FLAGSTAR BANCORP INC
Form 8-K
January 31, 2006

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

FORM 8-K

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

Date of Report (Date of earliest event reported): JANUARY 24, 2006

FLAGSTAR BANCORP, INC.
(Exact name of registrant as specified in its charter)

MICHIGAN	1-16577	38-3150651
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

5151 CORPORATE DRIVE, TROY, MICHIGAN	48098
(Address of principal executive offices)	(Zip Code)

(248) 312-2000
(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

ITEM 2.02 RESULTS OF OPERATIONS AND FINANCIAL CONDITION

On January 24, 2006, Flagstar Bancorp, Inc. (the "Company") issued a press release regarding its results of operations and financial condition for the three months and year ended December 31, 2005. The text of the press release is included as Exhibit 99.1 to this report. The information included in the press release text and the financial supplement is considered to be "furnished" under the Securities Exchange Act of 1934. The Company will include final financial statements and additional analyses for the year ended December 31, 2005, as part of its 2005 Annual Report on Form 10-K (the "2005 Form 10-K").

ITEM 4.02 NON-RELIANCE ON PREVIOUSLY ISSUED FINANCIAL STATEMENTS OR A RELATED AUDIT REPORT OR COMPLETED INTERIM REVIEW

During the fourth quarter of 2005, the Company identified errors in connection with the computation of its state tax liability. As a result of this discovery, the Company determined it had understated its state tax accrual by an aggregate amount of $9.5 million for 2002, 2003 and 2004, which resulted in a $5.9 million aggregate reduction in net earnings for those years. Therefore, on January 24, 2006, the Board of Directors concluded that the Company's previously filed financial statements for the years ended December 31, 2002, 2003, and 2004 should no longer be relied upon. The Company intends to restate its financial statements for the years ended December 31, 2002, 2003, and 2004 to reflect a reduction in net earnings of approximately $2.5 million for 2002, $2.4 million for 2003, and $1.0 million for 2004.

The restatements will be effected through the Company's filing of its 2005 Form 10-K. As a result of the above restatements, management expects to report, in the 2005 Form 10-K, a material weakness in internal controls over financial reporting relating to the Company's process for computing its state tax liability.

Because preparation and completion of Flagstar's financial statements in connection with its 2005 Form 10-K and restatements to its previously filed financial statements are ongoing, the financial information presented herein, including the cumulative effects of the errors described above, is preliminary and subject to adjustment.

The Company's Audit Committee has discussed the restatements with management and Virchow, Krause and Company, LLP, the Company's current independent registered public accounting firm. Management has also discussed the restatements with the Company's prior independent registered public accounting firm.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS

(c) The following exhibit is being furnished herewith:

Exhibit No.	Exhibit Description
99.1	Press release text of Flagstar Bancorp, Inc. dated January 24, 2006.

SIGNATURE

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, hereunto duly authorized.

FLAGSTAR BANCORP, INC.

Dated: January 30, 2006

By: /s/ Paul D. Borja

Paul D. Borja
Executive Vice President and Chief Financial Officer

EXHIBIT INDEX

Exhibit No.	Exhibit Description
99.1	Press release text of Flagstar Bancorp, Inc. dated January 24, 2006.

or: rgb(204,238,255)">General and administrative 1,030 1,037 3,165 3,468 Mediation settlement, net — (620) — (606)Total operating expenses 1,538 956 4,629 4,492 Operating (loss) income (365) 1,534 (1,156) 1,704 Interest expense (107) (67) (243) (223)Change in fair value of warrant liability – decrease 21 34 189 353 Other income 1 — 2 1 Net income (loss) before income taxes (450) 1,501 (1,208) 1,835 Income tax (benefit) expense (17) 23 (15) 25 Net income (loss) $(433) $1,478 $(1,193) $1,810 Other comprehensive income (loss): (2) (49) (101) 19 Comprehensive income (loss) $(435) $1,429 $(1,294) $1,829 Basic net income (loss) per share $(0.05) $0.18 $(0.15) $0.22 Diluted net income (loss) per share $(0.05) $0.16 $(0.15) $0.16 Weighted common shares outstanding: Basic 8,108 8,080 8,107 8,077 Diluted 8,108 8,810 8,107 8,845

4

BIOANALYTICAL SYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended June 30,	
	2016	2015
Operating activities:		
Net income (loss)	$ (1,193)	$ 1,810
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	1,031	1,069
Change in fair value of warrant liability – (decrease)	(189)	(353)
Employee stock compensation expense	34	67
Provision for doubtful accounts, net	(19)	1
Loss on sale of property and equipment	12	5
Changes in operating assets and liabilities:		
Accounts receivable	511	(611)
Inventories	(10)	3
Income tax accruals	(18)	20
Prepaid expenses and other assets	14	146
Accounts payable	990	(226)
Accrued expenses	(886)	(775)
Customer advances	(7)	19
Net cash provided by operating activities	270	1,175
Investing activities:		
Capital expenditures	(837)	(666)
Net cash used by investing activities	(837)	(666)
Financing activities:		
Payments of long-term debt	(589)	(589)
Payments of debt issuance costs	(41)	—
Proceeds from exercise of stock options	3	—
Payments on revolving line of credit	(7,832)	(5,569)
Borrowings on revolving line of credit	9,297	5,367
Payments on capital lease obligations	(217)	(214)
Net cash (used in) provided by financing activities	621	(1,005)
Effect of exchange rate changes	—	31

Net increase (decrease) in cash and cash equivalents	54	(465)
Cash and cash equivalents at beginning of period	438	981
Cash and cash equivalents at end of period	$ 492	$ 516
Supplemental disclosure of non-cash financing activities:		
Equipment financed under capital leases	$ 303	$ —

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

5

BIOANALYTICAL SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

1. DESCRIPTION OF THE BUSINESS AND BASIS OF PRESENTATION

Bioanalytical Systems, Inc. and its subsidiaries (“We,” the “Company” or “BASi”) engage in contract laboratory research services and other services related to pharmaceutical development. We also manufacture scientific instruments for life sciences research, which we sell with related software for use 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 U.S. 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, 2015. In the opinion of management, the condensed consolidated financial statements for the three and nine months ended June 30, 2016 and 2015 include all adjustments which are necessary for a fair presentation of the results of the interim periods and of our financial position at June 30, 2016. The results of operations for the three and nine months ended June 30, 2016 are not necessarily indicative of the results for the year ending September 30, 2016.

We are currently in default with our credit arrangements with Huntington Bank, as more fully described under “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Credit Facility.” Huntington Bank has reserved all rights with respect to our default, including the ability to accelerate and immediately demand payment of the outstanding debt under our term loan and revolving loan, to exercise its security interest, to take possession of or sell the underlying collateral, to refrain from making additional advances under the revolving loan and to terminate our interest rate swap. Were Huntington Bank to demand payment of the outstanding debt (whether at or prior to the scheduled maturity of the loans on September 30, 2016), we would currently have insufficient funds to satisfy that obligation, and the bank’s exercise of alternative remedies could also have a material adverse effect on our operations and financial condition. We cannot provide assurance that we will be able to resolve our liquidity issues on satisfactory terms, or at all. We have classified the entire term loan payable to Huntington Bank and the interest rate swap agreement with Huntington Bank as current liabilities of the Company.

2. MANAGEMENT’S PLAN

The Company’s unaudited interim condensed consolidated financial statements were prepared on a going concern basis, which assumes continuity of operations and realization of assets and satisfaction of liabilities in the ordinary course of business. The financial statements do not include any adjustments to reflect possible future effects on the recoverability and classification of assets and liabilities that may result in the event the Company’s plans, including plans to rectify our liquidity issues, are not successful. As noted above, we are currently in default of our credit arrangements and Huntington Bank has reserved all rights with respect to our default. The Company’s liquidity circumstances, including the potential inability to find replacement financing, raise substantial doubt about the Company’s ability to continue as a going concern, and management has and will continue to take measures to mitigate that possibility.

The Company is engaged in exploring initiatives to address solutions to our liquidity issues, which include the evaluation and pursuit of various sources of financing, including a sale and leaseback of the West Lafayette facility. Management is also undergoing a detailed review of all current account management and acquisition strategies and market programs and has introduced new initiatives designed to increase revenue around focused strength areas. These key areas of expertise include increasing our IND-enabling studies in nonhuman primates, partnering with clinics for sample analysis and sample kit preparation, offering bioequivalence study expertise to our generics clients and increasing market awareness and adoption of the BASi Culex™ In-vivo Automated Blood Sampling System and related consumables via equipment grants. Management has been, and continues to be, actively engaged in more effectively controlling operating costs in the short term as we strive for long term stabilization and growth.

6

3. STOCK-BASED COMPENSATION

The 2008 Stock Option Plan ("the Plan") is used to promote our long-term interests by providing a means of attracting and retaining officers, directors and key employees and aligning their interests with those of our shareholders. The Plan is described more fully in Note 9 in the Notes to the Consolidated Financial Statements in our Form 10-K for the year ended September 30, 2015. All options granted under the Plan 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. We recognize expense for awards subject to graded vesting using the straight-line attribution method, reduced for estimated forfeitures. Forfeitures are revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates and an adjustment is recognized at that time. The Compensation Committee may also issue non-qualified stock option grants with vesting periods different from the Plan. As of June 30, 2016, there are 30 shares underlying options outstanding that were granted outside of the Plan. The assumptions used are detailed in Note 9 to the Consolidated Financial Statements in our Form 10-K for the year ended September 30, 2015. Stock-based compensation expense for the three and nine months ended June 30, 2015 was $19 and $67, respectively. Stock-based compensation expense for the three and nine months ended June 30, 2016 was $5 and $34, respectively.

A summary of our stock option activity for the nine months ended June 30, 2016 is as follows (in thousands except for share prices):

	Options (shares)	Weighted-Average Exercise Price	Weighted-Average Grant Date Fair Value
Outstanding - October 1, 2015	319	$ 1.73	$ 1.38
Exercised	(3)	$ 1.14	$ 0.95
Granted	10	$ 0.94	$ 0.79
Terminated	(16)	$ 2.14	$ 1.78
Outstanding – June 30, 2016	310	$ 1.69	$ 1.34

4. INCOME (LOSS) PER SHARE

We compute basic income (loss) per share using the weighted average number of common shares outstanding.

During the three and nine month period ended June 30, 2015 and 2016, respectively, the Company had three categories of dilutive potential common shares: the Series A preferred shares issued in May 2011 in connection with the Company's registered direct offering, the warrants issued in connection with the same offering in May 2011 (which expired in May, 2016), 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, warrants for 799 common shares and 592 common shares issuable upon conversion of preferred shares were not considered in computing diluted earnings per share for the three and nine months ended June 30, 2016, respectively, because they were anti-dilutive.

7

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2016	2015	2016	2015
Basic net income (loss) per share:				
Net income (loss) applicable to common shareholders	$ (433)	$ 1,478	$ (1,193)	$ 1,810
Weighted average common shares outstanding	8,108	8,080	8,107	8,077
Basic net income (loss) per share	$ (0.05)	$ 0.18	$ (0.15)	$ 0.22
Diluted net income (loss) per share:				
Net income (loss) applicable to common shareholders	$ (433)	$ 1,478	$ (1,193)	$ 1,810
Change in Fair Value of Warrant Liability	—	(34)	—	(353)
Diluted net income (loss) applicable to common shareholders	$ (433)	$ 1,444	$ (1,193)	$ 1,457
Weighted average common shares outstanding	8,108	8,080	8,107	8,077
Plus: Incremental shares from assumed conversions				
Series A preferred shares	—	592	—	592
Class A warrants	—	15	—	48
Dilutive stock options/shares	—	123	—	128
Diluted weighted average common shares outstanding	8,108	8,810	8,107	8,845
Diluted net income (loss) per share	$ (0.05)	$ 0.16	$ (0.15)	$ 0.16

5. INVENTORIES

Inventories consisted of the following:

	June 30, 2016	September 30, 2015
Raw materials	$ 1,174	$ 1,112
Work in progress	233	247
Finished goods	341	408
	$ 1,748	$ 1,767
Obsolescence reserve	(272)	(301)
	$ 1,476	$ 1,466

6. SEGMENT INFORMATION

We operate in two principal segments - research services and research products. Our Service segment provides research and development support on a contract basis directly to pharmaceutical companies. Our Product 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 year ended September 30, 2015.

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Nine Months Ended June 30, 2016	Nine Months Ended June 30, 2015
Revenue:				
Service	$ 3,773	$ 5,001	$ 11,881	$ 13,929
Product	1,280	1,149	3,406	3,792
	$ 5,053	$ 6,150	$ 15,287	$ 17,721
Operating income (loss):				
Service	$ (364)	$ 1,440	$ (962)	$ 1,510
Product	(1)	94	(194)	194
	$ (365)	$ 1,534	$ (1,156)	$ 1,704
Interest expense	(107)	(67)	(243)	(223)
Change in fair value of warrant liability – decrease	21	34	189	353
Other income	1	—	2	1
Income (loss) before income taxes	$ (450)	$ 1,501	$ (1,208)	$ 1,835

7. INCOME TAXES

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

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

At June 30, 2016 and September 30, 2015, we had a $16 liability for uncertain income tax positions. The difference between the federal statutory rate of 34% and our effective rate of 1.2% is due to changes in our valuation allowance on our net deferred tax assets.

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

We file income tax returns in the U.S 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 2010.

9

8. DEBT

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 includes both a term loan and a revolving loan and is secured by mortgages on our facilities in West Lafayette and Evansville, Indiana and liens on our personal property. As of December 31, 2015, we were not in compliance with certain financial covenants of the Agreement. Huntington Bank advised us that the failure to meet these financial covenants constituted an event of default under the Agreement and reserved all of its rights with respect thereto. As of March 31, 2016, we were also in default of the financial covenants covering the period then ended.

On April 27, 2016, the Company entered into a Forbearance Agreement and Second Amendment to Credit Agreement with Huntington Bank and on July 1, 2016, the Company entered into a Second Forbearance Agreement and Third Amendment to Credit Agreement (“Second Forbearance Agreement”) with Huntington Bank. Subject to the conditions set forth in the Second Forbearance Agreement, Huntington Bank agreed to continue 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 any further non-compliance with such covenants during the forbearance period ending September 30, 2016 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 to September 30, 2016, (ii) meet an additional financial covenant during the forbearance period; (iii) take commercially reasonable efforts to obtain financing sufficient to repay indebtedness under the Agreement in full upon the expiration of the forbearance period; (iv) periodically deliver to Huntington Bank certain financial and budget information during the forbearance period; and (v) engage a consultant for purposes of preparing a report to Huntington Bank evaluating various matters concerning the Company.

The Second Forbearance Agreement provided for immediate termination of the forbearance period upon the occurrence of, among other events, the failure of the Company to perform, observe or comply with the terms of the Second Forbearance Agreement. As of June 30, 2016, the Company was not in compliance with the additional financial covenant under the Second Forbearance Agreement, resulting in termination of the forbearance period. Huntington Bank has reserved its rights resulting from this default, but as of August 15, 2016, has not exercised any of its remedies. The available remedies include among others, the ability to accelerate and immediately demand payment of the outstanding debt under our term loan and revolving loan, to exercise its security interest, to take possession of or sell the underlying collateral, to refrain from making additional advances under the revolving loan, to increase interest accruing on the debt by five percent (5%) per annum over the otherwise applicable rate effective after receipt of written notice from Huntington Bank, and to terminate our interest rate swap.

The term loan for $5,500 bears interest at LIBOR plus 325 basis points with monthly principal payments of approximately $65 plus interest. We have made all required principal payments on the term loan. The balance on the term loan at June 30, 2016 and September 30, 2015 was $3,863 and $4,452, respectively. The revolving loan for $2,000 bears interest at LIBOR plus 300 basis points with interest paid monthly. The revolving loan also carries a facility fee of .25%, paid quarterly, for the unused portion of the revolving loan. The revolving loan includes an annual clean-up provision that requires the Company to maintain a balance of not more than 20% of the maximum loan of $2,000 for a period of 30 days in any 12 month period while the revolving loan is outstanding. The revolving loan balance was $1,551 and $86 at June 30, 2016 and September 30, 2015, respectively. Due to our default, Huntington Bank may accelerate the maturity of the term loan and the revolving loan and demand immediate payment.

Were Huntington Bank to demand payment of the outstanding debt (whether at or prior to the scheduled maturity of the loans on September 30, 2016), we would currently have insufficient funds to satisfy that obligation, and the bank's exercise of alternative remedies could also have a material adverse effect on our operations and financial condition. As an example, in recent periods we have drawn on our revolving facility to supplement cash from operations. Should cash from operating activities remain insufficient to cover expenses and if Huntington Bank determines to refrain from making additional advances under the revolving facility, we may not have the requisite funds to continue operations.

We cannot provide assurance that we will be able to complete initiatives to refinance our indebtedness or otherwise resolve our liquidity issues. If we are unable to execute on our initiatives, we may have insufficient funds to both satisfy our debt obligations and operate our business.

We incurred $134 of costs in connection with the issuance of the credit facility. These costs were capitalized and are being amortized to interest expense on a straight-line basis over five years based on the contractual term of the credit facility. In connection with the Forbearance Agreement, we incurred $41 of costs which were amortized during the third fiscal quarter of 2016, or the period covered by the first Forbearance Agreement. As of June 30, 2016 and September 30, 2015, the unamortized portion of debt issuance costs related to the credit facility was $73 and $94, respectively, and was included in Debt issue costs, net on the consolidated balance sheets.

Interest Rate Swap

We entered into an interest rate swap agreement with respect to the above loans to fix the interest rate with respect to 60% of the value of the term loan at approximately 5.0%. We entered into this 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 are recorded in Accumulated Other Comprehensive Income (“AOCI”) to the extent effective. We assess on an ongoing basis whether the derivative that is used in the hedging transaction is highly effective in offsetting changes in cash flows of the hedged debt. The Second Forbearance Agreement amended the terms of the interest rate swap to match the terms of the underlying debt resulting in no ineffectiveness.

9. RESTRUCTURING

In March 2012, we announced a plan to restructure our bioanalytical laboratory operations. We consolidated our laboratory in McMinnville, Oregon into our 120,000 square foot headquarters facility in West Lafayette, Indiana and closed our facility and bioanalytical laboratory in Warwickshire, United Kingdom. We continue to sell our products globally while further consolidating delivery of our CRO services into our Indiana locations.

We reserved for lease payments at the cease use date for our UK facility and have considered sublease rentals and the estimated cost and number of days it may 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. In the first three and nine months of fiscal 2015, we recorded $20 and $60, respectively, of the estimated rent income as expense. We have been unsuccessful at subleasing the facility. Based on these matters, we have $1,000 reserved for UK lease related costs at June 30, 2016. We do not expect to accrue additional amounts in fiscal 2016. We have previously communicated with the landlord regarding the nature and timing of rent under the lease. The full restructuring reserve is classified in other accounts payable on the Consolidated Balance Sheets. The UK building lease expires in 2023 but includes an early termination option after 7 years, which occurred in the fourth quarter of fiscal 2015 and was exercised.

Other costs of $117 have been accrued for legal and professional fees and other costs estimated to be incurred in connection with transitioning services from sites being closed as well as costs incurred to remove improvements previously made to the UK facility. In fiscal 2015, all related investments in the UK operations were written off.

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

In May 2011, we issued Class A and B Warrants that are measured at fair value on a recurring basis. We recorded these warrants as a liability determining the fair value at inception on May 11, 2011. Subsequent quarterly fair value measurements, using the Black Scholes model which is considered a level 2 measurement, are calculated with fair value changes charged to the statement of operations and comprehensive income (loss). The Class B Warrants expired in May 2012 and the liability was reduced to zero and the Class A Warrants expired in May, 2016 and the liability was reduced to zero. Therefore no assumptions were used to compute the fair value of the Class A Warrants at June 30, 2016.

The carrying amounts for cash and cash equivalents, accounts receivable, inventories, prepaid expenses and other assets, accounts payable and other accruals approximate their fair values because of their nature and respective duration. The carrying value of the note payable approximates fair value due to the variable nature of the interest rates.

We use an interest rate swap, designated as a hedge, to fix 60% of the term loan debt from our credit facility with Huntington Bank. We did not enter into this derivative transaction to speculate on interest rates, but to hedge interest rate risk. The swap is recognized as a liability on the balance sheet at its fair value. The fair value is determined utilizing a cash flow model that takes into consideration interest rates and other inputs observable in the market from similar types of instruments, and is therefore considered a level 2 measurement.

The following table summarizes fair value measurements by level as of June 30, 2016, for the Company’s financial liabilities measured at fair value on a recurring basis:

	Level 1	Level 2	Level 3
Interest rate swap agreement	$ -	$ 48	$ -
Class A warrant liability	$ -	$ -	$ -

The following table summarizes fair value measurements by level as of September 30, 2015, for the Company’s financial liabilities measured at fair value on a recurring basis:

	Level 1	Level 2	Level 3
Interest rate swap agreement	$ -	$ 50	$ -
Class A warrant liability	$ -	$ 189	$ -

11. MEDIATION

In the third quarter of fiscal 2015, the Company received $640 in cash through a mediated settlement and incurred related legal expenses of $20 and $34 for the three and nine months ended June 30, 2015. The settlement fully resolved the Company's dispute with a service provider with whom we no longer do business. This settlement and related legal expenses were recorded under operating expenses on the condensed consolidated statements of operations and comprehensive income (loss).

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

This report contains statements that constitute forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. 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 any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Actual results may differ materially from those in the forward looking statements as a result of various factors, many of which are beyond our control.

In addition, we have based these forward-looking statements on our current expectations and projections about future events. Although we believe that the assumptions on which the forward-looking statements contained herein are based are reasonable, actual events may differ from those assumptions, and as a result, the forward-looking statements based upon those assumptions may not accurately project future events. The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto included or incorporated by reference elsewhere in this report. In addition to the historical information contained herein, the discussions in this report may contain forward-looking statements that may be affected by risks and uncertainties, including those discussed in Item 1A, Risk Factors contained herein and in our annual report on Form 10-K for the fiscal year ended September 30, 2015. Our actual results could differ materially from those discussed in the forward-looking statements.

The following amounts are in thousands, unless otherwise indicated.

Recent Events

Credit Facility

We are currently in default of our credit arrangements with Huntington Bank, as more fully described under "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Credit Facility." Huntington Bank has reserved all rights with respect to our default, including the ability to accelerate and immediately demand payment of the outstanding debt under our term loan and revolving loan, to exercise its security interest, to take possession of or sell the underlying collateral, to increase interest accruing on the debt, to refrain from making additional advances under the revolving loan, and to terminate our interest rate swap. Were Huntington Bank to demand payment of the outstanding debt (whether at or prior to the scheduled maturity of the loans on September 30, 2016), we would currently have insufficient funds to satisfy that obligation, and the bank's exercise of alternative remedies could also have a material adverse effect on our operations and financial condition.

The Company is engaged in exploring initiatives to address solutions to our liquidity issues, which include the evaluation and pursuit of various sources of financing, including a sale and leaseback of the West Lafayette facility. Management is also undergoing a detailed review of all current account management and acquisition strategies and market programs and has introduced new initiatives designed to increase revenue around focused strength areas. These key areas of expertise include increasing our IND-enabling studies in nonhuman primates, partnering with clinics for sample analysis and sample kit preparation, offering bioequivalence study expertise to our generics clients and increasing market awareness and adoption of the BASi Culex™ In-vivo Automated Blood Sampling System and related consumables via equipment grants. Management has been, and continues to be, actively engaged in more effectively controlling operating costs in the short term as we strive for long term stabilization and growth. We cannot provide assurance that we will be able to resolve our liquidity issues on satisfactory terms, or at all.

13

Business Overview

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

We support the preclinical and clinical development needs of researchers and clinicians for small molecule and large biomolecule drug candidates. 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 Service segment is a direct beneficiary of these efforts, through outsourcing by these companies of research work. Our Product segment is an indirect beneficiary of these efforts, as increased drug development leads to capital expansion, providing opportunities to sell the equipment we produce and the consumable supplies we provide that support our products.

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

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

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. While our physical facilities are adequate to meet market needs for the near term, rapid changes in automation, precision, speed and technologies necessitate a constant investment in equipment and software to meet market demands. We are also impacted by the heightened regulatory environment and the need to improve our business infrastructure to support our increasingly diverse operations, which will necessitate additional capital investment. Our ability to generate capital to reinvest in our capabilities, both through operations and financial transactions, is critical to our success. While we are currently committed to fully utilizing 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 Summary

As noted above, we are currently in default of our credit arrangements with Huntington Bank. Please see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Credit Facility."

Our revenues are dependent on a relatively small number of industries and customers. As a result, we closely monitor the market for our services and products. In the first nine months of fiscal 2016, we experienced a 14.7% decrease in revenues in our Service segment and a 10.2% decrease in revenues for our Product segment as compared to the first nine months of fiscal 2015. Our Service revenue was negatively impacted by fewer bioequivalence studies and a mix shift favoring method development and validation projects as well as a lower number of samples analyzed in the first nine months of fiscal 2016 versus the comparable period of fiscal 2015. The turnover in the business development personnel during fiscal 2015 contributed to the decline in bioequivalence studies and new large sample analysis projects. The revenue decline in our Product segment was mainly due to lower sales of our analytical instruments and lower sales of instruments in our *Culex*®, *in vivo* sampling product line as compared to the prior fiscal year. The decline in Product revenue, however, is beginning to improve with increased revenue levels in the second and third fiscal quarters as compared to the first fiscal quarter, but have yet to overcome the variance from fiscal 2015.

We review various metrics to evaluate our financial performance, including revenue, margins and earnings. Revenues decreased approximately 13.7% and gross margin decreased 44.0% in the first nine months of fiscal 2016 as compared to the prior year period. The reduction in margin was mainly impacted by the lower Service revenue in the current fiscal year resulting in decreased absorption of fixed costs. The lower margins contributed to the reported operating loss of $1,156 for the first nine months of fiscal 2016 compared to operating income of $1,704 for the prior year period. For a detailed discussion of our revenue, margins, earnings and other financial results for the nine months ended June 30, 2016, see "Results of Operations" below.

As of June 30, 2016, we had $492 of cash and cash equivalents as compared to $438 of cash and cash equivalents at the end of fiscal 2015. In the first nine months of fiscal 2016, cash provided by operating activities amounted to $270 down from $1,175 provided in the first nine months of fiscal 2015, partially due to the operating loss we reported in the first nine months of fiscal 2016. We also utilized $1,465 in additional borrowings on our line of credit. Total capital expenditures were $837 in the first nine months of fiscal 2016, up from $666 in the first nine months of fiscal 2015.

In January 2015, we entered into a lease agreement with an initial term of approximately nine years and 11 months for 50,730 square feet of office, manufacturing and warehouse space located at the Company's headquarters to monetize underutilized space. We do not believe the lease will materially impact the Company's business or service capabilities over the foreseeable future. The lease agreement has provided and will provide the Company with additional cash in the range of approximately $50 per month during the first year of the initial term to approximately $57 per month during the final year of the initial term.

Results of Operations

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2016	2015	2016	2015
Service revenue	74.7 %	81.3 %	77.7 %	78.6 %
Product revenue	25.3	18.7	22.3	21.4
Total revenue	100.0	100.0	100.0	100.0
Cost of Service revenue ***(a)***	84.4	60.0	82.8	68.2
Cost of Product revenue ***(a)***	54.4	57.3	58.0	53.4
Total cost of revenue	76.8	59.5	77.3	65.0
Gross profit	23.2	40.5	22.7	35.0
Total operating expenses	30.5	15.5	30.3	25.3
Operating income (loss)	(7.3)	25.0	(7.6)	9.7
Other income (expense)	(1.7)	(0.5)	(0.3)	0.7
Income (loss) before income taxes	(9.0)	24.5	(7.9)	10.4
Income tax expense	(0.3)	0.4	(0.1)	0.1
Net Income (loss)	(8.7)%	24.1 %	(7.8)%	10.3 %

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

<u>Three Months Ended June 30, 2016 Compared to Three Months Ended June 30, 2015</u>

Service and Product Revenues

Revenues for the fiscal quarter ended June 30, 2016 decreased 17.8% to $5,053 compared to $6,150 for the same period last year.

Our Service revenue decreased 24.6% to $3,773 in the third quarter of fiscal 2016 compared to $5,001 for the prior year period. Bioanalytical analysis revenues declined due to fewer samples received and analyzed in the third quarter of fiscal 2016. Preclinical services benefited in the third quarter of fiscal 2015 from an early termination that accelerated revenue recognition, which was not repeated in the third quarter of fiscal 2016. Other laboratory services revenues were negatively impacted by fewer bioequivalence studies in the third quarter of fiscal 2016 versus the comparable period in fiscal 2015.

	Three Months Ended June 30,			
	2016	2015	Change	%
Bioanalytical analysis	$ 1,121	$ 1,735	$ (614)	-35.4%
Preclinical services	2,405	2,884	(479)	-16.6%
Other laboratory services	247	382	(135)	-35.3%

Sales in our Product segment increased 11.4% in the third quarter of fiscal 2016 from $1,149 to $1,280 when compared to the same period in the prior fiscal year. The majority of the increase stems from increased instrument sales from our Culex automated *in vivo* sampling line plus an increase in analytical instruments over the same period in the prior fiscal year.

16

	Three Months Ended June 30,			
	2016	2015	Change	%
Culex, in-vivo sampling systems	$ 550	$ 511	$ 39	7.6 %
Analytical instruments	520	430	90	20.9 %
Other instruments	210	208	2	0.9 %

Cost of Revenues

Cost of revenues for the third quarter of fiscal 2016 was $3,880 or 76.8% of revenue, compared to $3,660 or 59.5% of revenue for the prior year period.

Cost of Service revenue as a percentage of Service revenue increased to 84.4% during the third quarter of fiscal 2016 from 60.0% 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 lead to increases in costs as a percentage of revenue. In addition, due to the timing of certain studies, we incurred higher scientific professional services costs in the third quarter of fiscal 2016 versus the same period of fiscal 2015.

Cost of Product revenue as a percentage of Product revenue in the third quarter of fiscal 2016 decreased to 54.4% from 57.2% in the comparable prior-year period. This decrease is mainly due to a change in the mix of products sold in the third quarter of fiscal 2016.

Operating Expenses

Selling expenses for the quarter ended June 30, 2016 increased 6.8% to $405 from $379 for the comparable period of fiscal 2015. This increase is mainly due to higher commissions in the third quarter of fiscal 2016 compared to the same period in fiscal 2015.

Research and development expenses for the third quarter of fiscal 2016 decreased 35.6% over the comparable period of prior year to $103 from $160. The decrease was primarily due to lower utilization of outsourced professional engineering services in the fiscal 2016 period.

General and administrative expenses for the third quarter of fiscal 2016 decreased to $1,031 from $1,037 for the comparable prior year period. The principal reason for the decrease was the additional building rental income of $19, which was deducted from general and administrative expense, as well as decreased utility expense partially offset by increased consulting expenses in the third quarter of fiscal 2016.

Operating expenses for the third quarter of fiscal 2015 were also favorably impacted by a mediation settlement from a service provider as described in Note 11 to the condensed consolidated financial statements, which reduced operating expenses during the period by $620, net of legal expenses.

Other Income (Expense)

Other expense for the third quarter of fiscal 2016 increased to $85 from $33 for the same quarter of the prior fiscal year. The primary reason for the increase is due to higher interest expense in the fiscal 2016 quarter. Interest expense increased slightly to $107 from $67 with increased use of the line of credit and costs related to the first Forbearance Agreement executed in the third fiscal quarter of 2016.

Income Taxes

Our effective tax rate for the quarters ended June 30, 2016 and 2015 was 3.8% and 1.5%, respectively. The current year expense primarily relates to state income taxes and true-up adjustments of the prior fiscal year.

Nine Months Ended June 30, 2016 Compared to Nine Months Ended June 30, 2015

Service and Product Revenues

Revenues for the nine months ended June 30, 2016 decreased 13.7% to $15,287 compared to $17,721 for the same period last fiscal year.

Our Service revenue decreased 14.7% to $11,881 in the first nine months of fiscal 2016 compared to $13,929 for the prior fiscal year period. Bioanalytical analysis revenues declined due to fewer samples received and analyzed in fiscal 2016. Preclinical services benefited in the third quarter of fiscal 2015 from an early termination that accelerated revenue recognition, which was not repeated in the third quarter of fiscal 2016. Other laboratory services revenues were negatively impacted by fewer bioequivalence studies in the fiscal 2016 period versus the comparable period in fiscal 2015.

	Nine Months Ended June 30,			
	2016	2015	Change	%
Bioanalytical analysis	$ 4,130	$ 5,298	$(1,168)	-22.0%
Preclinical services	7,167	7,663	(496)	-6.5 %
Other laboratory services	584	968	(384)	-39.7%

Sales in our Product segment decreased 10.2% in the first nine months of fiscal 2016 from $3,792 to $3,406 when compared to the same period in the prior fiscal year. The majority of the decrease in the nine months resulted from declines in instrument sales from our Culex automated *in vivo* sampling line as well as our analytical instruments in the first quarter of fiscal 2016. The overall decline was partially offset by an increase in other instruments revenue over the same period in the prior fiscal year.

	Nine Months Ended June 30,			
	2016	2015	Change	%
Culex, in-vivo sampling systems	$ 1,483	$ 1,840	$ (357)	-19.4%
Analytical instruments	1,272	1,443	(171)	-11.8%
Other instruments	651	509	142	27.9 %

Cost of Revenues

Cost of revenues for the first nine months of fiscal 2016 was $11,814 or 77.3% of revenue, compared to $11,525 or 65.0% of revenue for the prior year period.

Cost of Service revenue as a percentage of Service revenue increased to 82.8% during the first nine months of fiscal 2016 from 68.2% 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 lead to increases in costs as a percentage of revenue. In addition, due to the timing of certain studies, we incurred higher scientific professional services in the third quarter of fiscal 2016 that increased costs versus the same period of fiscal 2015.

Cost of Product revenue as a percentage of Product revenue in the first nine months of fiscal 2016 increased to 58.0% from 53.4% in the comparable prior year period. This increase is mainly due to a change in the mix of products sold in the first nine months of fiscal 2016 as well as costs incurred related to the design and implementation of lean manufacturing initiatives in the first quarter of fiscal 2016.

Operating Expenses

Selling expenses for the nine months ended June 30, 2016 decreased 6.0% to $1,072 from $1,141 for the comparable fiscal 2015 period. This decrease is mainly due to lower commissions and outside services in the first nine months of fiscal 2016.

Research and development expenses for the first nine months of fiscal 2016 decreased 19.8% over the comparable fiscal 2015 period to $392 from $489. The decrease was primarily due to lower utilization of outsourced professional engineering services, partially offset by the addition of engineering personnel.

General and administrative expenses for the first nine months of fiscal 2016 decreased 8.7% to $3,165 from $3,468 for the comparable fiscal 2015 period. The principal reason for the decrease was the additional building rental income of $287, which was deducted from general and administrative expense, as well as decreased utility expense, partially offset by increased recruiting costs and consulting expenses in the first nine months of fiscal 2016.

Operating expenses for the first nine months of fiscal 2015 were also favorably impacted by a mediation settlement from a service provider as described in Note 11 to the condensed consolidated financial statements, which reduced operating expenses by $606, net of legal expenses.

Other Income (Expense)

Other expense for the first nine months of fiscal 2016 was $52 versus other income of $131 for the same period of fiscal 2015. The primary reason for the decrease is change in the fair value of the warrant liability. Interest expense increased slightly to $243 from $223 with increased use of the line of credit and costs related to the first Forbearance Agreement executed in the third fiscal quarter of 2016.

Income Taxes

Our effective tax rate for the nine months ended June 30, 2016 and 2015 was 1.2% and 1.4%, respectively. The current year expense primarily relates to state income taxes and true-up adjustments of the prior fiscal year.

Restructuring Activities

In March 2012, we announced a plan to restructure our bioanalytical laboratory operations. We consolidated our laboratory in McMinnville, Oregon into our 120,000 square foot headquarters facility in West Lafayette, Indiana and closed our facility and bioanalytical laboratory in Warwickshire, United Kingdom. We continue to sell our products globally while further consolidating delivery of our CRO services into our Indiana locations.

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. In the first three and nine months of fiscal 2015, we recorded $20 and $60, respectively, of the estimated rent income as expense. We have been unsuccessful at subleasing the facility. Based on these matters, we have $1,000 reserved for UK lease related costs at June 30, 2016. We do not expect to accrue additional amounts in fiscal 2016. We have previously communicated with the landlord regarding the nature and timing of rent under the lease. The full restructuring reserve is classified in other accounts payable on the Consolidated Balance Sheets because the full amount is due and payable. The UK building lease expired in 2023 but included an opt out provision after 7 years, which occurred in the fourth quarter of fiscal 2015 and was exercised.

Other costs of $117 have been accrued for legal and professional fees and other costs estimated to be incurred in connection with transitioning services from sites being closed as well as costs incurred to remove improvements previously made to the UK facility. In fiscal 2015, all related investments in the UK operations were written off.

Liquidity and Capital Resources

Comparative Cash Flow Analysis

At June 30, 2016, we had cash and cash equivalents of $492, compared to $438 at September 30, 2015.

Net cash provided by operating activities was $270 for the nine months ended June 30, 2016 compared to cash provided by operating activities of $1,175 for the nine months ended June 30, 2015. The decrease in cash provided by operating activities in the nine months of fiscal 2016 partially resulted from the operating loss versus operating income in the comparable fiscal 2015 period. Other contributing factors to our cash provided by operations in the first nine months of fiscal 2016 were noncash charges of $1,031 for depreciation and amortization and a net decrease in accounts receivable of $511 as well as a net increase in accounts payable of $990. These items were partially offset by a decrease in accrued expenses of $886.

Days' sales in accounts receivable decreased to 63 days at June 30, 2016 from 73 days at September 30, 2015 due to improved collections from certain customers and a 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 nine months of fiscal 2015 are non-cash charges of $1,069 for depreciation and amortization and a decrease in prepaid expenses of $146. These were offset by an increase in accounts receivable of $611 as well as a decrease in accrued expenses of $775 and accounts payable of $226

Investing activities used $837 in the first nine months of fiscal 2016 due to capital expenditures as compared to $666 in the first nine months of fiscal 2015. The investing activity in fiscal 2016 consisted of investments in computing infrastructure, building improvements and other capital improvements as well as equipment. The increase in capital expenditures in fiscal 2016 reflects the investments being made to support our growth initiatives as well as the investments to relocate our manufacturing and update our office and meeting space following the lease executed with Cook Biotech in fiscal 2015.

Financing activities provided $621 in the first nine months of fiscal 2016 as compared to cash used in financing activities of $1,005 for the first nine months of fiscal 2015. The main source of cash in the fiscal 2016 period was net borrowings on our line of credit of $1,465, partially offset by long-term debt and capital lease payments of $806. In the first nine months of fiscal 2015, we had long-term debt and capital lease payments of $803, as well as net payments on our line of credit of $202.

Capital Resources

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 includes both a term loan and a revolving loan and is secured by mortgages on our facilities in West Lafayette and Evansville, Indiana and liens on our personal property. As of December 31, 2015, we were not in compliance with certain financial covenants of the Agreement. Huntington Bank advised us that the failure to meet these financial covenants constituted an event of default under the Agreement and reserved all of its rights with respect thereto. As of March 31, 2016, we were also in default of the financial covenants covering the period then ended.

On April 27, 2016, the Company entered into a Forbearance Agreement and Second Amendment to Credit Agreement with Huntington Bank and on July 1, 2016, the Company entered into a Second Forbearance Agreement and Third Amendment to Credit Agreement (“Second Forbearance Agreement”) with Huntington Bank. Subject to the conditions set forth in the Second Forbearance Agreement, Huntington Bank agreed to continue 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 any further non-compliance with such covenants during the forbearance period ending September 30, 2016 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 to September 30, 2016, (ii) meet an additional financial covenant during the forbearance period; (iii) take commercially reasonable efforts to obtain financing sufficient to repay indebtedness under the Agreement in full upon the expiration of the forbearance period; (iv) periodically deliver to Huntington Bank certain financial and budget information during the forbearance period; and (v) engage a consultant for purposes of preparing a report to Huntington Bank evaluating various matters concerning the Company.

The Second Forbearance Agreement provided for immediate termination of the forbearance period upon the occurrence of, among other events, the failure of the Company to perform, observe or comply with the terms of the Second Forbearance Agreement. As of June 30, 2016, the Company was not in compliance with the additional financial covenant under the Second Forbearance Agreement, resulting in termination of the forbearance period. Huntington Bank has reserved its rights resulting from this default, but as of August 15, 2016, has not exercised any of its remedies. The available remedies include among others, the ability to accelerate and immediately demand payment of the outstanding debt under our term loan and revolving loan, to exercise its security interest, to take possession of or sell the underlying collateral, to refrain from making additional advances under the revolving loan, to increase interest accruing on the debt by five percent (5%) per annum over the otherwise applicable rate effective after receipt of written notice from Huntington Bank, and to terminate our interest rate swap.

The term loan for $5,500 bears interest at LIBOR plus 325 basis points with monthly principal payments of approximately $65 plus interest. We have made all required principal payments on the term loan. The balance on the term loan at June 30, 2016 and September 30, 2015 was $3,863 and $4,452, respectively. The revolving loan for $2,000 bears interest at LIBOR plus 300 basis points with interest paid monthly. The revolving loan also carries a facility fee of .25%, paid quarterly, for the unused portion of the revolving loan. The revolving loan includes an annual clean-up provision that requires the Company to maintain a balance of not more than 20% of the maximum loan of $2,000 for a period of 30 days in any 12 month period while the revolving loan is outstanding. The revolving loan balance was $1,551 and $86 at June 30, 2016 and September 30, 2015, respectively. Due to our default, Huntington Bank may accelerate the maturity of the term loan and the revolving loan and demand immediate payment.

Were Huntington Bank to demand payment of the outstanding debt (whether at or prior to the scheduled maturity of the loans on September 30, 2016), we would currently have insufficient funds to satisfy that obligation, and the bank's exercise of alternative remedies could also have a material adverse effect on our operations and financial condition. As an example, in recent periods we have drawn on our revolving facility to supplement cash from operations. Should cash from operating activities remain insufficient to cover expenses and if Huntington Bank determines to refrain from making additional advances under the revolving facility, we may not have the requisite funds to continue operations.

We cannot provide assurance that we will be able to complete initiatives to refinance our indebtedness or otherwise resolve our liquidity issues. If we are unable to execute on our initiatives, we may have insufficient funds to both satisfy our debt obligations and operate our business.

Interest Rate Swap

We entered into an interest rate swap agreement 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 are recorded in AOCI to the extent effective. We assess on an ongoing basis whether the derivative that is used in the hedging transaction is highly effective in offsetting changes in cash flows of the hedged debt. The Second Forbearance Agreement amended the terms of the interest rate swap to match the terms of the underlying debt resulting in no ineffectiveness.

Critical Accounting Policies

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

Revenue Recognition

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

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

Long-Lived Assets, Including Goodwill

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

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

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

The discount rate, gross margin and sales growth rates are the three material assumptions utilized in our calculations of the present value cash flows used to estimate the fair value of the reporting units when performing the annual goodwill impairment test. Our reporting units with goodwill at June 30, 2016 are bioanalytical services and preclinical services, which are both included in our Service segment, based on the discrete financial information available which is reviewed by management. We utilize a cash flow approach in estimating the fair value of the reporting units, where the discount rate reflects a weighted average cost of capital rate. The cash flow model used to derive fair value is sensitive to the discount rate and sales growth assumptions used.

Considerable management judgment is necessary to evaluate the impact of operating and macroeconomic changes and to estimate future cash flows. Assumptions used in our impairment evaluations, such as forecasted sales growth rates and our cost of capital or discount rate, are based on the best available market information. Changes in these estimates or a continued decline in general economic conditions could change our conclusion regarding an impairment of goodwill and potentially result in a non-cash impairment loss in a future period. The assumptions used in our impairment testing could be adversely affected by certain of the risks discussed in "Risk Factors" in Item 1A contained herein and in our 10-K for the fiscal year ended September 30, 2015. There have been no significant events since the timing of our impairment tests that have triggered additional impairment testing. At June 30, 2016, remaining recorded goodwill was $1,009.

Stock-Based Compensation

We recognize the cost resulting from all share-based payment transactions in our financial statements using a fair-value-based method. We measure compensation cost for all share-based awards based on estimated fair values and recognize compensation over the vesting period for awards. We recognized stock-based compensation related to stock options of $5 and $34 during the three and nine months ended June 30, 2016, respectively. We recognized stock-based compensation related to stock options of $19 and $67 during the three and nine months ended June 30, 2015, respectively.

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

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

Employee stock-based compensation expense recognized in the first nine months of fiscal 2016 and 2015 was calculated based on awards ultimately expected to vest and has been reduced for estimated forfeitures. Forfeitures are revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates and an adjustment will be recognized at that time.

Changes to our underlying stock price, our assumptions used in the binomial option valuation calculation and our forfeiture rate as well as future grants of equity could significantly impact compensation expense to be recognized in fiscal 2016 and future periods.

Income Taxes

As described in Note 7 to the condensed consolidated financial statements, we use the asset and liability method of accounting for income taxes. We recognize deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. We measure deferred tax assets and liabilities using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. We recognize the effect on deferred tax assets and liabilities of a change in tax rates in income in the period that includes the enactment date. We record valuation allowances based on a determination of the expected realization of tax assets.

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

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

As of June 30, 2016 and September 30, 2015, we had a $16 liability for uncertain income tax positions.

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 2010.

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

Inventories

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

Fair Value of Warrant Liability

In May 2011, we issued Class A and B Warrants measured at fair value on a recurring basis. We recorded these warrants as a liability determining the fair value at inception on May 11, 2011. Subsequent quarterly fair value measurements, using the Black Scholes model which is considered a level 2 fair value measurement, were calculated with fair value changes charged to the statement of operations and comprehensive income (loss). The Class B Warrants expired in May, 2012 and the liability was reduced to zero and the Class A Warrants expired in May, 2016 and the liability was reduced to zero. The fair value of the warrants exercised was $854. The following table sets forth the changes in the fair value of the warrant liability since inception:

Evaluation Date	Fair Value per Share		Fair Value in $$			Change in Fair Value
	Warrant A	Warrant B	Warrant A	Warrant B	Total	(Income) Expense
5/11/2011	$ 1.433	$ 0.779	$1,973	$ 1,072	$3,045	$ -
6/30/2011	1.536	0.811	2,114	1,116	3,230	185
9/30/2011	0.844	0.091	1,162	124	1,286	(1,944)
12/30/2011	0.901	0.074	1,240	102	1,342	56
3/30/2012	0.933	0.001	1,284	2	1,286	(56)
6/29/2012	0.602	-	828	-	828	(458)
9/28/2012	0.881	-	1,213	-	1,213	385
12/31/2012	0.796	-	1,096	-	1,096	(117)
3/28/2013	0.899	-	1,238	-	1,238	142
6/28/2013	0.668	-	920	-	920	(318)
9/30/2013	0.444	-	612	-	612	(308)
12/31/2013	1.396	-	1,573	-	1,573	961
3/31/2014	1.152	-	934	-	934	200
6/30/2014	1.067	-	852	-	852	(66)
9/30/2014	0.846	-	676	-	676	(160)
12/31/2014	0.696	-	556	-	556	(120)
3/31/2015	0.447	-	357	-	357	(199)
6/30/2015	0.404	-	323	-	323	(34)
9/30/2015	0.236	-	189	-	189	(134)
12/31/2015	0.124	-	100	-	100	(89)
03/31/2016	0.025	-	21	-	21	(79)
06/30/2016	-	-	-	-	-	(21)

Interest Rate Swap

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

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. The Company has not yet assessed the impact of the new guidance on its consolidated financial statements.

In August 2014, the FASB issued new guidance in Accounting Standards Update (ASU) No. 2014-15, “Presentation of Financial Statements – Going Concern (Subtopic 205-40).” The update provides guidance regarding management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to provide related footnote disclosures. The Company is required to adopt the guidance in the first quarter of fiscal 2017. We are currently evaluating the impact that this guidance will have on our consolidated financial statements.

In November 2014, the FASB issued new guidance in ASU No. 2014-16, “Derivatives and Hedging (Topic 815) – Determining whether the host contract in a hybrid financial instrument issued in the form of a share is more akin to debt or to equity.” The guidance clarifies how current GAAP should be interpreted in subjectively evaluating the economic characteristics and risks of a host contract in a hybrid financial instrument that is issued in the form of a share. The Company is required to adopt the guidance in the first quarter of fiscal 2017. We are currently evaluating the impact that this guidance will have on our consolidated financial statements.

In February 2015, the FASB amended guidance in ASU No. 2015-02, “Consolidation Topic 810.” The guidance made certain targeted revisions to various areas of the consolidation guidance, including the determination of the primary beneficiary of an entity, among others. The Company is required to adopt the guidance in the first quarter of fiscal 2017. We are currently evaluating the impact that this guidance will have on our consolidated financial statements.

In April 2015, the FASB amended the existing accounting standards for imputation of interest. The amendments require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by these amendments. The Company is required to adopt the guidance in the first quarter of fiscal 2017. Early adoption is permitted. The amendments should be applied retrospectively with the adjusted balance sheet of each individual period presented, in order to reflect the period-specific effects of applying the new guidance. The Company is currently evaluating the timing and the impact of these amendments on its consolidated financial statements.

In July 2015, the FASB issued an amendment to the accounting guidance related to the measurement of inventory. The amendment revises inventory to be measured at lower of cost and net realizable value from lower of cost or market. Subsequent measurement is unchanged for inventory measured using last-in, first-out (LIFO) or the retail inventory method. This guidance will be effective prospectively for the first quarter of fiscal 2018, with early application permitted. We are currently evaluating the impact that this guidance will have on our 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 the adoption and have not yet determined the impact the revised guidance will have on our consolidated financial statements and related disclosures.

ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4 - CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to provide reasonable assurance to our management and board of directors that information required to be disclosed in the reports we file or submit to the Securities and Exchange Commission is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based on an evaluation conducted under the supervision and with the participation of the Company’s management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2016, we, including our Chief Executive Officer and Chief Financial Officer, determined that those controls and procedures were effective as of June 30, 2016.

Changes in Internal Controls

There were no changes in our internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, during the third quarter of fiscal 2016 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II

ITEM 1A - RISK FACTORS

Before investing in our securities you should carefully consider the risks described below as well as the risks described in our Annual Report on Form 10-K for the year ended September 30, 2015, including those under the heading “Risk Factors” appearing in Item 1A of Part I of the Form 10-K, as well as other 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.

We are currently in default of our credit arrangements with Huntington Bank.

We are currently in default of our credit arrangements with Huntington Bank, as more fully described under "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Credit Facility." Huntington Bank has reserved all rights with respect to our default, including the ability to accelerate and immediately demand payment of the outstanding debt under our term loan and revolving loan, to exercise its security interest, to take possession of or sell the underlying collateral, to increase interest accruing on the debt, to refrain from making additional advances under the revolving loan, and to terminate our interest rate swap.

Were Huntington Bank to demand payment of the outstanding debt (whether at or prior to the scheduled maturity of the loans on September 30, 2016), we would currently have insufficient funds to satisfy that obligation, and the bank's exercise of alternative remedies could also have a material adverse effect on our operations and financial condition. As an example, in recent periods we have drawn on our revolving facility to supplement cash from operations. Should cash from operating activities remain insufficient to cover expenses and if Huntington Bank determines to refrain from making additional advances under the revolving facility, we may not have the requisite funds to continue operations.

We cannot provide assurance that we will be able to complete initiatives to refinance our indebtedness or otherwise resolve our liquidity issues. If we are unable to execute on our initiatives, we may have insufficient funds to both satisfy our debt obligations and operate our business.

If we are unable to refinance our indebtedness with Huntington Bank and were Huntington Bank to demand payment of such indebtedness, or in the event that we are otherwise unable to satisfy our financial obligations, we may face bankruptcy or insolvency, and may lack the financing to continue operations.

If we are unable to refinance the indebtedness under our credit facility and were Huntington Bank to demand payment of such indebtedness, or if we are unable to otherwise satisfy our financial obligations as they become due, we may find it necessary to file for protection under Chapter 11 of the U.S. Bankruptcy Code, and upon any such filing we are likely to require immediate access to funding in order to continue operations. Funding for the Company in bankruptcy cannot be assured, and would most likely be in the form of debtor-in-possession financing. We may be unable to find any lender willing to provide us with debtor-in-possession financing and any such financing that we are able to obtain would require approval by the bankruptcy court. If such financing is not available, then we may find it necessary to discontinue our operations. A bankruptcy filing by us would subject our business and operations to various additional risks, including the following:

- a bankruptcy filing and operating under bankruptcy protection would involve significant costs, including expenses of legal counsel and other professional advisors;

- transactions outside the ordinary course of business would be subject to the prior approval of the bankruptcy court, which might limit our ability to respond timely to certain events or take advantage of certain opportunities;

- we might be unable to retain key executives and employees through the process of reorganization;

- we may be unable to successfully develop, prosecute, confirm, and consummate a plan of reorganization that would be acceptable to the bankruptcy court and our creditors, equity holders, and other parties in interest; and

- our common stock may cease to be listed on a national securities exchange, which would make it difficult for stockholders to sell or accurately value our common stock.

Our credit facility difficulties could have an adverse impact on our business and increase our operating costs.

The fact that we are in default on our credit facility is likely to cause our customers and vendors to seek financial assurances from us before they are willing to continue doing business with us and they may instead choose to do business with our competitors. These circumstances may result in increased costs of our operations, thereby adversely affecting our results of operations. In addition, we may incur significant expenses in order to address our credit issues.

To resolve our credit issues, among other initiatives, we may explore the sale of certain assets. Any such sales would likely require cooperation from Huntington Bank, given the collateral and other restraints imposed by our credit arrangements. We cannot provide assurance that the terms of effectuated sales would favor us or how the loss of sold assets might impact our operations going forward.

Continued depressed revenues could have an adverse impact on our liquidity and our business in general.

During recent periods we have experienced depressed revenues as compared to historical levels. A significant portion of our costs are fixed. Thus, decreases in revenues lead to decreased margins, which in turn negatively impacts cash provided from operating activities. To supplement cash from operating activities, we have recently relied, and may in the future rely, on our cash balance and supplemental funds from our credit arrangements.

We cannot provide assurance that we will be able to satisfy our cash requirements from cash provided by operating activities on a go-forward basis. If our working capital needs and capital expenditure requirements exceed cash provided by operating activities, then we may again look to our cash balance and committed credit lines, if any, to satisfy those needs. As noted, Huntington Bank may refrain from making additional advances under our revolving loan. In addition, alternative financing sources may hesitate to enter into credit arrangements with us due in part to real and/or perceived difficulties in achieving revenue growth.

If we are unable to increase revenues or otherwise supplement the cash that would be derived therefrom, we may have difficulty meeting our obligations on a timely manner, if at all.

In the event that we are able to successfully refinance our debt, our borrowing costs may increase.

In the event that we are able to successfully refinance our debt, the relevant lender or lenders may require that we pay substantially higher interest and fees on our debt going forward. This may result in increased costs of our operations thereby adversely affecting our results of operations, and we cannot provide assurance that any higher interest or fees will be sustainable by us.

ITEM 6 - EXHIBITS

(a) Exhibits:

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

28

SIGNATURES

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

	BIOANALYTICAL SYSTEMS, INC. (Registrant)
Date: August 15, 2016	
	By: /s/ Jacqueline M. Lemke Jacqueline M. Lemke President and Chief Executive Officer
	BIOANALYTICAL SYSTEMS, INC. (Registrant)
Date: August 15, 2016	By: /s/ Jill C. Blumhoff Jill C. Blumhoff Chief Financial Officer and Vice President of Finance (Principal Financial Officer and Principal Accounting Officer)

29

EXHIBIT INDEX

Number		Description of Exhibits
(10)	10.1	Forbearance Agreement and Second Amendment to Credit Agreement between Bioanalytical Systems, Inc. and The Huntington Bank, executed April 27, 2016 (incorporated by reference to Exhibit 10.1 to Form 8-K, dated May 4, 2016).
	10.2	Second Forbearance Agreement and Third Amendment to Credit Agreement between Bioanalytical Systems, Inc. and The Huntington Bank, effective June 30, 2016 (filed herewith).
	10.3	Employment Agreement, by and between Bioanalytical Systems, Inc. and Jill C. Blumhoff effective May 13, 2016 (incorporated by reference to Exhibit 10.1 to Form 8-K , dated May 13, 2016).
	10.4	Employee Incentive Stock Option Agreement between Jill C. Blumhoff and Bioanalytical Systems, Inc., dated May 13, 2016 (filed herewith).
(31)	31.1	Certification of Chief Executive Officer (filed herewith).
	31.2	Certification of Chief Financial Officer (filed herewith).
(32)	32.1	Written Statement of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350) (filed herewith).
	32.2	Written Statement of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350) (filed herewith).
	101	XBRL data file (filed herewith).

30