BIOANALYTICAL SYSTEMS INC
Form 10-Q
May 15, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended March 31, 2018

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	47906
WEST LAFAYETTE, INDIANA	(Zip code)

(Address of principal executive offices)

(765) 463-4527

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act:

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer (Do not check if a smaller reporting company) ¨

Smaller Reporting Company x Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

As of May 10, 2018, 8,245,320 of the registrant's common shares were outstanding.

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BIOANALYTICAL SYSTEMS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

	March 31, 2018 (Unaudited)	**September 30, 2017**
Assets		
Current assets:		
Cash and cash equivalents	$ 672	$ 434
Accounts receivable		
Trade, net of allowance of $2,019 at March 31, 2018 and $2,404 at September 30, 2017	2,726	2,530
Unbilled revenues and other	410	615
Inventories, net	1,000	913
Prepaid expenses	742	814
Total current assets	5,550	5,306
Property and equipment, net	14,625	14,965
Lease rent receivable	102	87
Deferred tax asset	67	—
Goodwill	38	38
Other assets	18	21
Total assets	$ 20,400	$ 20,417
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	$ 1,838	$ 2,052
Restructuring liability	1,117	1,117
Accrued expenses	1,283	1,202
Customer advances	3,107	2,980
Income taxes payable	26	20
Current portion of capital lease obligation	132	128
Current portion of long-term debt	228	224
Total current liabilities	7,731	7,723
Capital lease obligation, less current portion	2	69
Long-term debt, less current portion, net of debt issuance costs	4,049	4,158
Total liabilities	11,782	11,950
Shareholders' equity:		

Preferred shares, authorized 1,000,000 shares, no par value: 1,035 Series A shares at $1,000 stated value issued and outstanding at March 31, 2018 and at September 30, 2017	1,035	1,035
Common shares, no par value:		
Authorized 19,000,000 shares; 8,245,320 issued and outstanding at March 31, 2018 and 8,243,896 at September 30, 2017	2,023	2,023
Additional paid-in capital	21,516	21,446
Accumulated deficit	(15,956)	(16,037))
Total shareholders' equity	8,618	8,467
Total liabilities and shareholders' equity	$ 20,400	$ 20,417

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

BIOANALYTICAL SYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

AND COMPREHENSIVE INCOME

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2018	2017	2018	2017
Service revenue	$ 5,030	$ 4,962	$9,555	$10,226
Product revenue	914	1,397	1,766	2,307
Total revenue	5,944	6,359	11,321	12,533
Cost of service revenue	3,662	3,546	6,935	7,296
Cost of product revenue	542	770	1,065	1,335
Total cost of revenue	4,204	4,316	8,000	8,631
Gross profit	1,740	2,043	3,321	3,902
Operating expenses:				
Selling	303	242	597	578
Research and development	149	110	288	214
General and administrative	1,178	1,136	2,315	2,461
Total operating expenses	1,630	1,488	3,200	3,253
Operating income	110	555	121	649
Interest expense	(48)	(134)	(100)	(210)
Other income	4	1	4	2
Net income before income taxes	66	422	25	441
Income taxes (benefit) expense	11	5	(56)	7
Net income	$ 55	$ 417	$81	$434
Other comprehensive income:	—	8	—	29
Comprehensive income	$ 55	$ 425	$81	$463
Basic net income per share	$ 0.01	$ 0.05	$0.01	$0.05

Diluted net income per share	$ 0.01	$ 0.05	$0.01	$0.05
Weighted common shares outstanding:				
Basic	8,245	8,148	8,245	8,128
Diluted	8,789	8,710	8,793	8,707

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

BIOANALYTICAL SYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended March 31,	
	2018	2017
Operating activities:		
Net income	$ 81	$ 434
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	782	860
Employee stock compensation expense	69	7
Provision for doubtful accounts	(4)	—
Gain on disposal of property and equipment	(1)	(6)
Changes in operating assets and liabilities:		
Accounts receivable	(3)	(997)
Inventories	(87)	334
Income tax accruals	(61)	3
Prepaid expenses and other assets	72	41
Accounts payable	(214)	(962)
Accrued expenses	81	198
Customer advances	127	649
Net cash provided by operating activities	842	561
Investing activities:		
Capital expenditures	(433)	(158)

Proceeds from sale of equipment		2			6	
Net cash used by investing activities		(431	)		(152	)
Financing activities:						
Payments of long-term debt		(111	)		(327	)
Payments of debt issuance costs		—			(45	)
Payments on revolving line of credit		(5,085	)		(6,823	)
Borrowings on revolving line of credit		5,085			6,883	
Proceeds from exercise of stock options		1			—	
Payments on capital lease obligations		(63	)		(64	)
Net cash used by financing activities		(173	)		(376	)
Net increase in cash and cash equivalents		238			33	
Cash and cash equivalents at beginning of period		434			386	
Cash and cash equivalents at end of period	$	672		$	419	
Supplemental disclosure of non-cash financing activities:						
Cash paid for interest	$	94		$	139	

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

BIOANALYTICAL SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

1. DESCRIPTION OF THE BUSINESS AND BASIS OF PRESENTATION

Bioanalytical Systems, Inc. and its subsidiaries ("We," "Our," "Us," the "Company" or "BASi") engage in contract laboratory research services and other services related to pharmaceutical development. We also manufacture scientific instruments for life sciences research, which we sell with related software for use by pharmaceutical companies, universities, government research centers and medical research institutions. Our customers are located throughout the world.

We have prepared the accompanying unaudited interim condensed consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") regarding interim financial reporting. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles ("GAAP"), and therefore should be read in conjunction with our audited consolidated financial statements, and the notes thereto, included in the Company's annual report on Form 10-K for the year ended September 30, 2017. Certain amounts in the fiscal 2017 consolidated financial statements have been reclassified to conform to the fiscal 2018 presentation without affecting previously reported net income or stockholders' equity. In the opinion of management, the condensed consolidated financial statements for the three and six months ended March 31, 2018 and 2017 include all adjustments which are necessary for a fair presentation of the results of the interim periods and of our financial position at March 31, 2018. The results of operations for the three and six months ended March 31, 2018 may not be indicative of the results for the year ending September 30, 2018.

2.STOCK-BASED COMPENSATION

The Company's 2008 Stock Option Plan ("the Plan") is used to promote our long-term interests by providing a means of attracting and retaining officers, directors and key employees and aligning their interests with those of our shareholders. The Plan is described more fully in Note 9 in the Notes to the Consolidated Financial Statements in our Form 10-K for the fiscal year ended September 30, 2017. All options granted under the Plan had an exercise price equal to the market value of the underlying common shares on the date of grant. We expense the estimated fair value of stock options over the vesting periods of the grants. We recognize expense for awards subject to graded vesting using the straight-line attribution method, reduced for estimated forfeitures. Forfeitures are revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates and an adjustment is recognized at that time. Stock based compensation expense for the three and six months ended March 31, 2018 was $35 and $69, respectively. Stock based compensation expense for the three and six months ended March 31, 2017 was $(3) and $7, respectively. The

negative expense in the three month period ending March 31, 2017 was due to the forfeiture of options related to our former Chief Executive Officer.

In March 2018, our shareholders approved the amendment and restatement of the Plan in the form of the Amended and Restated 2018 Equity Incentive Plan (the “Equity Plan”) and future equity awards will be granted from the Equity Plan. Future common shares will be granted from the 2018 Equity Incentive Plan. The purpose of the Equity Plan is to promote our long-term interests by providing a means of attracting and retaining officers, directors and key employees. The maximum number of common shares that may be granted under the Equity Plan is 700 shares.

A summary of our stock option activity for the six months ended March 31, 2018 is as follows (in thousands except for share prices):

	Options (shares)	Weighted-Average Exercise Price	Weighted-Average Grant Date Fair Value
Outstanding - October 1, 2017	140	$ 1.91	$ 1.45
Exercised	(2)	$ 1.40	$ 1.15
Granted	198	$ 1.94	$ 1.52
Forfeited	(13)	$ 4.46	
Outstanding - March 31, 2018	323	$ 1.83	$ 1.45

The weighted-average assumptions used to compute the fair value of the options granted in the six months ended March 31, 2018 were as follows:

Risk-free interest rate	2.31 %
Dividend yield	0.00 %
Volatility of the expected market price of the Company's common shares	83.70%
Expected life of the options (years)	8.0

As of March 31, 2018, our total unrecognized compensation cost related to non-vested stock options was $250 and is expected to be recognized over a weighted-average service period of 1.4 years.

3. INCOME (LOSS) PER SHARE

We compute basic income per share using the weighted average number of common shares outstanding. The Company has two categories of dilutive potential common shares: Series A preferred shares issued in May 2011 in connection with our registered direct offering 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, respectively.

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2018	2017	2018	2017
Basic net income per share:				
Net income applicable to common shareholders	$ 55	$ 417	$ 81	$ 434
Weighted average common shares outstanding	8,245	8,148	8,245	8,128
Basic net income per share	$ 0.01	$ 0.05	$ 0.01	$ 0.05
Diluted net income per share:				
Diluted net income applicable to common shareholders	$ 55	$ 417	$ 81	$ 434
Weighted average common shares outstanding	8,245	8,148	8,245	8,128
Plus: Incremental shares from assumed conversions:				
Series A preferred shares	518	554	518	573
Dilutive stock options/shares	26	8	30	6
Diluted weighted average common shares outstanding	8,789	8,710	8,793	8,707
Diluted net income per share	$ 0.01	$ 0.05	$ 0.01	$ 0.05

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4. INVENTORIES

Inventories consisted of the following:

	March 31, 2018	September 30, 2017
Raw materials	$ 797	$ 761
Work in progress	185	135
Finished goods	244	228
	$ 1,226	$ 1,124
Obsolescence reserve	(226)	(211)
	$ 1,000	$ 913

5. SEGMENT INFORMATION

We operate in two principal segments - research services and research products. Our Services segment provides research and development support on a contract basis directly to pharmaceutical companies. Our Products segment provides liquid chromatography, electrochemical and physiological monitoring products to pharmaceutical companies, universities, government research centers and medical research institutions. Our accounting policies in these segments are the same as those described in the summary of significant accounting policies found in Note 2 to the Consolidated Financial Statements in our annual report on Form 10-K for the fiscal year ended September 30, 2017.

	Three Months Ended March 31,		Six Months Ended March 31,	
	2018	2017	2018	2017
Revenue:				
Service	$ 5,030	$ 4,962	$9,555	$10,226
Product	914	1,397	1,766	2,307
	$ 5,944	$ 6,359	$11,321	$12,533
Operating Income				
Service	$ 244	$ 445	$426	$739
Product	(134)	110	(305)	(90)
	$ 110	$ 555	$121	$649

Interest expense	(48)	(134)	(100)	(210)
Other income	4	1	4	2
Income before income taxes	$ 66	$ 422	$25	$441

6. INCOME TAXES

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

On December 22, 2017, the United States ("U.S.") enacted significant changes to the U.S. tax law following the passage and signing of H.R.1, "An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018" (the "Tax Act") (previously known as "The Tax Cuts and Jobs Act"). The Tax Act included significant changes to existing tax law, including a permanent reduction to the U.S. federal corporate income tax rate from 35% to 21%.

Accordingly, the Company's income tax provision for the three and six months ended March 31, 2018 reflects the current year impacts of the U.S. Tax Act on the estimated annual effective tax rate. The Tax Act reduces the U.S. federal corporate tax rate from 35% to 21%. The impact from the permanent reduction to the U.S. federal corporate income tax rate from 35% to 21% is effective January 1, 2018 (the "Effective Date"). When a U.S. federal tax rate change occurs during a fiscal year, taxpayers are required to compute a weighted daily average rate for the fiscal year of enactment and as a result the Company calculated a U.S. federal statutory income tax rate of 24.5% for the current fiscal year ending September 30, 2018.

The difference between the newly enacted federal statutory rate of 24.5% and our effective rate of (224.0)% is due to changes in our valuation allowance on our net deferred tax assets along with realizing the deferred tax asset associated with the AMT credit carry-forward. The impact of the newly enacted federal statutory rate as a result of the Tax Act to the net deferred tax assets is a provisional amount of approximately a $1,600 decrease with any offsetting decrease to the valuation allowance. The amount is provisional because the final number cannot be calculated until the underlying timing differences are known rather than estimated.

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

At March 31, 2018 and September 30, 2017, we had a $27 and $16 liability, respectively, for uncertain income tax positions.

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

We file income tax returns in the U.S. and several U.S. States. We remain subject to examination by taxing authorities in the jurisdictions in which we have filed returns for years after 2012.

7. DEBT

Credit Facility

On June 23, 2017, we entered into a Credit Agreement (the "Credit Agreement") with First Internet Bank of Indiana ("FIB"). The Credit Agreement includes both a term loan and a revolving line of credit and is secured by mortgages on our facilities and personal property in West Lafayette and Evansville, Indiana. We used the proceeds from the term loan to satisfy our indebtedness with Huntington Bank described below and terminated the related interest rate swap.

The term loan for $4,500 bears interest at a fixed rate of 3.99%, with monthly principal and interest payments of approximately $33. The term loan matures in June 2022. The balance on the term loan at March 31, 2018 was $4,335. The revolving line of credit for up to $2,000 matures in June 2019 and bears interest at the Prime Rate (generally defined as the highest rate identified as the "Prime Rate" in The Wall Street Journal "Money Rates" column on the date the interest rate is to be determined, or if that date is not a publication date, on the publication date immediately preceding) less Twenty-five (25) Basis Points (0.25%). The balance on the revolving line of credit at March 31, 2018 and September 30, 2017, was $0. We must pay accrued and unpaid interest on the outstanding balance under the credit line on a monthly basis.

The Credit Agreement contains various restrictive covenants, including restrictions on the Company's ability to dispose of assets, make acquisitions or investments, incur debt or liens, make distributions to shareholders or repurchase outstanding stock, enter into related party transactions and make capital expenditures, other than upon satisfaction of the conditions set forth in the Credit Agreement. The Credit Agreement also requires us to maintain (i) a minimum debt service coverage ratio of not less than 1.25 to 1.0 and (ii) a debt to equity ratio of not greater than 2.50 to 1.00 until maturity. Upon an event of default, which includes certain customary events such as, among other things, a failure to make required payments when due, a failure to comply with covenants, certain bankruptcy and insolvency events, and defaults under other material indebtedness, FIB may cease advancing funds, increase the interest rate on outstanding balances, accelerate amounts outstanding, terminate the agreement and foreclose on all collateral.

We incurred $69 of costs in June 2017 related to the Credit Agreement that was partially amortized in the second half of fiscal 2017 and the first and second quarters of fiscal 2018 with the remainder to be amortized through June 2022. For the three and six months ended March 31, 2018, we amortized $4 and $7, respectively, into interest expense on the condensed consolidated statements of operations and comprehensive income. For the three and six months ended March 31, 2017, we amortized $82 and $103, respectively, into interest expense on the condensed consolidated statements of operations and comprehensive income. These noncash charges are included in depreciation and amortization on the consolidated statements of cash flows. As of March 31, 2018 and September 30, 2017, the unamortized portion of debt issuance costs related to our credit facility was $57 and $64, respectively, and was included in Long-term Debt, less current portion on the condensed consolidated balance sheets.

Former Credit Facility

On May 14, 2014, we entered into a Credit Agreement with Huntington Bank, which was subsequently amended on May 14, 2015 (“Agreement”). The Agreement included both a term loan and a revolving loan and was secured by mortgages on our facilities in West Lafayette and Evansville, Indiana and liens on our personal property. As of December 31, 2015, we were not in compliance with certain financial covenants of the Agreement, and during fiscal 2016 and most of the first nine months of fiscal 2017 we operated either in default of, or under forbearance arrangements with respect to, the Agreement.

Under a series of forbearance arrangements, Huntington Bank agreed during the relevant forbearance periods to forbear from exercising its rights and remedies under the Agreement and from terminating the Company’s related swap agreement with respect to the Company’s non-compliance with applicable financial covenants under the Agreement and to continue to make advances under the Agreement.

In exchange for Huntington Bank’s agreement to forbear from exercising its rights and remedies under the Agreement, the Company agreed to, among other things: (i) amend the maturity dates for the term and revolving loans under the

Agreement (the last such amendment to July 31, 2017), (ii) take commercially reasonable efforts to obtain funds sufficient to repay the indebtedness in full upon the expiration of the forbearance periods, (iii) provide to Huntington Bank certain cash flow forecasts and other financial information, (iv) comply with a minimum cash flow covenant, (v) engage the services of a financial consultant and cause the financial consultant to provide Huntington Bank such information regarding its efforts as reasonably requested, and (vi) pay to Huntington Bank certain fees, including a forbearance fee, $27 of which was paid at the execution of the last forbearance agreement and an additional $100 was paid in June 2017.

We incurred a total of $56 of costs related to certain of our forbearance arrangements that was amortized in the first, second and third quarters of fiscal 2017.

Former Interest Rate Swap

We entered into an interest rate swap agreement with respect to the loans with Huntington Bank to fix the interest rate with respect to 60% of the value of the term loan at approximately 5.0%. We entered into this interest rate swap agreement to hedge interest rate risk of the related debt obligation and not to speculate on interest rates. The changes in the fair value of the interest rate swap were recorded in Accumulated Other Comprehensive Income to the extent effective. The interest rate swap was terminated as of June 23, 2017 in connection with the satisfaction of our indebtedness to Huntington Bank and the balance was reduced to zero.

8. ACCRUED EXPENSES

As part of a fiscal 2012 restructuring, we accrued for lease payments at the cease use date for our United Kingdom 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. Based on these matters, we have a $1,000 reserve for lease related costs. Additionally, we accrued $117 for legal and professional fees and other costs to remove improvements previously made to the facility. At March 31, 2018 and September 30, 2017, respectively, we had $1,117 reserved for the liability. The reserve is classified as a current liability on the Consolidated Balance Sheets.

9. NEW ACCOUNTING PRONOUNCEMENTS

Effective October 1, 2018, the Company will be required to adopt the new guidance of ASC Topic 606, Revenue from Contracts with Customers (Topic 606), which will supersede the revenue recognition requirements in ASC Topic 605, Revenue Recognition. Topic 606 requires the Company to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance requires the Company to apply the following steps: (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when, or as, the Company satisfies a performance obligation. The Company will be required to adopt Topic 606 either on a full retrospective basis to each prior reporting period presented or on a modified retrospective basis with the cumulative effect of initially applying the new guidance recognized at the date of initial application. If the Company elects the modified retrospective approach, it will be required to provide additional disclosures of the amount by which each financial statement line item is affected in the current reporting period, as compared to the guidance that was in effect before the change, and an explanation of the reasons for significant changes. With the help of external consultants, the Company is in the process of assessing the impact of the new guidance on its consolidated financial statements.

In February 2016, the FASB issued updated guidance on leases which, for operating leases, requires a lessee to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in its balance sheet. The standard also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, on a generally straight-line basis. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with earlier application permitted. We are currently evaluating the effects of adoption and have not yet determined the impact the revised guidance will have on our consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230), which addresses eight specific cash flow issues and is intended to reduce diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The guidance is effective for interim and annual periods beginning after December 15, 2017, and early adoption is permitted. The adoption of this guidance is not expected to

have a material impact on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations – Clarifying the definition of a business* (Topic 805). This ASU clarifies the definition of a business with the objective of providing a more robust framework to evaluate whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The guidance will be effective for fiscal years beginning after December 15, 2017, including interim periods within that fiscal year, with early adoption permitted. The amendments are to be applied prospectively to business combinations that occur after the effective date.

In January 2017, the FASB issued ASU 2017-04, Simplifying the Test for Goodwill Impairment. ASU 2017-04 simplifies the accounting for goodwill impairments by eliminating Step 2 from the goodwill impairment test. Under the previous guidance an impairment of goodwill exists when the carrying amount of goodwill exceeds its implied fair value, whereas under the new guidance a goodwill impairment loss would be recognized if the carrying amount of the reporting unit exceeds its fair value, limited to the total amount of goodwill allocated to that reporting unit. The ASU is effective for annual and any interim impairment tests for periods beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The adoption of this guidance is not expected to have a material impact on our consolidated financial statements.

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

In addition to the historical information contained herein, 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, but are not limited to, statements regarding our intent, belief or current expectations with respect to (i) our strategic plans; (ii) trends in the demand for our products and services; (iii) trends in the industries that consume our products and services; (iv) our ability to develop new products and services; (v) our ability to make capital expenditures and finance operations; (vi) global economic conditions, especially as they impact our markets; (vii) our cash position; (viii) our ability to integrate a new sales and marketing team; (ix) our ability to service our outstanding indebtedness and (x) our expectations regarding the volume of new bookings, pricing, gross profit margins and liquidity. Readers are cautioned that forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Actual results may differ materially from those in the forward-looking statements as a result of various factors, many of which are beyond our control.

In addition, we have based these forward-looking statements on our current expectations and projections about future events. Although we believe that the assumptions on which the forward-looking statements contained herein are based are reasonable, actual events may differ from those assumptions, and as a result, the forward-looking statements based upon those assumptions may not accurately project future events. The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto included or incorporated by reference elsewhere in this report. Risks and uncertainties that may impact the forward-looking statements in this report include, but are not limited to, those discussed in Item 1A, Risk Factors contained in our annual report on Form 10-K for the fiscal year ended September 30, 2017. We do not undertake any obligation to update forward-looking statements to reflect events or circumstances after the date they were made, whether as a result of new information, future events or otherwise.

Amounts in this Item 2 are in thousands, unless otherwise indicated.

Business Overview

We are a contract research organization providing drug discovery and development services. Our customers and partners include pharmaceutical, biotechnology, academic and governmental organizations. We apply innovative technologies and products and a commitment to quality to help customers 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 customers' 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 pharmaceutical development. We derive our revenues from sales of our research

services and drug development tools, both of which are focused on determining drug safety and efficacy. The Company has been involved in the research of drugs to treat numerous therapeutic areas for over 40 years.

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

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

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

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

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

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 customers on regulatory strategy and compliance leading to their FDA filings. Our Enhanced Drug Discovery services, part of this strategy, utilizes our proprietary Culex® technology to provide early experiments in our laboratories that previously would have been conducted in the sponsor’s facilities. As we move forward, we must balance the demands of the large pharmaceutical companies with the personal touch needed by smaller biotechnology companies to develop a competitive advantage. We intend to accomplish this through the use of and expanding upon our existing project management skills, strategic partnerships and relationship management.

Research services are capital intensive. The investment in equipment and facilities to serve our markets is substantial and continuing. Rapid changes in automation, precision, speed and technologies necessitate a constant investment in equipment and software to meet market demands. Market opportunities may also prompt investment in upkeep or expansion of our facilities. For example, in November 2017 we announced plans to expand our toxicology facility in Mt. Vernon, Indiana, near Evansville. 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 through operations and to obtain additional capital if and as needed through financial transactions, is critical to our success. Sustained growth will require additional investment in future periods. Continued positive cash flow and access to capital will be important to our ability to make such investments.

Executive Summary

Our revenues are dependent on a relatively small number of industries and customers. In the first six months of fiscal 2018, we experienced a 6.6% decrease in revenues in our Services segment and a 23.5% decrease in revenues for our Products segment as compared to the comparable period of fiscal 2017. Our Services revenue was negatively impacted by an unfavorable study mix for preclinical services and fewer samples to assay for bioanalytical analysis. These negative factors were partially offset by an increase in the number of studies for pharmaceutical analysis as well as our continued efforts to collect archive revenues in fiscal 2018. The revenue decline in our Products segment was mainly due to a decline in sales of our Culex automated *in vivo* sampling systems as compared to the first six months of fiscal 2017 partially offset by an increase in analytical instruments sales.

We review various metrics to evaluate our financial performance, including revenue, margins and earnings. In the first six months of fiscal 2018, total revenues decreased 9.7%, gross profit decreased 15.0% and operating expenses were lower by 1.6% as compared to same period in fiscal 2017. The decreased revenues and margins contributed to the lower reported operating income of $121 for the first six months of fiscal 2018 compared to operating income of $649 for the first six months of fiscal 2017. For a detailed discussion of our revenue, margins, earnings and other financial results for the three and six months ended March 31, 2018, see “Results of Operations” below.

As of March 31, 2018, we had $672 of cash and cash equivalents as compared to $434 of cash and cash equivalents at the end of fiscal 2017. In the first six months of fiscal 2018, we generated $842 in cash from operations as compared to $561 in the same period in fiscal 2017. Total capital expenditures increased in the first six months of fiscal 2018 to $433 from $158 in the first six months of fiscal 2017. In addition, accounts payable decreased by $214 and customer advances increased $127 compared to the prior fiscal year. We had a zero balance on our line of credit as of March 31, 2018.

We believe our fiscal 2018 first half financial results do not fully reflect all our efforts toward implementing key management initiatives, and we remain focused on executing those initiatives aimed at growing revenue, reducing costs and generating additional cash flow. We further believe that our Credit Agreement with First Internet Bank provides an important baseline source of liquidity to continue to implement relevant initiatives. In fiscal 2017, we welcomed the Company’s founder as a scientific advisor to management and benefit from his market presence and scientific knowledge. We continue to focus on marketing efforts to improve our message to customers and increase our visibility in the marketplace. We significantly reduced our employee turnover in fiscal 2017 and the first half of fiscal 2018 and began investing in developing complementary services and evaluating expansion and growth initiatives. We continue to build on these accomplishments in fiscal 2018 in order to grow our business and recruit and retain talent.

During fiscal 2018, we intend to continue to increase our investment in Products research and development in order to upgrade current products and to identify potential new products. We also intend to further develop and expand our relationships with distributors and resellers to boost sales in our Products business. We anticipate adding additional partnerships with companies similar to our current partners, Joanneum Research and PalmSens, to expand our Product offerings. Further, we have added key talent to help drive sales and development of our Products and to solidify relationships with our customers and prospective partners. We believe these measures will prepare us for growth in the long term.

In our Services segment, we are investing in laboratory equipment to add efficiencies and capabilities in areas of possible growth. We also plan to invest in the recruitment of additional talent and equipment upgrades in order to expand our discovery services capabilities. Further, we continue to explore avenues through which to expand service offerings to meet customer demand. Consistent with that aim, in November 2017, we announced plans to expand our toxicology facility in Mt. Vernon, Indiana, near Evansville. Additionally, we are recruiting talent to bolster staffing for our bioequivalence capabilities and service offering. Finally, we will continue the practice of charging for archive

services as an additional revenue stream.

Our long-term strategic objective remains to maximize the Company’s intrinsic value per share. In order to achieve that end, we will focus on, among other items, productivity, generating free cash flow, and the strategies and initiatives mentioned above.

Results of Operations

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2018	2017	2018	2017
Service revenue	84.6 %	78.0 %	84.4 %	81.6 %
Product revenue	15.4	22.0	15.6	18.4
Total revenue	100.0	100.0	100.0	100.0
Cost of Service revenue ***(a)***	72.8	71.5	72.6	71.3
Cost of Product revenue ***(a)***	59.3	55.1	60.3	57.9
Total cost of revenue	70.7	67.9	70.7	68.9
Gross profit	29.3	32.1	29.3	31.1
Total operating expenses	27.4	23.4	28.3	26.0
Operating income	1.9	8.7	1.0	5.1
Other income (expense)	(0.7)	(2.1)	(0.8)	(1.7)
Income before income taxes	1.2	6.6	0.2	3.4
Income tax (benefit) expense	0.2	0.1	(0.6)	0.1
Net Income	1.0 %	6.5 %	0.8 %	3.3 %

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

Three Months Ended March 31, 2018 Compared to Three Months Ended March 31, 2017

Service and Product Revenues

Revenues for the quarter ended March 31, 2018 decreased 6.5% to $5,944 compared to $6,359 for the same period last fiscal year.

Our Service revenue increased 1.4% to $5,030 in the second quarter of fiscal 2018 compared to $4,962 for the comparable prior-year period. Preclinical services revenues increased $207 due to a more favorable mix of studies in the second quarter of fiscal 2018. Other laboratory services revenues were negatively impacted by lower discovery services, which impact was partially offset by higher pharmaceutical analysis revenues in the second quarter of fiscal 2018 versus the comparable period in fiscal 2017. Archive revenue added $130 to Other laboratory services revenue in the second quarter of fiscal 2018, as compared to $228 in the second quarter of fiscal 2017. Bioanalytical analysis revenues remained steady when compared to the comparable prior-year period.

	Three Months Ended			
	March 31,			
	2018	2017	Change	%
Bioanalytical analysis	$ 1,244	$ 1,245	$ (1)	(0.1)%
Preclinical services	3,301	3,094	207	6.7 %
Other laboratory services	485	623	(138)	(22.2)%
	$ 5,030	$ 4,962	$ 68	

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Sales in our Products segment decreased 34.6% in the second quarter of fiscal 2018 to $914 from $1,397 in the same period of the prior fiscal year. The majority of the decrease stems from a decline in sales of our Culex automated *in vivo* sampling systems due to a large order shipped in the second quarter of fiscal 2017 that did not repeat. This factor was partially offset by an increase in analytical instruments revenues.

	Three Months Ended March 31,			
	2018	2017	Change	%
Culex, in-vivo sampling systems	$ 410	$ 883	$ (473)	(53.6)%
Analytical instruments	355	323	32	9.9 %
Other instruments	149	191	(42)	(22.0)%
	$ 914	$ 1,397	$ (483)	

Cost of Revenues

Cost of revenues for the second quarter of fiscal 2018 was $4,204 or 70.7% of revenue, compared to $4,316, or 67.9% of revenue for the comparable prior-year period.

Cost of Service revenue as a percentage of Service revenue increased to 72.8% during the second quarter of fiscal 2018 from 71.5% in the comparable period in fiscal 2017. The principal cause of this increase was the decline in archive revenues, which carry higher margins.

Cost of Products revenue as a percentage of Products revenue in the second quarter of fiscal 2018 increased to 59.3% from 55.1% in the comparable prior-year period. This increase is mainly due to the mix of product sales during the second quarter of fiscal 2018, principally lower sales of the Culex automated *in vivo* sampling systems.

Operating Expenses

Selling expenses for the three months ended March 31, 2018 increased 25.2% to $303 from $242 for the comparable period in fiscal 2017. This increase is mainly due to higher salaries and benefits from the addition of marketing personnel in late fiscal 2017 plus slightly higher travel expenses in the second quarter of fiscal 2018 as compared to the prior-year period.

Research and development expenses for the second quarter of fiscal 2018 increased 35.5% over the comparable period last fiscal year to $149 from $110. The increase was primarily due to higher consulting expenses and costs for operating supplies related to product development.

General and administrative expenses for the second quarter of fiscal 2018 increased 3.7% to $1,178 from $1,136 for the comparable prior-year period. The principal reasons for the increase included employee search fees incurred in the second quarter of fiscal 2018 and higher stock option expense attributable to grants of options to our directors and certain of our employees in October 2017.

Other Income (Expense)

Other expense for the second quarter of fiscal 2018 was $44, as compared to other expense of $133 for the second quarter of fiscal 2017. The primary reason for the change in expense was the decrease in interest expense under our new credit agreement with First Internet Bank, as described below.

Income Taxes

Our effective tax rate for the three months ended March 31, 2018 and 2017 was 16.7% and 1.2%, respectively. The current year expense primarily relates to alternative minimum taxes and state taxes.

Net Income

As a result of the factors described above, net income for the quarter ended March 31, 2018 amounted to $55, compared to net income of $417 in the comparable fiscal 2017 period.

Six Months Ended March 31, 2018 Compared to Six Months Ended March 31, 2017

Service and Product Revenues

Revenues for the six months ended March 31, 2018 decreased 9.7% to $11,321 as compared to $12,533 for the same period last fiscal year.

Our Service revenue decreased 6.6% to $9,555 in the first six months of fiscal 2018 compared to $10,226 for the comparable prior-year period. Preclinical services revenues decreased due to an unfavorable mix of studies in the first quarter of fiscal 2018 as compared to the comparable prior-year period, partially offset by a more favorable mix in the second quarter of fiscal 2018. Other laboratory services revenues were negatively impacted by lower discovery services, which were partially offset by higher pharmaceutical analysis revenues in the first six months of fiscal 2018 versus the comparable period in fiscal 2017. Archive revenue added $190 to Other laboratory services revenue in the first six months of fiscal 2018 compared to $237 in the comparable period in fiscal 2017. Bioanalytical analysis revenues decreased due to fewer samples received and analyzed in the first six months of fiscal 2018 in addition to a mix favoring method development and validation projects during this time period, which generate lower revenue but involve more dedicated resources.

	Six Months Ended March 31,			
	2018	2017	Change	%
Bioanalytical analysis	$2,276	$2,560	$ (284)	(11.1)%
Preclinical services	6,352	6,646	(294)	(4.4)%
Other laboratory services	927	1,020	(93)	(9.1)%
	$9,555	$10,226	$ (671)	

Sales in our Product segment decreased 23.5% in the first six months of fiscal 2018 from $2,307 to $1,766 when compared to the same period in the prior fiscal year. The majority of the decrease stems from lower sales of our Culex

automated *in vivo* sampling instruments in the first six months of fiscal 2018, partially offset by an increase in sales of our analytical instruments.

	Six Months Ended March 31,			
	2018	2017	Change	%
Culex, in-vivo sampling systems	$771	$1,271	$ (500)	(39.3)%
Analytical instruments	710	621	89	14.3 %
Other instruments	285	415	(130)	(31.3)%
	$1,766	$2,307	$ (541)	

Cost of Revenues

Cost of revenues for the first six months of fiscal 2018 was $8,000 or 70.7% of revenue, compared to $8,631, or 68.9% of revenue for the prior year period.

Cost of Service revenue as a percentage of Service revenue increased to 72.6% during the first six months of fiscal 2018 from 71.3% in the comparable period last year. The principal cause of this increase was the decrease in revenues, which led to lower absorption of the fixed costs in our Service segment. A significant portion of our costs of productive capacity in the Service segment are fixed. Thus, decreases in revenues led to increases in costs as a percentage of revenue.

Cost of Product revenue as a percentage of Product revenue in the first six months of fiscal 2018 increased to 60.3% from 57.9% in the comparable prior year period. This increase is mainly due to a change in the mix of products sold in the first six months of fiscal 2018, mainly due to lower sales of the Culex automated *in vivo* sampling systems, as well as slightly higher material costs.

Operating Expenses

Selling expenses for the six months ended March 31, 2018 increased 3.3% to $597 from $578 for the comparable fiscal 2017 period. This increase is mainly due to higher salaries and benefits from the addition of marketing personnel in late fiscal 2017 plus slightly higher travel expenses in the first six months of fiscal 2018 as compared to the prior year period, partially offset by lower commissions.

Research and development expenses for the first six months of fiscal 2018 increased 34.6% over the comparable fiscal 2017 period to $288 from $214. The increase was primarily due to higher consulting expenses and costs for operating supplies related to product development.

General and administrative expenses for the first six months of fiscal 2018 decreased 5.9% to $2,315 from $2,461 for the comparable fiscal 2017 period. The principal reason for the decrease was lower salaries and benefits expense attributable to severance expense related to the separation of our former Chief Executive Officer incurred during the first quarter of fiscal 2017, which we did not incur in the fiscal 2018 period. Also in the first six months of fiscal 2018, lower consulting services expenses were partially offset by employee search fees and higher stock option expense attributable to grants of options to our directors and certain of our employees in October 2017.

Other Income (Expense)

Other expense for the first six months of fiscal 2018 decreased to $96 from $208 for the same period of fiscal 2017. The primary reason for the change in expense was the decrease in interest expense under our new credit agreement with First Internet Bank, as described below.

Income Taxes

Our effective tax rate for the six months ended March 31, 2018 and 2017 was (224.0)% and 1.6%, respectively. The current year benefit primarily relates to an Alternative Minimum Tax (AMT) credit carryforward that will be refundable due to AMT being repealed for corporations. This will be refundable for any tax year beginning after 2017 and before 2022 in an amount equal to 50% (100% for tax years beginning in 2021) of the excess minimum tax credit for the tax year, over the amount of the credit allowable for the year against regular tax liability.

Net Income

As a result of the factors described above, net income for the six months ended March 31, 2018 amounted to $81, compared to net income of $434 in the comparable fiscal 2017 period.

Accrued Expenses

As part of a fiscal 2012 restructuring, we accrued for lease payments at the cease use date for our United Kingdom 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. Based on these matters, we have a $1,000 reserve for lease related costs. Additionally, we accrued $117 for legal and professional fees and other costs to remove improvements previously made to the facility. At December 31, 2017 and September 30, 2017, respectively, we had $1,117 reserved for the liability. The reserve is classified as a current liability on the condensed consolidated balance sheets.

Liquidity and Capital Resources

Comparative Cash Flow Analysis

At March 31, 2018, we had cash and cash equivalents of $672, compared to $434 at September 30, 2017.

Net cash provided by operating activities was $842 for the six months ended March 31, 2018 compared to cash provided by operating activities of $561 for the six months ended March 31, 2017. Contributing factors to our cash provided by operations in the first six months of fiscal 2018 were noncash charges of $782 for depreciation and amortization, a net increase in customer advances of $127 and in accrued expenses of $81. These items were partially offset by, among other items, a net decrease in accounts payable of $214.

Days' sales in accounts receivable increased to 49 days at March 31, 2018 from 48 days at September 30, 2017 due to fewer extended collections from certain customers and a slight decrease in unbilled revenues**.** It is not unusual to see a fluctuation in the Company's pattern of days' sales in accounts receivable. Customers may expedite or delay payments from period-to-period for a variety of reasons including, but not limited to, the timing of capital raised to fund on-going research and development projects.

Included in operating activities for the first six months of fiscal 2017 are non-cash charges of $860 for depreciation, a net increase in customer advances of $649 and accrued expenses of $198 as well as a net decrease in prepaid expenses of $41. These items were more than offset by a net increase in accounts receivable of $997 and a decrease in accounts payable of $962.

Investing activities used $433 in the first six months of fiscal 2018 due mainly to capital expenditures as compared to $158 in the first six months of fiscal 2017. The investing activity in fiscal 2018 consisted of investments in laboratory equipment and building improvements as well as IT equipment and software.

Financing activities used $173 in the first six months of fiscal 2018, as compared to $376 used during the first six months of fiscal 2017. The main uses of cash in the first six months of fiscal 2018 were for long-term debt payments of $111 and capital lease payments of $63. The main uses of cash in the first six months of fiscal 2017 were net borrowings on our line of credit of $60 as well as long-term debt and capital lease payments of $327 and $64, respectively.

Capital Resources

Credit Facility

On June 23, 2017, we entered into a Credit Agreement (the "Credit Agreement") with First Internet Bank of Indiana ("FIB"). The Credit Agreement includes both a term loan and a revolving line of credit and is secured by mortgages on our facilities and personal property in West Lafayette and Evansville, Indiana. We used the proceeds from the term loan to satisfy our indebtedness with Huntington Bank and terminated the related interest rate swap, as more fully described in Note 7 to the condensed consolidated financial statements.

The term loan for $4,500 bears interest at a fixed rate of 3.99%, with monthly principal and interest payments of approximately $33. The term loan matures in June 2022. The balance on the term loan at March 31, 2018 was $4,335. The revolving line of credit for up to $2,000 matures in June 2019 and bears interest at the Prime Rate (generally defined as the highest rate identified as the "Prime Rate" in The Wall Street Journal "Money Rates" column on the date the interest rate is to be determined, or if that date is not a publication date, on the publication date immediately preceding) less Twenty-five (25) Basis Points (0.25%). The balance on the revolving line of credit at March 31, 2018 was $0. We must pay accrued and unpaid interest on the outstanding balance under the credit line on a monthly basis.

The Credit Agreement contains various restrictive covenants, including restrictions on the Company's ability to dispose of assets, make acquisitions or investments, incur debt or liens, make distributions to shareholders or repurchase outstanding stock, enter into related party transactions and make capital expenditures, other than upon satisfaction of the conditions set forth in the Credit Agreement. The Credit Agreement also requires us to maintain (i) a minimum debt service coverage ratio of not less than 1.25 to 1.0 for the quarters thereafter and (ii) a debt to equity ratio of not greater than 2.50 to 1.00 until maturity. Upon an event of default, which includes certain customary events such as, among other things, a failure to make required payments when due, a failure to comply with covenants, certain bankruptcy and insolvency events, and defaults under other material indebtedness, FIB may cease advancing funds, increase the interest rate on outstanding balances, accelerate amounts outstanding, terminate the agreement and foreclose on all collateral. The Company was in compliance with these covenants as of March 31, 2018.

We incurred $69 of costs in June 2017 related to the Credit Agreement that was partially amortized in the third and fourth fiscal quarters of 2017 and the first and second fiscal quarters of 2018 with the remainder to be amortized through June 2022.

The Company’s sources of liquidity for the remainder of fiscal 2018 are expected to consist primarily of cash generated from operations, cash on-hand and, if needed, borrowings under our revolving credit facility or as otherwise may be available. Management believes that the resources described above will be sufficient to fund operations, planned capital expenditures and working capital requirements over the next twelve months.

ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4 - CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to provide reasonable assurance that information, which is required to be disclosed timely, is accumulated and communicated to management in a timely fashion. In designing and evaluating such controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Our management is necessarily required to use judgment in evaluating controls and procedures.

Management performs periodic evaluations to determine if our disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to management, including our acting principal executive officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure and are effective to provide reasonable assurance that such information is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms. An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report was performed under the supervision and with the participation of management, which resulted in a determination by our acting principal executive officer and Chief Financial Officer that our disclosure controls and procedures were effective as of March 31, 2018.

Changes in Internal Controls

There were no changes in the Company's internal control over financial reporting during the second quarter of fiscal 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II

ITEM 1A - RISK FACTORS

Before investing in our securities you should carefully consider the risks described in our Annual Report on Form 10-K for the fiscal year ended September 30, 2017, including those disclosed under the heading “Risk Factors” appearing in Item 1A of Part I of the Form 10-K, as well as the information contained in this Quarterly Report. Realization of any of these risks could have a material adverse effect on our business, financial condition, cash flows and results of operations.

ITEM 6 - EXHIBITS

(a) Exhibits:

See the Exhibit Index to this Form 10-Q, which is incorporated herein by reference.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized:

BIOANALYTICAL SYSTEMS, INC.
(Registrant)

Date: May 15, 2018 By: /s/ Philip A. Downing
Philip A. Downing
Senior Vice President, Preclinical Services
(Acting Principal Executive Officer)

Date: May 15, 2018 By: /s/ Jill C. Blumhoff
Jill C. Blumhoff
Chief Financial Officer and Vice President of Finance
(Principal Financial Officer and Accounting Officer)

EXHIBIT INDEX

Number		Description of Exhibits
(31)	31.1	Certification of Acting Principal Executive Officer (filed herewith).
	31.2	Certification of Chief Financial Officer (filed herewith).
(32)	32.1	Written Statement of Acting Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350) (filed herewith).
	32.2	Written Statement of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350) (filed herewith).
	101	XBRL data file (filed herewith)

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