such review or the approval of such transactions. There were no transactions with related parties in fiscal 2013.

ITEM 14-PRINCIPAL ACCOUNTING FEES AND SERVICES

The Company's Audit Committee engaged McGladrey LLP ("McGladrey") as the Company's independent registered public accounting firm for the audit of the consolidated financial statements for the fiscal years ended September 30, 2013 and Crowe Horwath LLP for the fiscal years ended September 30, 2012.

The Company engaged McGladrey as its principal independent registered public accountants effective as of February 8, 2013. At no time prior to February 8, 2013 had the Company consulted with McGladrey regarding either: (i) the application of accounting principles to a specified transaction, either completed or proposed; or the type of audit opinion that might be rendered on the Company's financial statements; or (ii) any matter that was either the subject of a disagreement (as that term is defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions to that Item) or a reportable event (as that term is defined in Item 304(a)(1)(v) of Regulation S-K).

Representatives of McGladrey are expected to be present at the Annual Meeting. They will have the opportunity to make a statement if they desire to do so and will be available to answer appropriate questions concerning the audit of the Company's financial statements.

The approximate aggregate fees billed for the last two fiscal years for each of the following categories of services are set forth below:

	2013	2012
Audit Fees - (1)		
Aggregate fees for annual audit, quarterly reviews	$327,000	$260,000
Audit Related Fees -		
Aggregate fees for assurance and related services	$—	$—
Tax Fees -		
Income tax services related to compliance with tax laws	$—	$5,000
All Other Fees -		
Services related to the Company's registered public offering in Fiscal 2011	$—	$13,000

(1) Total billings from McGladrey total $215,000. Total billings from Crowe total $112,000.

There were no fees for services other than the above paid to the Company's independent registered public accountants.

BASi's policies require that the scope and cost of all work to be performed for BASi by its independent registered public accountants must be approved by the Audit Committee. Prior to the commencement of any work by the independent registered public accountants on behalf of BASi, the independent registered public accountants provide an engagement letter describing the scope of the work to be performed and an estimate of the fees. The Audit Committee and the Chief Financial Officer must review and approve the engagement letter and the estimate before authorizing the engagement. All fees were reviewed and approved by the Audit Committee during fiscal 2013 and 2012. Where fees charged by the independent registered public accountants exceed the estimate, the Audit Committee must review and approve the excess fees prior to their payment

[Remainder of page intentionally left blank.]

71

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 34 of this report.

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

3. Exhibits: The following exhibits are filed as part of, or incorporated by reference into, this report:

Number		Description of Exhibits
(3)	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).
	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).
(4)	4.1	Specimen Certificate for Common Shares (incorporated by reference to Exhibit 4.1 to Registration Statement on form S-1, Registration No. 333-36429).
	4.2	Form of Warrant (incorporated by reference to Exhibit 4.2 to Registration Statement on Form S-1, Registration No. 333-172508).
	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).
	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).
(10)	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).
	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).

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).

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).

10.5 Form of 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).

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).

Number	Description of Exhibits
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).
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	Employment Agreement between Jacqueline M. Lemke and Bioanalytical Systems Inc., effective April 9, 2012 (*) (incorporated by reference to Exhibit 10.1 for Form 8-K filed April 5, 2012).
10.14	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).
10.15	Addendum to Employment Agreement between Jacqueline M. Lemke and Bioanalytical Systems, Inc., effective October 15, 2012 (*) (incorporated by reference to Exhibit 10.1 for Form 8-K filed October 19, 2012).
10.16	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).
10.17	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).
10.18	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).

10.19	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).
10.20	Amended and Restated Employment Agreement between Jacqueline M. Lemke and Bioanalytical Systems, Inc. effective February 7, 2013 (*) (incorporated by reference to Exhibit 10.2 for Form 10-Q filed May 15, 2013).

Number		Description of Exhibits
	10.21	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).
	10.22	Notice of non-renewal to Entrepreneur Growth Capital LLC, dated October 30, 2013 (filed herewith).
	10.23	Severance Agreement between Michael R. Cox and Bioanalytical Systems, Inc., dated March 31, 2012 (*) (incorporated by reference to Exhibit 10.2 to Form 8-K filed April 15, 2012).
	10.24	Employee Incentive Stock Option Agreement between Anthony S. Chilton and Bioanalytical Systems, Inc. , dated April 9, 2012 (incorporated by reference to Exhibit 10.3 to Form 10-Q for the fiscal quarter ended March 31, 2012).
	10.25	Severance Agreement between Anthony S. Chilton and Bioanalytical Systems, Inc., dated July 4, 2012 (*) (incorporated by reference to Exhibit 10.21 to Form 10-K/A for the year ended September 30, 2012).
	10.26	Severance Agreement between Alberto F. Hidalgo and Bioanalytical Systems, Inc., dated July 6, 2012 (*) (incorporated by reference to Exhibit 10.22 to Form 10-K/A for the year ended September 30, 2012).
	10.27	Bioanalytical Systems, Inc. Annual Incentive Bonus Plan, dated January 15, 2013 (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).
	16.1	Letter from Crowe Horwath LLP, dated February 12, 2013, addressed to the Securities and Exchange Commission (incorporated by reference to Exhibit 16.1 to Form 8-K filed February 12, 2013).
	16.2	Letter from Crowe Horwath LLP, dated February 21, 2013, addressed to the Securities and Exchange Commission (incorporated by reference to Exhibit 16.1 to Form 8-K filed February 21, 2013).
(21)	21.1	Subsidiaries of the Registrant (filed herewith).
(23)	23.1	Consent of Independent Registered Public Accounting Firm McGladrey LLP (filed herewith).
	23.2	Consent of Independent Registered Public Accounting Firm Crowe Horwath LLP (filed herewith).
(31)	31.1	Certification of Chief Executive 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).
	101	XBRL data file (filed herewith).

* Management contract or compensatory plan or arrangement.

SIGNATURES

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

BIOANALYTICAL SYSTEMS, INC.
(Registrant)

Date: December 30, 2013

By: /s/ Jacqueline M. Lemke

Jacqueline M. Lemke
President and Chief Executive Officer and Vice President of Finance and Chief Financial 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.

Signature	**Capacity**	**Date**
/s/ Jacqueline M. Lemke Jacqueline M. Lemke	President and Chief Executive Officer, Vice President of Finance and Chief Financial Officer (Principal Executive Officer and Principal Financial Officer)	December 30, 2013
/s/ John B. Landis, Ph.D. John B. Landis, Ph.D.	Chairman	December 30, 2013
/s/ Larry S. Boulet Larry S. Boulet	Director	December 30, 2013
/s/ David W. Crabb David W. Crabb	Director	December 30, 2013
/s/ Richard A. Johnson, Ph.D. Richard A. Johnson, Ph.D.	Director	December 30, 2013
/s/ David L. Omachinski David L. Omachinski	Director	December 30, 2013
/s/ A. Charlene Sullivan, Ph.D.	Director	December 30, 2013

A. Charlene Sullivan, Ph.D.

75

EXHIBIT INDEX

	Number	Description of Exhibits
(3)	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).
	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).
(4)	4.1	Specimen Certificate for Common Shares (incorporated by reference to Exhibit 4.1 to Registration Statement on form S-1, Registration No. 333-36429).
	4.2	Form of Warrant (incorporated by reference to Exhibit 4.2 to Registration Statement on Form S-1, Registration No. 333-172508).
	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).
	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).
(10)	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).
	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).
	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).
	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).
	10.5	Form of 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).
	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).
	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).

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).

Number	Description of Exhibits
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	Employment Agreement between Jacqueline M. Lemke and Bioanalytical Systems Inc., effective April 9, 2012 (*) (incorporated by reference to Exhibit 10.1 for Form 8-K filed April 5, 2012).
10.14	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).
10.15	Addendum to Employment Agreement between Jacqueline M. Lemke and Bioanalytical Systems, Inc., effective October 15, 2012 (*) (incorporated by reference to Exhibit 10.1 for Form 8-K filed October 19, 2012).
10.16	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).
10.17	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).
10.18	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).
10.19	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).
10.20	Amended and Restated Employment Agreement between Jacqueline M. Lemke and Bioanalytical Systems, Inc. effective February 7, 2013 (*) (incorporated by reference to Exhibit 10.2 for Form 10-Q filed May 15, 2013).
10.21	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).

10.22 Notice of non-renewal to Entrepreneur Growth Capital LLC, dated October 30, 2013 (filed herewith).

10.23 Severance Agreement between Michael R. Cox and Bioanalytical Systems, Inc., dated March 31, 2012 (*) (incorporated by reference to Exhibit 10.2 to Form 8-K filed April 15, 2012.

10.24 Employee Incentive Stock Option Agreement between Anthony S. Chilton and Bioanalytical Systems, Inc. , dated April 9, 2012 (incorporated by reference to Exhibit 10.3 to Form 10-Q for the fiscal quarter ended March 31, 2012).

77

Number		Description of Exhibits
	10.25	Severance Agreement between Anthony S. Chilton and Bioanalytical Systems, Inc., dated July 4, 2012 (*) (incorporated by reference to Exhibit 10.21 to Form 10-K/A for the year ended September 30, 2012).
	10.26	Severance Agreement between Alberto F. Hidalgo and Bioanalytical Systems, Inc., dated July 6, 2012 (*) (incorporated by reference to Exhibit 10.22 to Form 10-K/A for the year ended September 30, 2012).
	10.27	Bioanalytical Systems, Inc. Annual Incentive Bonus Plan, dated January 15, 2013 (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).
	16.1	Letter from Crowe Horwath LLP, dated February 12, 2013, addressed to the Securities and Exchange Commission (incorporated by reference to Exhibit 16.1 to Form 8-K filed February 12, 2013).
	16.2	Letter from Crowe Horwath LLP, dated February 21, 2013, addressed to the Securities and Exchange Commission (incorporated by reference to Exhibit 16.1 to Form 8-K filed February 21, 2013).
(21)	21.1	Subsidiaries of the Registrant (filed herewith).
(23)	23.1	Consent of Independent Registered Public Accounting Firm McGladrey LLP (filed herewith).
	23.2	Consent of Independent Registered Public Accounting Firm Crowe Horwath LLP (filed herewith).
(31)	31.1	Certification of Chief Executive 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).
	101	XBRL data file (filed herewith).

* Management contract or compensatory plan or arrangement.