

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

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended June 30, 2017

O R

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

Commission File Number 000-23357

BIOANALYTICAL SYSTEMS, INC.

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

INDIANA
(State or other jurisdiction of incorporation or organization)

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

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

47906
(Zip code)

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

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

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

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer (Do not check if a smaller reporting company) ☐
Smaller Reporting Company ☒ Emerging growth company ☐

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

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

As of August 10, 2017, 8,238,896 of the registrant's common shares were outstanding.

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

	<u>June 30, 2017</u>	<u>September 30, 2016</u>
	<u>(Unaudited)</u>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 919	\$ 386
Accounts receivable		
Trade, net of allowance of \$2,293 at June 30, 2017 and \$565 at September 30, 2016	2,059	1,649
Unbilled revenues and other	410	591
Inventories, net	1,064	1,453
Prepaid expenses	597	798
Total current assets	<u>5,049</u>	<u>4,877</u>
Property and equipment, net	15,207	16,136
Lease rent receivable	78	51
Goodwill	38	38
Other assets	23	27
Total assets	<u>\$ 20,395</u>	<u>\$ 21,129</u>
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	\$ 1,656	\$ 2,965
Restructuring liability	1,117	1,117
Accrued expenses	1,191	1,089
Customer advances	3,265	3,114
Income taxes payable	23	13
Revolving line of credit	256	1,358
Fair value of interest rate swap	-	35
Current portion of capital lease obligation	127	126
Current portion of long-term debt	224	3,656
Total current liabilities	<u>7,859</u>	<u>13,473</u>
Capital lease obligation, less current portion	101	198
Long-term debt, less current portion, net of debt issuance costs	4,208	-
Total liabilities	<u>12,168</u>	<u>13,671</u>
Shareholders' equity:		
Preferred shares, authorized 1,000,000 shares, no par value:		
1,035 Series A shares at \$1,000 stated value issued and outstanding at June 30, 2017 and 1,185 at September 30, 2016	1,035	1,185
Common shares, no par value:		
Authorized 19,000,000 shares; 8,238,896 issued and outstanding at June 30, 2017 and 8,107,558 at September 30, 2016	2,021	1,989
Additional paid-in capital	21,437	21,240
Accumulated deficit	(16,266)	(16,921)
Accumulated other comprehensive (loss) income	-	(35)
Total shareholders' equity	<u>8,227</u>	<u>7,458</u>
Total liabilities and shareholders' equity	<u>\$ 20,395</u>	<u>\$ 21,129</u>

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

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

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Service revenue	\$ 4,954	\$ 3,773	\$ 15,180	\$ 11,881
Product revenue	882	1,280	3,189	3,406
Total revenue	5,836	5,053	18,369	15,287
Cost of service revenue	3,308	3,183	10,604	9,838
Cost of product revenue	597	697	1,932	1,976
Total cost of revenue	3,905	3,880	12,536	11,814
Gross profit	1,931	1,173	5,833	3,473
Operating expenses:				
Selling	229	405	808	1,072
Research and development	127	103	340	392
General and administrative	1,238	1,030	3,699	3,165
Total operating expenses	1,594	1,538	4,847	4,629
Operating income (loss)	337	(365)	986	(1,156)
Interest expense	(112)	(107)	(322)	(243)
Decrease in fair value of warrant liability	-	21	-	189
Other income	2	1	4	2
Net income (loss) before income taxes	227	(450)	668	(1,208)
Income taxes	6	(17)	13	(15)
Net income (loss)	\$ 221	\$ (433)	\$ 655	\$ (1,193)
Other comprehensive income (loss):	6	(2)	35	(101)
Comprehensive income (loss)	\$ 227	\$ (435)	\$ 690	\$ (1,294)
Basic net income (loss) per share	\$ 0.03	\$ (0.05)	\$ 0.08	\$ (0.15)
Diluted net income (loss) per share	\$ 0.03	\$ (0.05)	\$ 0.08	\$ (0.15)
Weighted common shares outstanding:				
Basic	8,216	8,108	8,157	8,107
Diluted	8,748	8,108	8,720	8,107

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

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

	Nine Months Ended June 30,	
	2017	2016
Operating activities:		
Net income (loss)	\$ 655	\$ (1,193)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	1,303	1,031
Decrease in fair value of warrant liability	-	(189)
Employee stock compensation expense	13	34
Provision for doubtful accounts	-	(19)
(Gain)/Loss on disposal of property and equipment	(9)	12
Changes in operating assets and liabilities:		
Accounts receivable	(256)	511
Inventories	389	(10)
Income tax accruals	10	(18)
Prepaid expenses and other assets	201	14
Accounts payable	(1,309)	990
Accrued expenses	102	(886)
Customer advances	151	(7)
Net cash provided by operating activities	<u>1,250</u>	<u>270</u>
Investing activities:		
Capital expenditures	(213)	(837)
Proceeds from sale of equipment	8	-
Net cash used by investing activities	<u>(205)</u>	<u>(837)</u>
Financing activities:		
Payments of long-term debt	(3,666)	(589)
New borrowings on long-term debt	4,500	-
Payments of debt issuance costs	(214)	(41)
Proceeds from exercise of stock options	66	3
Payments on revolving line of credit	(11,166)	(7,832)
Borrowings on revolving line of credit	10,064	9,297
Payments on capital lease obligations	(96)	(217)
Net cash (used) provided by financing activities	<u>(512)</u>	<u>621</u>
Net increase in cash and cash equivalents	533	54
Cash and cash equivalents at beginning of period	<u>386</u>	<u>438</u>
Cash and cash equivalents at end of period	<u>\$ 919</u>	<u>\$ 492</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 180	\$ 196
Supplemental disclosure of non-cash financing activities:		
Conversion of preferred shares to common shares	\$ 150	\$ -
Equipment financed under capital leases	\$ -	\$ 303

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

BIOANALYTICAL SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands except per share data or as otherwise indicated)
(Unaudited)

1. DESCRIPTION OF THE BUSINESS AND BASIS OF PRESENTATION

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

We have prepared the accompanying unaudited interim condensed consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) regarding interim financial reporting. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles (“GAAP”), and, therefore, should be read in conjunction with our audited consolidated financial statements, and the notes thereto, included in the Company’s annual report on Form 10-K for the year ended September 30, 2016. Certain amounts in the fiscal 2016 consolidated financial statements have been reclassified to conform to the fiscal 2017 presentation without affecting previously reported net income or stockholders’ equity. In the opinion of management, the condensed consolidated financial statements for the three and nine months ended June 30, 2017 and 2016 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, 2017. The results of operations for the three and nine months ended June 30, 2017 may not be indicative of the results for the year ending September 30, 2017.

2. ARCHIVE REVENUES

In fiscal 2017, after a thorough review of its service contracts with customers, the Company instituted the practice of uniformly charging archive fees to clients where contracts allow. Historically, the Company’s practice of charging such fees was inconsistent.

Archive revenues include fees for: (1) the handling of records (pickup and delivery of records, addition of new records, and retrieval and refiling of records); (2) secure destruction of records; (3) secure shredding of sensitive documents; (4) other services, including the scanning, imaging and document conversion of active and inactive physical and digital records; and (5) the secure storage of records in a designated environmentally monitored, limited-access location.

In the first quarter of fiscal 2017, the Company began recognizing archive revenue when the following criteria are met: (1) persuasive evidence of a contractual arrangement exists; (2) the invoice price is fixed or determinable; (3) services have been rendered; and (4) collectability of the resulting receivable is reasonably assured. Amounts related to future archiving or prepaid archiving contracts for customers where archiving fees are billed in advance are accounted for as deferred revenue and recognized ratably over the period the applicable archive service is performed. Archiving revenues for services rendered prior to calendar year 2017 are currently recognized when payments are received. Archive revenue recognized for the three and nine months ended June 30, 2017 was \$216 and \$453, respectively. No archive revenue was recognized for the three and nine months ended June 30, 2016.

3. STOCK-BASED COMPENSATION

The Company’s 2008 Stock Option Plan (“the Plan”) is used to promote our long-term interests by providing a means of attracting and retaining officers, directors and key employees and aligning their interests with those of our shareholders. The Plan is described more fully in Note 10 in the Notes to the Consolidated Financial Statements in our Form 10-K for the year ended September 30, 2016. All options granted under the Plan had an exercise price equal to the market value of the underlying common shares on the date of grant. We expense the estimated fair value of stock options over the vesting periods of the grants. We recognize expense for awards subject to graded vesting using the straight-line attribution method, reduced for estimated forfeitures. Forfeitures are revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates and an adjustment is recognized at that time. The Compensation Committee may also issue non-qualified stock option grants with vesting periods different from the 2008 Plan. As of June 30, 2017, there are 15 shares underlying options outstanding that were granted outside of the Plan. The assumptions used are detailed in Note 10 to the Consolidated Financial Statements in our Form 10-K for the year ended September 30, 2016. Stock based compensation expense for the three and nine months ended June 30, 2017 was \$6 and \$13, respectively. Stock based compensation expense for the three and nine months ended June 30, 2016 was \$5 and \$34, respectively. Of the 67 options exercised in the current fiscal year, 17 were exercised through a cashless transaction.

A summary of our stock option activity for the nine months ended June 30, 2017 is as follows (in thousands except for share prices):

	Options (shares)	Weighted- Average Exercise Price	Weighted- Average Grant Date Fair Value
Outstanding - October 1, 2016	262	\$ 1.76	\$ 1.39
Exercised	(67)	\$ 1.25	\$ 1.03
Granted	—		
Terminated	(50)	\$ 2.11	\$ 1.75
Outstanding - June 30, 2017	<u>145</u>	<u>\$ 1.88</u>	<u>\$ 1.43</u>

4. INCOME (LOSS) PER SHARE

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

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. During the three and nine months ended June 30, 2017, 150 preferred shares (not in thousands) were converted to common shares via cashless conversion resulting in no effect on the diluted net income per share calculation.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
Basic net income (loss) per share:				
Net income (loss) applicable to common shareholders	\$ 221	\$ (433)	\$ 655	\$ (1,193)
Weighted average common shares outstanding	<u>8,216</u>	<u>8,108</u>	<u>8,157</u>	<u>8,107</u>
Basic net income (loss) per share	<u>\$ 0.03</u>	<u>\$ (0.05)</u>	<u>\$ 0.08</u>	<u>\$ (0.15)</u>
Diluted net income (loss) per share:				
Diluted net income (loss) applicable to common shareholders	\$ 221	\$ (433)	\$ 655	\$ (1,193)
Weighted average common shares outstanding	8,216	8,108	8,157	8,107
Plus: Incremental shares from assumed conversions:				
Series A preferred shares	518	—	555	—
Dilutive stock options/shares	14	—	8	—
Diluted weighted average common shares outstanding	<u>8,748</u>	<u>8,108</u>	<u>8,720</u>	<u>8,107</u>
Diluted net income (loss) per share	<u>\$ 0.03</u>	<u>\$ (0.05)</u>	<u>\$ 0.08</u>	<u>\$ (0.15)</u>

5. INVENTORIES

Inventories consisted of the following:

	June 30, 2017	September 30, 2016
Raw materials	\$ 836	\$ 1,190
Work in progress	221	267
Finished goods	229	284
	1,286	1,741
Obsolescence reserve	(222)	(288)
	<u>\$ 1,064</u>	<u>\$ 1,453</u>

6. SEGMENT INFORMATION

We operate in two principal segments - research services and research products. Our Services segment provides research and development support on a contract basis directly to pharmaceutical companies. Our Products segment provides liquid chromatography, electrochemical and physiological monitoring products to pharmaceutical companies, universities, government research centers and medical research institutions. Our accounting policies in these segments are the same as those described in the summary of significant accounting policies found in Note 2 to Consolidated Financial Statements in our annual report on Form 10-K for the year ended September 30, 2016.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
Revenue:				
Service	\$ 4,954	\$ 3,773	\$ 15,180	\$ 11,881
Product	882	1,280	3,189	3,406
	<u>\$ 5,836</u>	<u>\$ 5,053</u>	<u>\$ 18,369</u>	<u>\$ 15,287</u>
Operating income (loss):				
Service	\$ 512	\$ (364)	\$ 1,253	\$ (962)
Product	(175)	(1)	(267)	(194)
	<u>\$ 337</u>	<u>\$ (365)</u>	<u>\$ 986</u>	<u>\$ (1,156)</u>
Interest expense	(112)	(107)	(322)	(243)
Decrease in fair value of warrant liability	—	21	—	189
Other income	2	1	4	2
Income (loss) before income taxes	<u>\$ 227</u>	<u>\$ (450)</u>	<u>\$ 668</u>	<u>\$ (1,208)</u>

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, 2017 and September 30, 2016, we had a \$16 liability for uncertain income tax positions. The difference between the federal statutory rate of 34% and our effective rate of 1.95% for the first nine months of fiscal 2017 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 2011.

8. DEBT

Huntington Credit Facility

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

On April 27, 2016, the Company entered into a Forbearance Agreement and Second Amendment to Credit Agreement ("Forbearance 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. As of June 30, 2016, the Company was not in compliance with an additional financial covenant under the Second Forbearance Agreement, resulting in termination of the forbearance period thereunder. On September 30, 2016, the Company entered into a Third Forbearance Agreement and Fourth Amendment to Credit Agreement with Huntington Bank ("Third Forbearance Agreement"), on October 31, 2016, the Company entered into a Fourth Forbearance Agreement and Fifth Amendment to Credit Agreement ("Fourth Forbearance Agreement") and on January 31, 2017 the Company entered into a Fifth Forbearance Agreement and Sixth Amendment to Credit Agreement ("Fifth Forbearance Agreement") with Huntington Bank. Subject to the conditions set forth in the Fifth 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 a forbearance period ending July 31, 2017 and to continue to make advances under the Agreement.

In exchange for Huntington Bank's agreement to continue 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 July 31, 2017, (ii) take commercially reasonable efforts to obtain funds sufficient to repay the indebtedness in full upon the expiration of the forbearance period, (iii) provide to Huntington Bank certain cash flow forecasts and other financial information, (iv) comply with a minimum cash flow covenant, (v) continue to engage the services of the Company's financial consultant and cause the financial consultant to provide Huntington Bank such information regarding its efforts as Huntington Bank reasonably requests, and (vi) pay to Huntington Bank a forbearance fee in the amount of \$227, \$27 of which was paid at the execution of the Fifth Forbearance Agreement, with the remainder payable upon the first to occur of payment in full of the indebtedness under the Credit Agreement or July 14, 2017. The agreement provided that should the Company repay the indebtedness to Huntington Bank in full on or before July 14, 2017, the forbearance fee would be reduced by \$100. Because we believed that it was more likely than not that we would have to pay the full fee of \$200, we accrued for the fees from the Fifth Forbearance net of accumulated amortization in the Term loan, net of debt issuance costs on the condensed consolidated balance sheets in the second fiscal quarter of 2017. This accrual was reduced by \$100 in the third quarter of fiscal 2017 because the loan to Huntington was paid in full prior to July 14, 2017.

The Fifth 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 Fifth Forbearance Agreement. The available remedies in the event of a default by the Company included among others, the ability to accelerate and immediately demand payment of the outstanding debt under our term loan and revolving loan, to exercise on the 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.

We incurred \$10 of costs on September 30, 2016 related to the Third Forbearance Agreement that was amortized in the first quarter of fiscal 2017. We incurred \$17 of costs on November 1, 2016 related to the Fourth Forbearance Agreement that was amortized in the first and second quarters of fiscal 2017. We incurred \$29 of costs in February 2017 related to the Fifth Forbearance Agreement that was amortized in the second and third quarters of fiscal 2017.

Interest Rate Swap

We entered into an interest rate swap agreement with respect to the loans with Huntington Bank to fix the interest rate with respect to 60% of the value of the term loan at approximately 5.0%. We entered into this interest rate swap agreement to hedge interest rate risk of the related debt obligation and not to speculate on interest rates. The changes in the fair value of the interest rate swap were recorded in Accumulated Other Comprehensive Income to the extent effective. The interest rate swap was terminated as a result of the new credit facility described below and the balance was reduced to zero as of June 30, 2017.

New Credit Facility

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

The term loan for \$4,500 bears interest at a fixed rate of 3.99%, with monthly principal and interest payments of approximately \$33. The term loan matures in June 2022. The balance on the term loan at June 30, 2017 was \$4,500. The revolving line of credit for up to \$2,000 matures in June 2019 and bears interest at the Prime Rate (generally defined as the highest rate identified as the "Prime Rate" in The Wall Street Journal "Money Rates" column on the date the interest rate is to be determined, or if that date is not a publication date, on the publication date immediately preceding) less Twenty-five (25) Basis Points (0.25%). The balance on the revolving line of credit at June 30, 2017 was \$256. We must pay accrued and unpaid interest on the outstanding balance under the credit line on a monthly basis.

The Credit Agreement contains various restrictive covenants, including restrictions on the Company's ability to dispose of assets, make acquisitions or investments, incur debt or liens, make distributions to shareholders or repurchase outstanding stock, enter into related party transactions and make capital expenditures, other than upon satisfaction of the conditions set forth in the Credit Agreement. The Credit Agreement also requires us to maintain (i) a minimum debt service coverage ratio of not less than 1.20 to 1.00 for the quarters ending September 30, 2017 and December 31, 2017 and of not less than 1.25 to 1.0 for the quarters thereafter and (ii) beginning with the fourth quarter of fiscal 2017 ending September 30, 2017, a debt to equity ratio of not greater than 2.50 to 1.00 until maturity. Upon an event of default, which includes certain customary events such as, among other things, a failure to make required payments when due, a failure to comply with covenants, certain bankruptcy and insolvency events, and defaults under other material indebtedness, FIB may cease advancing funds, increase the interest rate on outstanding balances, accelerate amounts outstanding, terminate the agreement and foreclose on all collateral.

We incurred \$69 of costs in June 2017 related to the Credit Agreement that was partially amortized in the third fiscal quarter of 2017 with the remainder to be amortized through June 2022. For the three months ended June 30, 2017 and 2016, we amortized \$54 and \$48, respectively, into interest expense on the condensed consolidated statements of operations and comprehensive income (loss). For the nine months ended June 30, 2017 and 2016, we amortized \$157 and \$62, respectively, into interest expense on the condensed consolidated statements of operations and comprehensive income (loss). These noncash charges are included in depreciation and amortization on the consolidated statements of cash flows. As of June 30, 2017 and September 30, 2016, the unamortized portion of debt issuance costs related to our respective credit facilities was \$68 and \$10, respectively, and was included in Long-term Debt, less current portion on the condensed consolidated balance sheets.

9. ACCRUED EXPENSES

As part of a fiscal 2012 restructuring, we accrued for lease payments at the cease use date for our United Kingdom facility and have considered free rent, sublease rentals and the number of days it would take to restore the space to its original condition prior to our improvements. Based on these matters, we have a \$1,000 reserve for lease related costs. Additionally, we accrued \$117 for legal and professional fees and other costs to remove improvements previously made to the facility. At June 30, 2017 and September 30, 2016, respectively, we had \$1,117 reserved for the liability. The reserve is classified as a current liability on the Consolidated Balance Sheets.

10. 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 is still assessing 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 adopted the guidance in the first quarter of fiscal 2017 and added the required disclosures to the footnotes.

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 adopted this guidance in the first quarter of fiscal 2017 with no material impact on our condensed 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 area of the consolidation guidance, including the determination of the primary beneficiary of an entity, among others. The Company adopted the guidance in the first quarter of fiscal 2017 with no material impact on our condensed 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 adopted the guidance in the first quarter of fiscal 2017, presenting the remaining debt issuance costs at June 30, 2017 and September 30, 2016 of \$68 and \$10, respectively, as a reduction in the carrying amount of the long-term debt.

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 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 in our annual report on Form 10-K for the fiscal year ended September 30, 2016. 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

New Credit Facility

On June 23, 2017, we entered into a new Credit Agreement (the "Credit Agreement") with First Internet Bank of Indiana ("FIB"). The Credit Agreement includes both a term loan and a revolving line of credit and is secured by mortgages on our facilities and personal property in West Lafayette and Evansville, Indiana. We used the proceeds from the term loan to satisfy our indebtedness with Huntington Bank and terminated the related interest rate swap. During fiscal 2016 and throughout most of the first nine months of fiscal 2017, we had operated either in default of, or under forbearance arrangements with respect to, our credit agreements with Huntington Bank.

Business Overview

We are a 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 services segment is a direct beneficiary of these efforts, through outsourcing by these companies of research work. Our products segment is an indirect beneficiary of these efforts, as increased drug development leads to capital expansion, providing opportunities to sell the equipment we produce and the consumable supplies we provide that support our products.

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

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

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

While continuing to maintain and develop our relationships with large pharmaceutical companies, we intend to aggressively promote our services to developing businesses, which will require us to expand our existing capabilities to provide services early in the drug development process, and to consult with customers on regulatory strategy and compliance leading to their FDA filings. Our Enhanced Drug Discovery services, part of this strategy, utilizes our proprietary *Culex*® technology to provide early experiments in our laboratories that previously would have been conducted in the sponsor's facilities. As we move forward, we must balance the demands of the large pharmaceutical companies with the personal touch needed by smaller biotechnology companies to develop a competitive advantage. We intend to accomplish this balance 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 our existing capacity, sustained growth will require additional investment in future periods. Our financial position could limit our ability to make such investments.

Executive Summary

Our revenues are dependent upon 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 2017, we experienced a 27.8% increase in revenues in our Services segment and a 6.4% decrease in revenues in our Products segment as compared to the first nine months of fiscal 2016. Our Services revenue was positively impacted by increased preclinical services studies as well as our efforts to initiate archive revenues in the first nine months of fiscal 2017 versus the comparable period of fiscal 2016. The lower revenue in our Products segment was mainly due to decreased sales of analytical instruments and related consumables as compared to the prior-year period.

We review various metrics to evaluate our financial performance, including revenue, profit margins and earnings. Revenues increased approximately 20.2% and gross profit increased 67.9% in the first nine months of fiscal 2017 from the prior-year period. Operating expenses increased 4.7% in the first nine months of fiscal 2017 from the first nine months of fiscal 2016 due in large part to higher consulting costs. The increased revenues and margins contributed to the reported operating income of \$986 for the first nine months of fiscal 2017 compared to an operating loss of \$1,156 for the prior year period. For a detailed discussion of our revenue, margins, earnings and other financial results for the three and nine months ended June 30, 2017, see “Results of Operations” below.

As of June 30, 2017, we had \$919 of cash and cash equivalents as compared to \$386 of cash and cash equivalents at the end of fiscal 2016. In the first nine months of fiscal 2017, we generated \$1,250 in cash from operations as compared to \$270 in the first nine months of fiscal 2016. Total capital expenditures decreased from \$837 in the first nine months of fiscal 2016 to \$213 in the first nine months of fiscal 2017. In addition accounts payable and inventory decreased by \$1,309 and \$389, respectively. We had \$256 borrowed on our line of credit as of June 30, 2017.

The quarterly and year-to-date fiscal 2017 financial results reflect management's initiatives aimed at growing revenue, reducing costs and generating additional cash flow. We believe that our new Credit Agreement with FIB, as described in Recent Events, gives us the liquidity to continue to implement initiatives begun in fiscal 2017, including the use of distributor and reseller arrangements to boost sales in our Product business. During the remainder of fiscal 2017 and thereafter, we intend to increase our investment in product research and development and anticipate making investments in, among other areas, discovery and preclinical services. We have also recently welcomed the Company's founder as a scientific advisor to management and are looking to selectively add to our scientific and business development staff.

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

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,	
	2017	2016	2017	2016
Service revenue	84.9%	74.7%	82.6%	77.7%
Product revenue	15.1	25.3	17.4	22.3
Total revenue	100.0	100.0	100.0	100.0
Cost of Service revenue (a)	66.8	84.4	69.9	82.8
Cost of Product revenue (a)	67.7	54.4	60.6	58.0
Total cost of revenue	66.9	76.8	68.2	77.3
Gross profit	33.1	23.2	31.8	22.7
Total operating expenses	27.3	30.5	26.4	30.3
Operating income (loss)	5.8	(7.3)	5.4	(7.6)
Other income (expense)	(1.9)	(1.7)	(1.7)	(0.3)
Income (loss) before income taxes	3.9	(9.0)	3.7	(7.9)
Income taxes	0.1	(0.3)	0.1	(0.1)
Net Income (loss)	3.8%	(8.7)%	3.6%	(7.8)%

(a) Percentage of service and product revenues, respectively

Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016

Service and Product Revenues

Revenues for the quarter ended June 30, 2017 increased 15.5% to \$5,836 compared to \$5,053 for the same period last fiscal year.

Our Service revenue increased 31.3% to \$4,954 in the third quarter of fiscal 2017 compared to \$3,773 for the prior year period. Preclinical services revenues increased due to an overall increase in the number of studies from the prior year period. Other laboratory services revenues were positively impacted by higher pharmaceutical analysis revenues in the third quarter of fiscal 2017 versus the comparable period in fiscal 2016. Also, in fiscal 2017 we instituted the practice of uniformly charging archive fees to clients where contracts allow. Archive revenue added \$216 to Other laboratory services revenue in the third fiscal quarter of 2017. Bioanalytical analysis revenues declined due to fewer samples received and analyzed in the third quarter of fiscal 2017 and a mix favoring method development and validation projects during that time period, which generate lower revenue but involve more dedicated resources.

	Three Months Ended June 30,		Change	%
	2017	2016		
Bioanalytical analysis	\$ 1,086	\$ 1,121	\$ (35)	-3.2%
Preclinical services	3,143	2,405	738	30.7%
Other laboratory services	725	247	478	193.5%
	<u>\$ 4,954</u>	<u>\$ 3,773</u>	<u>\$ 1,181</u>	

Sales in our Products segment decreased 31.0% in the third quarter of fiscal 2017 from \$1,280 to \$882 when compared to the same period in the prior fiscal year. The majority of the decrease stems from lower sales of our Culex automated *in vivo* sampling systems as well as our analytical instruments over the same period in the prior fiscal year.

	Three Months Ended June 30,		Change	%
	2017	2016		
Culex, in-vivo sampling systems	\$ 383	\$ 550	\$ (167)	-30.5%
Analytical instruments	336	520	(184)	-35.4%
Other instruments	163	210	(47)	-22.4%
	<u>\$ 882</u>	<u>\$ 1,280</u>	<u>\$ (398)</u>	

Cost of Revenues

Cost of revenues for the third quarter of fiscal 2017 was \$3,905 or 66.9% of revenue, compared to \$3,880, or 76.8% of revenue for the prior-year period.

Cost of Service revenue as a percentage of Service revenue decreased to 66.8% during the third quarter of fiscal 2017 from 84.4% in the comparable period last fiscal year. The principal cause of this decrease was the increase in revenues, which led to higher absorption of the fixed costs in our Service segment. A significant portion of our costs of productive capacity in the Service segment are fixed. Thus, increases in revenues led to decreases in costs as a percentage of revenue.

Costs of Products revenue as a percentage of Products revenue in the third quarter of fiscal 2017 increased to 67.7% from 54.4% in the comparable prior year period. This increase is mainly due to the mix of sales favoring the lower-margin instruments in the current quarter.

Operating Expenses

Selling expenses for the three months ended June 30, 2017 decreased 43.4% to \$229 from \$405 for the comparable period last fiscal year. This decrease is mainly due to lower salaries and benefits from the loss of sales employees plus lower travel and consulting costs in the third fiscal quarter of 2017 compared to the same period in fiscal 2016.

Research and development expenses for the third quarter of fiscal 2017 increased 23.3% over the comparable period last fiscal year to \$127 from \$103. The increase was primarily due to higher consulting expenses in the current fiscal year.

General and administrative expenses for the third quarter of fiscal 2017 increased 20.2% to \$1,238 from \$1,030 for the comparable prior-year period. The principal reason for the increase was higher expenses for consulting services. The increase was partially offset by lower salaries and benefits expense from the departure of the former Chief Executive Officer and decreased spending for other outside services.

Other Income (Expense)

Other expense for the third quarter of fiscal 2017 was \$110 as compared to other expense of \$85 for the same quarter of the prior fiscal year. The primary reason for the change in expense was the decrease in the fair value of the warrant liability in the third fiscal quarter of 2016. The Class A warrants expired in May 2016.

Income Taxes

Our effective tax rate for the quarters ended June 30, 2017 and 2016 was 2.6% and 3.8%, respectively. The current year expense primarily relates to alternative minimum taxes and state income taxes.

Net Income (loss)

As a result of the factors described above, net income for the quarter ended June 30, 2017 amounted to \$221, compared to a net loss of \$433 in the comparable fiscal 2016 period.

Nine Months Ended June 30, 2017 Compared to Nine Months Ended June 30, 2016

Service and Product Revenues

Revenues for the nine months ended June 30, 2017 increased 20.2% to \$18,369 as compared to \$15,287 for the same period last fiscal year.

Our Service revenue increased 27.8% to \$15,180 in the first nine months of fiscal 2017 compared to \$11,881 for the prior fiscal year period. Preclinical services revenues increased due to an overall increase in the number of studies from the prior fiscal year period. Other laboratory services revenues were positively impacted by higher discovery and pharmaceutical analysis revenues in fiscal 2017 versus the comparable period in fiscal 2016. Also, in fiscal 2017 we instituted the practice of uniformly charging archive fees to clients where contracts allow. Archive revenue added \$453 to Other laboratory services revenue in fiscal 2017. Bioanalytical analysis revenues decreased due to fewer samples received and analyzed in fiscal 2017 in addition to a mix favoring method development and validation projects during this time period, which generate lower revenue but involve more dedicated resources.

	Nine Months Ended June 30,		Change	%
	2017	2016		
Bioanalytical analysis	\$ 3,646	\$ 4,130	\$ (484)	-11.7%
Preclinical services	9,789	7,167	2,622	36.6%
Other laboratory services	1,745	584	1,161	198.8%
	<u>\$ 15,180</u>	<u>\$ 11,881</u>	<u>\$ 3,299</u>	

Sales in our Product segment decreased 6.4% in the first nine months of fiscal 2017 from \$3,406 to \$3,189 when compared to the same period in the prior fiscal year. The majority of the decrease is derived from lower analytical instrument sales and related consumables in the first nine months of fiscal 2017.

	Nine Months Ended June 30,		Change	%
	2017	2016		
Culex, in-vivo sampling systems	\$ 1,654	\$ 1,483	\$ 171	11.5%
Analytical instruments	957	1,272	(315)	-24.8%
Other instruments	578	651	(73)	-11.2%
	<u>\$ 3,189</u>	<u>\$ 3,406</u>	<u>\$ (217)</u>	

Cost of Revenues

Cost of revenues for the first nine months of fiscal 2017 was \$12,536 or 68.2% of revenue, compared to \$11,814 or 77.3% of revenue for the prior fiscal year period.

Cost of Service revenue as a percentage of Service revenue decreased to 69.9% during the first nine months of fiscal 2017 from 82.8% in the comparable period last fiscal year. The principal cause of this decrease was the increase in revenues, which led to higher absorption of the fixed costs in our Service segment. A significant portion of our costs of productive capacity in the Service segment are fixed. Thus, increases in revenues led to decreases in costs as a percentage of revenue.

Cost of Product revenue as a percentage of Product revenue in the first nine months of fiscal 2017 increased to 60.6% from 58.0% in the comparable prior fiscal year period. This increase is mainly due to the mix of sales favoring the lower margin instruments and efforts to reduce inventory in the first nine months.

Operating Expenses

Selling expenses for the nine months ended June 30, 2017 decreased 24.6% to \$808 from \$1,072 for the comparable fiscal 2016 period. This decrease is mainly due to lower salaries and benefits from the loss of sales employees and lower consulting costs in fiscal 2017 compared to the same period in fiscal 2016, partially offset by higher commissions.

Research and development expenses for the first nine months of fiscal 2017 decreased 13.3% over the comparable fiscal 2016 period to \$340 from \$392. The decrease was primarily due to lower salaries and benefits from the loss of an employee in fiscal 2016 who was not immediately replaced.

General and administrative expenses for the first nine months of fiscal 2017 increased 16.9% to \$3,699 from \$3,165 for the comparable fiscal 2016 period. The principal reason for the increase was higher costs for consulting services. This increase was partially offset by decreased spending for other outside services.

Other Income (Expense)

Other expense for the first nine months of fiscal 2017 increased to \$318 from other expense of \$52 for the same period of fiscal 2016. The primary reason for the increase in expense is the change in the fair value of the warrant liability which expired in May 2016. Thus, no fair value changes were recorded in fiscal 2017. Also, interest expense increased \$79 in the first nine months of fiscal 2017 compared to the same period of fiscal 2016 due to the amortization of fees associated with our forbearance arrangements.

Income Taxes

Our effective tax rate for the nine months ended June 30, 2017 and 2016 was 1.95% and 1.2%, respectively. The current year expense primarily relates to alternative minimum taxes and state taxes.

Net Income (loss)

As a result of the factors described above, net income for the nine months ended June 30, 2017 amounted to \$655, compared to a net loss of \$1,193 in the comparable fiscal 2016 period.

Accrued Expenses

As part of a fiscal 2012 restructuring, we accrued for lease payments at the cease use date for our United Kingdom facility and have considered free rent, sublease rentals and the number of days it would take to restore the space to its original condition prior to our improvements. Based on these matters, we have a \$1,000 reserve for lease related costs. Additionally, we accrued \$117 for legal and professional fees and other costs to remove improvements previously made to the facility. At June 30, 2017 and September 30, 2016, respectively, we had \$1,117 reserved for the liability. The reserve is classified as a current liability on the Consolidated Balance Sheets.

Liquidity and Capital Resources

Comparative Cash Flow Analysis

At June 30, 2017, we had cash and cash equivalents of \$919, compared to \$386 at September 30, 2016.

Net cash provided by operating activities was \$1,250 for the nine months ended June 30, 2017 compared to cash provided by operating activities of \$270 for the nine months ended June 30, 2016. The increase in cash provided by operating activities in the first nine months of fiscal 2017 partially resulted from operating income versus an operating loss in the prior year period. Other contributing factors to our cash provided by operations in the first nine months of fiscal 2017 were noncash charges of \$1,303 for depreciation and amortization, a net increase in customer advances of \$151 and in accrued expenses of \$102 as well as a net decrease in inventory of \$389. These items were partially offset by a net increase in accounts receivable of \$256 and a net decrease in accounts payable of \$1,309.

Days' sales in accounts receivable decreased to 39 days at June 30, 2017 from 40 days at September 30, 2016 due to fewer extended 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 ongoing research and development projects.

Included in operating activities for the first nine months of 2016 are non-cash charges of \$1,031 for depreciation and a net decrease in accounts receivable of \$511 as well as an increase in accounts payable of \$990. These items were partially offset by a decrease in accrued expenses of \$886 and a decrease in the fair value of the warrant liability of \$189.

Investing activities used \$205 in the first nine months of fiscal 2017 due mainly to capital expenditures as compared to \$837 in the first nine months of fiscal 2016. The investing activity in fiscal 2017 consisted of investments in building improvements as well as laboratory and IT equipment and software.

Financing activities used \$512 in the first nine months of fiscal 2017, as compared to \$621 of proceeds during the first nine months of fiscal 2016. The main use of cash in the first nine months of fiscal 2017 was the payoff of the Huntington Bank long-term debt and line of credit. Total long-term debt and net line of credit payments were \$4,768. Capital lease payments of \$96 and payment of debt issuance costs of \$214 also used cash. These uses of cash were partially offset by \$4,500 of new borrowings from our new Credit Agreement with FIB. In the first nine months of fiscal 2016, we had long-term debt and capital lease payments of \$806, as well as net borrowings on our line of credit of \$1,465.

Capital Resources

New Credit Facility

On June 23, 2017, we entered into a new Credit Agreement (the "Credit Agreement") with First Internet Bank of Indiana ("FIB"). The Credit Agreement includes both a term loan and a revolving line of credit and is secured by mortgages on our facilities and personal property in West Lafayette and Evansville, Indiana. We used the proceeds from the term loan to satisfy our indebtedness with Huntington Bank and terminated the related interest rate swap. During fiscal 2016 and throughout most of the first nine months of fiscal 2017, we had operated either in default of, or under forbearance arrangements with respect to, our credit agreements with Huntington Bank.

The term loan for \$4,500 bears interest at a fixed rate of 3.99%, with monthly principal and interest payments of approximately \$33. The term loan matures in June 2022. The balance on the term loan at June 30, 2017 was \$4,500. The revolving line of credit for up to \$2,000 matures in June 2019 and bears interest at the Prime Rate (generally defined as the highest rate identified as the "Prime Rate" in The Wall Street Journal "Money Rates" column on the date the interest rate is to be determined, or if that date is not a publication date, on the publication date immediately preceding) less twenty-five (25) basis points (0.25%). The balance on the revolving line of credit at June 30, 2017 was \$256. We must pay accrued and unpaid interest on the outstanding balance under the credit line on a monthly basis.

The Credit Agreement contains various restrictive covenants, including restrictions on the Company's ability to dispose of assets, make acquisitions or investments, incur debt or liens, make distributions to shareholders or repurchase outstanding stock, enter into related party transactions and make capital expenditures, other than upon satisfaction of the conditions set forth in the Credit Agreement. The Credit Agreement also requires us to maintain (i) a minimum debt service coverage ratio of not less than 1.20 to 1.00 for the quarters ending September 30, 2017 and December 31, 2017 and of not less than 1.25 to 1.0 for the quarters thereafter and (ii) beginning with the fourth quarter of fiscal 2017 ending September 30, 2017, a debt to equity ratio of not greater than 2.50 to 1.00 until maturity. Upon an event of default, which includes certain customary events such as, among other things, a failure to make required payments when due, a failure to comply with covenants, certain bankruptcy and insolvency events, and defaults under other material indebtedness, FIB may cease advancing funds, increase the interest rate on outstanding balances, accelerate amounts outstanding, terminate the agreement and foreclose on all collateral.

The Company's sources of liquidity for the remainder of fiscal 2017 are expected to consist primarily of cash generated from operations, cash on-hand and, if needed, borrowings under our revolving credit facility. Management believes that the resources described above will be sufficient to fund operations, planned capital expenditures and working capital requirements over the next twelve months.

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. Our bioanalytical and preclinical research services contracts also contain charges for data storage (archive) services. Archive revenues include charges for related service activities, which include: (1) the handling of records, including the addition of new records, retrieval and temporary removal of records from storage, refiling of removed records and the secure destruction of records; (2) courier operations, consisting primarily of the pickup and delivery of records upon customer request; (3) secure shredding of sensitive documents; (4) other services, including the scanning, imaging and document conversion services of active and inactive records, which relate to physical and digital records; (5) customer termination and permanent removal fees; and (6) the secure storage of records in a designated limited-access location that is environmentally monitored.

Beginning in calendar year 2017, we began to recognize archive revenue when the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) services have been rendered; (3) the invoice price is fixed or determinable; and (4) collectability of the resulting receivable is reasonably assured. Archiving revenues are recognized in the month the service is provided, and customers are generally billed on a monthly basis on contractually agreed-upon terms. Amounts related to future archiving or prepaid archiving contracts for customers where archiving fees are billed in advance are accounted for as deferred revenue and recognized ratably over the period the applicable archive service is performed. For archiving revenues that were billed for services rendered prior to calendar year 2017, revenue is recognized when the invoice is paid by the customer.

Product revenue from sales of equipment not requiring installation, testing or training is recognized upon shipment to customers. One of our products 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.

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 \$6 and \$5 during the three months ended June 30, 2017 and 2016, respectively. Similarly, we recognized stock-based compensation expense related to stock options of \$13 and \$34 during the nine months ended June 30, 2017 and 2016, respectively.

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

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

Employee stock-based compensation expense recognized in the first three and nine months of fiscal 2017 and 2016 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.

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

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

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

As of June 30, 2017 and September 30, 2016, 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 2011.

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.

Interest Rate Swap

The Company used an interest rate swap designated as a cash flow hedge to fix the interest rate on 60% of its prior debt with Huntington Bank due to changes in interest rates. The changes in the fair value of the interest rate swap were recorded in Accumulated Other Comprehensive Income ("AOCI") to the extent effective. We assessed on an ongoing basis whether the derivative that was used in the hedging transaction was highly effective in offsetting changes in cash flows of the hedged debt. The terms of the interest rate swaps matched 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 would be discontinued and we would have reclassified gains or losses that were accumulated in AOCI to other income (expense), net on the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss). The interest rate swap was terminated as a result of the new credit facility described above and the balance was reduced to zero as of June 30, 2017.

Building Lease

The Lease Agreement with Cook Biotech, Inc. for a portion of the Company's headquarters facility is recorded as an operating lease with the escalating rents being recognized on a straight-line basis once the tenant took full possession of the space on May 1, 2015 through the end of the lease on December 31, 2024. The straight line rents of \$53 per month are recorded as a reduction to general and administrative expenses on the Consolidated Statements of Operations and Comprehensive Income (Loss) and other accounts receivable on the Consolidated Balance Sheets. The cash rent received is recorded in other accounts receivable on the Consolidated Balance Sheets. The variance between the straight line rents recognized and the actual cash rents received will net to zero by the end of the agreement on December 31, 2024.

ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4 - CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Management performs periodic evaluations to determine if our disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to management, including our acting principal executive officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure and are effective to provide reasonable assurance that such information is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms. An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report was performed under the supervision and with the participation of management, which resulted in a determination by our acting principal executive officer and Chief Financial Officer that our disclosure controls and procedures were effective as of June 30, 2017.

Changes in Internal Controls

There have been no other changes in the Company's internal control over financial reporting as of June 30, 2017, that have materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II

ITEM 1A - RISK FACTORS

Before investing in our securities you should carefully consider the risks described in our Annual Report on Form 10-K for the year ended September 30, 2016, 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.

ITEM 6 - EXHIBITS

(a) Exhibits:

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

SIGNATURES

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

BIOANALYTICAL SYSTEMS, INC.
(Registrant)

Date: August 14, 2017

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

Date: August 14, 2017

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

EXHIBIT INDEX

<u>Number</u>	<u>Description of Exhibits</u>
(10) 10.1	Credit Agreement between Bioanalytical Systems, Inc. and First Internet Bank, effective June 23, 2017 (filed herewith).
(31) 31.1	Certification of Acting Principal Executive Officer (filed herewith).
31.2	Certification of Chief Financial Officer (filed herewith).
(32) 32.1	Written Statement of Acting Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350) (filed herewith). .
32.2	Written Statement of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350) (filed herewith). .
101	XBRL data file (filed herewith).

CREDIT AGREEMENT

This Credit Agreement (the "Agreement") is entered into effective as of the 23rd day of June, 2017, by and between **BIOANALYTICAL SYSTEMS, INC.**, an Indiana corporation ("Borrower"), and **FIRST INTERNET BANK OF INDIANA**, an Indiana state bank ("Bank").

Section 1. Definitions.

Certain capitalized terms have the meanings set forth on Exhibit 1 hereto or in the Security Agreement. All financial terms used in this Agreement but not defined on Exhibit 1 or in the Security Agreement have the meanings given to them by generally accepted accounting principles. All other undefined terms have the meanings given to them in the Indiana Uniform Commercial Code.

Section 2. Loans.

2.1. Revolving Credit Loans. (a) Subject to the term and conditions of this Agreement, Bank hereby extends or continues to extend to Borrower a revolving line of credit facility (the "Facility") under which Bank shall make loans (the "Revolving Loans") to Borrower at Borrower's request from time to time during the term of this Agreement in an aggregate amount not to exceed Two Million and No/100 Dollars (\$2,000,000.00). Borrower may, from time to time, borrow, repay (without penalty or charge), and reborrow under the Facility, provided that the principal amount of all Revolving Loans outstanding at any one time under the Facility will not exceed Two Million and No/100 Dollars (\$2,000,000.00) (the "Revolving Loan Availability"). If the amount of Revolving Loans outstanding at any time under the Facility exceeds the Revolving Loan Availability, Borrower will, upon request, immediately pay the amount of such excess to Bank in cash. In the event Borrower fails to pay such excess following any such request, Bank may, in its discretion, setoff such amount against Borrower's accounts at Bank, if any, and, if such excess is not satisfied by such setoff, declare an Event of Default.

(b) Borrower may request a Revolving Loan by written or telephone notice to Bank. Bank will make Revolving Loans by crediting the amount thereof to Borrower's account at Bank, if any, or as otherwise directed by Borrower and approved by Bank. Loan proceeds will be used for general business purposes.

(c) On the date hereof, Borrower shall issue and deliver to Bank a Promissory Note in the form of Exhibit 2.1 (the "Revolving Note"), in the principal amount of Two Million and No/100 Dollars (\$2,000,000.00), bearing interest and repayable as specified in the Revolving Note.

(d) The term of the Facility will expire on June 23, 2019, and the Revolving Note will become payable in full on that date.

(e) On the date hereof, Borrower shall pay to Bank, for Bank's sole account in immediately available funds, a non-refundable loan fee associated with the Facility in the amount of Two Thousand and No/100 Dollars (\$2,000.00).

2.2. Term Loan. (a) Subject to the terms and conditions hereof, Bank shall make to Borrower a term loan (the "Term Loan") on the date hereof in an aggregate amount of Four Million Five Hundred Thousand and No/100 Dollars (\$4,500,000.00). The unpaid principal balance, together with all accrued but unpaid interest and reimbursable expenses, shall be payable in accordance with the terms of the Term Loan as evidenced by a Term Loan Note (the "Term Note") to be issued by Borrower to Bank as of the date of this Agreement with a final maturity date of June 23, 2022, and otherwise in substantially the form of Exhibit 2.2.

(b) The proceeds of the Term Loan will be used to refinance existing debt with The Huntington Bank and for general business purposes.

(c) Borrower shall have the right to prepay the principal of the Term Loan in accordance with the provisions and prepayment penalties set forth in the Term Note. Early principal payments will not, unless agreed to by Bank in writing, relieve Borrower of Borrower's obligation to continue to make regular monthly payments required by the Term Note. Rather, early payments will reduce the principal balance due and may result in Borrower's making fewer payments. Borrower agrees not to send Bank payments marked "paid in full", "without recourse" or similar language. If Borrower sends such a payment, Bank may accept it without losing any of Bank's rights under the Term Note, and Borrower will remain obligated to pay any further amount owed to Bank.

(d) On the date hereof, Borrower shall pay to Bank, for Bank's sole account in immediately available funds, a loan fee associated with the Term Loan in the amount of Five Thousand and No/100 Dollars (\$5,000.00).

Section 3. Representations And Warranties.

Borrower, to its knowledge, hereby warrants and represents to Bank the following:

3.1. Organization and Qualification. Borrower is a duly organized and validly existing corporation in good standing under the laws of the State of Indiana, has the necessary corporate power and authority to carry on its business and to enter into and perform this Agreement, the Notes and the other Loan Documents, is qualified and licensed to do business in each jurisdiction in which the failure to have such qualification would have a materially adverse effect on the Borrower. All information provided to Bank with respect to Borrower and its operations is true and correct in all material respects.

3.2. Due Authorization. The execution, delivery and performance by Borrower of this Agreement, the Security Agreement, the Notes and the other Loan Documents have been duly authorized by all necessary corporate action of Borrower, and will not contravene any law or any governmental rule or order binding on Borrower, or the Articles of Incorporation or By-Laws of Borrower, nor violate any agreement or instrument by which Borrower is bound nor result in the creation of a Lien on any assets of Borrower except the Lien granted to Bank herein. Borrower has duly executed and delivered this Agreement, the Security Agreement, the Mortgage, the Notes and the other Loan Documents and they are valid and binding obligations of Borrower enforceable according to their respective terms except as limited by equitable principles and by bankruptcy, insolvency or similar laws affecting the rights of creditors generally. No notice to or consent by any governmental body is needed in connection with this transaction.

3.3. Litigation. Except as disclosed on **Exhibit 3.3** attached, there are no suits or proceedings pending or overtly threatened in writing against Borrower or its assets, and no proceedings before any governmental body are pending or overtly threatened in writing against Borrower, which in any case, if adversely determined, would have a material adverse effect on Borrower.

3.4. Margin Stock. No part of the Loans will be used to purchase or carry, or to reduce or retire or refinance any credit incurred to purchase or carry, any margin stock (within the meaning of Regulations U and X of the Board of Governors of the Federal Reserve System) or to extend credit to others for the purpose of purchasing or carrying any margin stock.

3.5. Licenses, etc. Borrower has obtained any and all licenses, permits, franchises, governmental authorizations, patents, trademarks, copyrights or other rights necessary for the ownership of its properties and the conduct of its business, except to the extent the failure to have obtained any of the foregoing would not result in a material adverse effect on Borrower. Borrower possesses adequate licenses, patents, patent applications, copyrights, trademarks, trademark applications, and trade names to continue to conduct its business as heretofore conducted by it, without any conflict with the rights of any other person or entity. All of the foregoing are in full force and effect and none of the foregoing are in known conflict with the rights of others.

3.6. Laws and Taxes. Borrower is in compliance in all material respects with all laws, regulations, rulings, orders, injunctions, decrees, conditions or other requirements applicable to or imposed upon Borrower by any law or by any governmental authority, court or agency. Borrower has filed all required tax returns and reports that are now required to be filed by it in connection with any federal, state and local tax, duty or charge levied, assessed or imposed upon Borrower or its assets, including unemployment, social security, and real estate taxes, except where the failure to file such tax returns or reports would not reasonably be expected to have a material adverse effect on Borrower. Borrower has paid all taxes which are now due and payable, other than any such taxes as are being contested by Borrower in good faith and by appropriate proceedings and for which adequate reserves have been set aside on Borrower's books to the extent required by GAAP. Except as disclosed in **Exhibit 3.6** attached, no taxing authority has asserted or assessed any additional tax liabilities against Borrower which are outstanding on the date of this Agreement, and Borrower has not filed for any extension of time for the payment of any tax or the filing of any tax return or report.

3.7. Financial Condition. All historical financial information relating to Borrower which has been or may hereafter be delivered by Borrower or on its behalf to Bank is or when delivered will be true and correct in all material respects and, in all material respects, has been or will be prepared in accordance with consistently applied sound accounting principles. Borrower has no material obligations or liabilities of any kind not disclosed in that financial information, and, since the submission of the most recent financial information to Bank, there has been no material adverse change in the financial condition of Borrower nor has Borrower suffered any damage, destruction or loss which has adversely affected its business or assets.

3.8. Title. Borrower has good and marketable title to, or the right to use under valid leases, the assets reflected on the most recent balance sheet submitted to Bank, free and clear from all liens and encumbrances of any kind, except for: (a) liens securing (i) current taxes and assessments not yet due and payable or (ii) taxes being contested by Borrower in good faith and by appropriate proceedings for which adequate reserves have been set aside on Borrower's books to the extent required by generally accepted accounting principles, (b) liens and encumbrances, if any, reflected or noted on such balance sheet or notes thereto, (c) assets disposed of in the ordinary course of business, (d) any security interests, pledges, assignments or mortgages granted to Bank to secure the repayment or performance of the Obligations, (e) non-consensual statutory liens (other than liens securing the payment of taxes) arising in the ordinary course of Borrower's business (including such liens in favor of landlords, warehousemen and mechanics and similar liens) to the extent such liens secure Indebtedness or other obligations relating to claims or liabilities which are being contested in good faith by appropriate proceedings, in each case prior to the commencement of foreclosure or other similar proceedings and with respect to which adequate reserves have been set aside on its books in accordance with GAAP, (f) zoning restrictions, easements, licenses, covenants and other restrictions affecting the use of real property which do not interfere in any material respect with the use of such real property or ordinary conduct of the business of Borrower thereon or materially impair the value of the real property which may be subject thereto, (g) purchase money security interests in equipment (including capital leases), (h) pledges and deposits of cash by Borrower in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security benefits, and (i) liens and encumbrances as disclosed on **Exhibit 3.8** attached hereto (collectively, the "Permitted Liens").

3.9. Defaults. Except as specifically disclosed in writing to Bank, Borrower is in compliance in all material respects with all material agreements applicable to it and there does not now exist any default or violation by Borrower of or under any of the terms, conditions or obligations of (a) its Articles of Incorporation or By-Laws, or (b) any indenture, mortgage, deed of trust, franchise, permit, contract, agreement or other instrument to which Borrower is a party or by which it is bound, which would have a material adverse effect on Borrower and the Guarantor taken as a whole, and the consummation of the transactions contemplated by this Agreement will not result in such default or violation.

3.10. Environmental Laws. (a) Borrower has obtained all material permits, licenses and other authorizations or approvals which are required under Environmental Laws and except as disclosed in **Exhibit 3.10** attached, Borrower is in compliance in all material respects with all terms and conditions of the required permits, licenses, authorizations and approvals, and is also in compliance in all material respects with all other limitations, restrictions, conditions, standards, prohibitions, requirements, obligations, schedules and timetables contained in the Environmental Laws.

(a) None of Borrower's executive officers is aware of, and Borrower has not received written notice of, any past, present or future events, conditions, circumstances, activities, practices, incidents, actions or plans which may reasonably be expected to interfere with or prevent compliance or continued compliance, in any material respect, with Environmental Laws, or may reasonably be expected to give rise to any material common law or legal liability, or otherwise form the basis of any material claim, action, demand, suit, proceeding, hearing, study or investigation, based on or related to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling or the emission, discharge, release or threatened release into the environment, of any pollutant, contaminant, chemical, or industrial, toxic or hazardous substance or waste.

(b) There is no civil, criminal or administrative action suit, demand, claim, hearing, notice or demand letter, notice of violation, investigation or proceeding pending or overtly threatened in writing against Borrower, relating in any way to Environmental Laws.

3.11. Subsidiaries and Partnerships. Borrower has no subsidiaries other than Entity Guarantor and is not a party to any partnership agreement or joint venture agreement.

3.12. ERISA. To Borrower's knowledge, Borrower and all individuals or entities along with Borrower that would be treated as a single employer under ERISA or the Internal Revenue Code of 1986, as amended (an "ERISA Affiliate"), are in compliance with all of their obligations to contribute to any "employee benefit plan" as that term is defined in Section 3(3) of ERISA and any regulations promulgated thereunder from time to time. To Borrower's knowledge, Borrower and each of its ERISA Affiliates are in compliance, in all material respects, with ERISA, and there exists no event described in Section 4043(b) thereof ("Reportable Event").

3.13. USA Patriot Act. Borrower represents and warrants that neither Borrower nor any of its affiliates is a country, individual or entity named on the Specifically Designated National and Blocked Persons (SDN) list issued by the Office of Foreign Asset Control of the Department of the Treasury of the United States of America.

Section 4. Affirmative Covenants.

4.1. Books and Records. Borrower will maintain proper books of account and records and enter therein complete and accurate entries and records of all of its transactions in accordance with GAAP and give representatives of Bank access thereto at least once in each calendar year, with such access to be granted upon reasonable prior notice and during ordinary business hours. During such examination bank may examine, copy and make abstracts from any such books and records and such other information which might be helpful to Bank in evaluating the status of the Loans. All inspections not taking place during the existence of an Event of Default shall be at Bank's expense. At least once annually, Borrower will give Bank reasonable access upon reasonable prior notice to the Collateral and the other property securing the Obligations for the purpose of performing examinations thereof and to verify its condition or existence.

4.2. Financial Statements. Borrower will maintain a standard and modern system for accounting and, so long as any of the Obligations remains unpaid, will furnish to Bank:

(a) As soon as publically available in regulatory filings with the Securities and Exchange Commission, the Form 10-K consolidated financial statements of Borrower and its subsidiaries as of the last day of and for the fiscal year then ended.

(b) Not later than December 31st of each year, commencing December 31, 2017, an audited balance sheet, operating statement, and cash flow statement for Borrower. Such financial statements shall be prepared in accordance with GAAP consistently applied unless otherwise specifically noted therein.

(c) Within forty-five (45) days after the end of each of the first three fiscal quarters of each fiscal year, commencing with the quarter ending June 30, 2017, Borrower shall provide interim internally-prepared consolidated financial statements of Borrower and its subsidiaries, including but not limited to, the financial statements required to be filed with the SEC as part of Borrower's Form 10-Q report, an AR aging report, an AP aging report and a backlog report;

(d) Within forty-five (45) days after the end of each of the first three fiscal quarters of each fiscal year, and within one hundred twenty (120) days of the end of each fiscal year, commencing with the fiscal year ending September 30, 2017, Borrower will provide a compliance certificate in form satisfactory to Bank;

(e) Such other financial information reasonably requested by the Bank from time to time.

4.3. Condition and Repair. Borrower will maintain its assets in good repair and working order, except for ordinary wear and tear and obsolescence and will make all appropriate repairs and replacements thereof.

4.4. Insurance. Borrower will insure its properties and business against loss or damage of the kinds and in the amounts customarily insured against by companies of similar size with established reputations engaged in the same or similar business as Borrower, and as otherwise required pursuant to the terms of the Security Agreement. All such policies will (a) be issued by financially sound and reputable insurers, (b) name Bank as an additional insured and, where applicable, as loss payee and mortgagee under a lender loss payable endorsement satisfactory to Bank, and (c) Borrower will make commercially reasonable efforts to cause such policy to provide for not less than thirty (30) days written notice to Bank before such policy is altered or canceled all of which will be evidenced by such certificates, declarations or other documentation satisfactory to Bank in Bank's sole discretion and delivered to Bank by Borrower on the date of execution of this Agreement.

4.5. Taxes. Borrower will pay when due all taxes, assessments and other governmental charges imposed upon it or its assets, franchises, business, income or profits before any penalty or interest accrues thereon, and all claims (including, without limitation, claims for labor, services, materials and supplies) for sums which by law might be a lien or charge upon any of its assets, provided that (unless any material item or property would be lost, forfeited or materially damaged as a result thereof) no such charge or claim need be paid if it is being diligently contested in good faith, if Bank is notified in advance of such contest and if Borrower establishes an adequate reserve or other appropriate provision required by GAAP.

4.6. Existence; Business. Borrower will (a) maintain its existence, (b) engage primarily in business of the same general character as that now conducted, and (c) refrain from entering into any lines of business substantially different from the business or activities in which Borrower is presently engaged.

4.7. Compliance with Laws. Borrower will comply in all material respects with all federal, state and local laws, regulations and orders applicable to Borrower or its assets including but not limited to all Environmental Laws, in all respects material to Borrower's business or assets and will promptly, but in any event within seven (7) calendar days, notify Bank of any violation of any rule, regulation, statute, ordinance, order or law relating to the public health or the environment and of any complaint or notifications received by Borrower relating to any environmental or safety and health rule, regulation, statute, ordinance or law.

4.8. Notice of Default. Borrower will, within seven (7) calendar days of its knowledge thereof, give written notice to Bank of (a) the occurrence of any Event of Default, and (b) the occurrence of any event or the existence of any condition which would prohibit Borrower from continuing to make the representations set forth in this Agreement.

4.9. Costs. Borrower will pay to Bank its reasonable fees, costs and expenses, including, without limitation, reasonable attorneys' fees, other professionals' fees, appraisal fees, environmental assessment fees, expert fees, court costs, litigation and other expense (collectively, "Costs") incurred or paid by Bank in connection with administering and enforcing the Loans and the Loan Documents and the defense, preservation and protection of Bank's rights and remedies thereunder, including without limitation, its security interest in the Collateral or any other property pledged to secure the Loans, whether incurred in bankruptcy, insolvency, foreclosure or other litigation or proceedings or otherwise. The Costs will be due and payable within five (5) days of written demand by Bank. If Borrower fails to pay the Costs upon such demand, Bank is entitled to exercise any remedies set forth herein for nonpayment and may disburse such sums as an advance under the Revolving Loan. Thereafter, the Costs will bear interest from the date incurred or disbursed at the rate set forth in the Notes. This provision will survive the termination of this Agreement and/or the repayment of any amounts due or the performance of any Obligation.

4.10. Other Amounts Deemed Loans. If Borrower fails to pay any tax, assessment, governmental charge or levy or to maintain insurance within the time permitted or required by this Agreement, or to discharge any Lien prohibited hereby, or to comply with any other Obligation, Bank may, but shall not be obligated to, pay, satisfy, discharge or bond the same for the account of Borrower, and to the extent permitted by law and at the option of Bank, all monies so paid by Bank on behalf of Borrower will be deemed Loans and Obligations.

4.11. Depository. Borrower shall maintain its primary deposit accounts with the Bank.

Section 5. Negative Covenants.

5.1. Indebtedness. Without the written consent of Bank, Borrower will not incur, create, assume or permit to exist any additional Indebtedness for borrowed money (other than the Obligations) or Indebtedness on account of deposits, advances or progress payments under contracts, notes, bonds, debentures or similar obligations or other indebtedness evidenced by notes, bonds, debentures, capitalized leases or similar obligations except (a) Indebtedness not in excess of \$100,000 at any one time outstanding, (b) purchase money Indebtedness (including capital leases) to the extent secured by purchase money security interests in equipment (including capital leases) and, upon the prior written consent of Bank, purchase money mortgages on real property so long as such security interests and mortgages do not apply to any property of Borrower other than the equipment or real property so acquired, and the Indebtedness secured thereby does not exceed the cost of the equipment or real property so acquired, as the case may be, (c) Indebtedness in the form of deposits or advances from customers pursuant to contracts (including purchaser orders) for services to be performed by Borrower in the ordinary course of business, and (d) other Indebtedness approved in writing by the Bank.

5.2. Prepayments. Borrower will not voluntarily prepay any Indebtedness owing by Borrower prior to one month in advance of the stated maturity date thereof other than (i) the Obligations and (ii) Indebtedness to trade creditors where the prepayment will result in a discount on the amount due.

5.3. Leases. Borrower will not enter into any lease of real property, as lessee, without prior written approval by Bank.

5.4. Restricted Payments. Borrower will not purchase or redeem any shares of the capital stock of Borrower or declare or pay any dividends thereon or make any other distributions to shareholders, except for dividends payable entirely in capital stock and stock repurchases in compliance with benefit plans in existence or hereafter adopted by Borrower.

5.5. Pledge or Encumbrance of Assets. Other than the Permitted Liens, Borrower will not create, incur, assume or permit to exist, arise or attach any Lien in any present or future asset, except for (i) Liens to Bank; (ii) purchase money security interests securing Indebtedness permitted pursuant to Section 5.1; (iii) any Lien or deposit with any governmental agency required or permitted to qualify Borrower to conduct business or exercise any privilege, franchise or license, or to maintain self-insurance or to obtain the benefits of or secure obligations under any law pertaining to worker's compensation, unemployment insurance, old age pensions, social security or similar matters, or to obtain any stay or discharge in any legal or administrative proceedings, or any similar lien or deposit arising in the ordinary course of business; (iv) Liens for taxes and governmental charges which are not yet due or which are being contested in good faith and by appropriate proceedings and for which appropriate reserves have been established to the extent required by GAAP; and (v) Liens imposed by law which secure amounts not at the time due and payable.

5.6. Guarantees and Loans. Borrower will not enter into any direct or indirect guarantees other than (a) by endorsement of checks for deposit, and (b) guarantees in favor of Bank. Borrower will not, other than in the ordinary course of business, make any advance or loan, including, without limitation, loans and advances to employees of Borrower.

5.7. Merger; Disposition of Assets. Without the prior written consent of Bank, which consent shall not be unreasonably withheld, Borrower will not (a) change its capital structure, (b) merge or consolidate with any company, (c) amend or change its Articles of Incorporation or By-Laws without the Bank's consent, or (d) sell, transfer or otherwise dispose of all or any substantial part of its assets, whether now owned or hereafter acquired.

5.8. Transactions with Affiliates. Without the prior written consent of Bank, which consent shall not be unreasonably withheld, Borrower will not (a) directly or indirectly issue any guarantee for the benefit of any of its Affiliates, other than guarantees of the obligations of Entity Guarantor to customers or suppliers in the ordinary course of business not to exceed \$500,000 in the aggregate, (b) directly or indirectly make any loans or advances to or investments in any of its Affiliates other than Entity Guarantor, (c) enter into any transaction with any of its Affiliates, other than transactions entered into on an arm's length basis in the normal course of Borrower's business, or (d) divert (or permit anyone to divert) any of its business opportunities to any Affiliate or any other corporate or business entity in which Borrower or its members or members of its Board of Directors holds a direct or indirect interest, other than Entity Guarantor.

5.9. Government Regulation. Borrower shall not (a) be or become subject at any time to any law, regulation or list of any government agency (including, without limitation, the U.S. Office of Foreign Asset Control list) that prohibits or limits Bank from making any advance or extension of credit to Borrower or from otherwise conducting business with Borrower, or (b) fail to provide documentary and other evidence of Borrower's identity as may be requested by Bank at any time to enable Bank to verify Borrower's identity or to comply with any applicable law or regulation, including, without limitation, Section 326 of the USA Patriot Act of 2001, 31 U.S.C. Section 5318.

5.10. Financial Covenants.

(a) Borrower shall not permit the Minimum Debt Service Coverage Ratio, tested quarterly and measured on a trailing twelve (12) month basis, to be less than the applicable ratio set forth below:

- (i) 1.20 to 1.0, for the quarters ending September 30, 2017 and December 31, 2017; and
- (ii) 1.25 to 1.0, for the quarter ending March 31, 2018 and each quarter thereafter.

The Minimum Debt Service Coverage Ratio means, for any computation period, the ratio of: (a) the sum of Borrower's (i) consolidated pre-tax net income for such period plus (ii) consolidated interest expense for such period, plus (iii) consolidated amortization expense during such period, plus (iv) consolidated depreciation expense during such period, plus (v) consolidated stock compensation expense during such period, plus (vi) forbearance fees and unscheduled principal reductions applied to the Borrower's refinanced debt with The Huntington National Bank paid or applied during such period, less (vii) distributions/dividends paid by Borrower in cash during such period, less (viii) consolidated unfunded capital expenditure expenses during such period, divided by (b) the sum of Borrower's (i) scheduled or required principal and interest payments during such period, plus (ii) consolidated cash interest payments during such period.

(b) Beginning with the fiscal quarter ending September 30, 2017, the Debt to Equity Ratio shall not exceed 2.50 to 1.00, tested at the end of each fiscal quarter.

The Debt to Equity Ratio means, for any computation period, the ratio of: (a) Borrower's total liabilities, divided by (b) Borrower's total equity.

Section 6. Events of Default and Remedies.

6.1. Events of Default. Any of the following events will be an event of default ("Event of Default"):

(a) any representation or warranty made by Borrower herein or in any of the Loan Documents is materially incorrect when made or reaffirmed; provided, however, upon notice from Bank to Borrower of such materially incorrect representation or warranty, Borrower shall have a thirty (30) day grace period to cause such representation to be true and accurate; or

(b) Borrower fails to pay within 5 days of when due any principal or interest on any Obligation; or

(c) Borrower fails to observe or perform any covenant, condition or agreement herein (other than as provided in Subsection 6.1(b)) above) or in any other Loan Document and fails to cure such default within thirty (30) days of the occurrence thereof. Notwithstanding the foregoing, no such cure period shall apply to any failure to maintain insurance, or any breach in any negative covenant set forth in Section 5 hereof; or

(d) a court enters a decree or order for relief with respect to Borrower in an involuntary case under any applicable bankruptcy, insolvency or other similar law then in effect, or appoints a receiver, liquidator, assignee, custodian, trustee, sequestrator (or other similar official) of Borrower or for any substantial part of its respective property, or orders the wind-up or liquidation of its affairs; or a petition initiating an involuntary case under any such bankruptcy, insolvency or similar law is filed and is pending for sixty (60) days without dismissal; or

(e) Borrower commences a voluntary case under any applicable bankruptcy, insolvency or other similar law in effect, or makes any general assignment for the benefit of creditors, or fails generally to pay its debts as such debts become due, or takes company action in furtherance of any of the foregoing; or

(f) Borrower defaults under the terms of any Indebtedness or lease involving total payment obligations of Borrower in excess of \$100,000, and such default gives any creditor or lessor the right to accelerate the maturity of any such indebtedness or lease payments which right is not contested by Borrower or is determined by any court of competent jurisdiction to be valid; or

(g) final non-appealable and uninsured judgment of the payment of money in excess of \$100,000 is rendered against Borrower and remains undischarged for sixty (60) days during which execution is not effectively stayed; or

(h) an Event of Default occurs under any Loan Document; or

(i) the dissolution or liquidation of Borrower or any Entity Guarantor; or

(j) the commencement of any foreclosure proceedings, proceedings in aid of execution, attachment actions, levies against, or the filing by any taxing authority of a lien against any of the Collateral or any property securing the repayment of any of the Obligations, which, in each case, remains undismissed for thirty (30) days; or

(k) the loss, theft or substantial damage to a material portion of the Collateral or any property securing the repayment of the Obligations if the result of such occurrence will likely result in, in Bank's reasonable judgment, the failure or inability of Borrower to continue substantially normal operation of its business within thirty (30) days of the date of such occurrence; or

(l) (i) the validity or effectiveness of any of the Loan Documents or its transfer, grant, pledge, mortgage or assignment by the party executing such Loan Document is impaired by the Borrower or any Guarantor; (ii) any Borrower or Guarantor executing any of the Loan Documents asserts that any of such Loan Documents is not a legal, valid and binding obligation of the party thereto enforceable in accordance with its terms; or (iii) the security interest or Lien purporting to be created by any of the Loan Documents, due to any act of the Borrower or any Guarantor, ceases to be a valid, perfected lien subject to no other liens other than Permitted Liens; or

(m) (i) a Reportable Event (as defined in ERISA) occurs with respect to any employee benefit plan maintained by Borrower for its employees and such Reportable Event (as defined in ERISA) is likely to have a material adverse effect on Borrower; provided that no Event of Default shall occur if the Reportable Event is caused solely by a decrease in employment; or (ii) a trustee is appointed by a United States District Court to administer any employee benefit plan; or (iii) the Pension Benefit Guaranty Corporation institutes proceedings to terminate any of Borrower's employee benefit plans; or

(n) other than Permitted Liens, the filing of any lien or charge against any of the Collateral for any amount in excess of \$100,000, which is not removed to the satisfaction of Bank within a period of sixty (60) days thereafter; or

(o) the abandonment by Borrower of all or any material part of the Collateral.

6.2. Remedies. If any Default occurs, Bank may cease advancing money hereunder. If any Event of Default occurs, Bank may (i) declare all Obligations to be immediately due and payable, whereupon such Obligations will immediately become due and payable, (ii) exercise any and all rights and remedies provided by applicable law and the Loan Documents, (iii) proceed to realize upon the Collateral or any property securing the Obligations, including, without limitation, causing all or any part of the Collateral to be transferred or registered in its name or in the name of any other person, firm or corporation, with or without designation of the capacity of such nominee, all without presentment, demand, protest or notice of any kind, each of which are hereby expressly waived by Borrower. Borrower shall be liable for any deficiency remaining after disposition of any Collateral, and waives all valuation and appraisal laws.

6.3. Setoff. If any Event of Default has occurred, Bank is authorized, without notice to Borrower, to offset and apply to all or any part of the Obligations all monies, credits and other property of any nature whatsoever of Borrower now or at any time hereafter in the possession of, in transit to or from, under the control or custody of, or on deposit with (whether held by Borrower individually or jointly with another party) Bank, including but not limited to certificates of deposit.

6.4. Default Rate. After the occurrence of an Event of Default, all amounts of principal outstanding as of the date of the occurrence of such Event of Default will accrue interest at the Default Rate, in Bank's sole discretion, without notice to Borrower. This provision does not constitute a waiver of any Events of Default or an agreement by Bank to permit any late payments whatsoever.

6.5. Late Payment Fee. If any payment of principal is not paid when due (whether at maturity, by acceleration or otherwise after the expiration of any applicable notice, grace and cure periods), Borrower agrees to pay to Bank a late payment fee equal to five percent (5%) of the payment amount then due.

6.6. No Remedy Exclusive. No remedy set forth herein is exclusive of any other available remedy or remedies, but each is cumulative and in addition to every other remedy available under this Agreement, the Loan Documents or as may be now or hereafter existing at law, in equity or by statute. Borrower waives any requirement of marshaling of assets which may be secured by any of the Loan Documents.

6.7. Effect of Termination. The termination of this Agreement will not affect any rights of either party or any obligation of either party to the other, arising prior to the effective date of such termination, and the provisions hereof shall continue to be fully operative until all transactions entered into, rights created or Obligations incurred prior to such termination have been fully disposed of, concluded or liquidated. The security interest, lien and rights granted to Bank hereunder and under the Loan Documents will continue in full force and effect, notwithstanding the termination of this Agreement or the fact that no Loans are outstanding to Borrower, until all of the Obligations, have been paid in full.

Section 7. Conditions Precedent.

7.1. Conditions to Initial Loans. Bank will have no obligation to make or advance any Loan until Borrower has delivered to Bank at or before the closing date, in form and substance satisfactory to Bank:

- (a) Executed version of the Term Note, together with a completed and executed Disbursement Directions Letter regarding the initial disbursement under the Term Loan.

- (b) Executed version of the Revolving Note.
- (c) Executed version of this Agreement.
- (d) A Certificate of Borrower, together with all attachments thereto.
- (e) A Certificate of Entity Guarantor, together with all attachments thereto.
- (f) An executed version of the Security Agreement for Borrower, together with a Grant of Security Interest in Trademarks and Grant of Security Interest in Copyrights.
- (g) An executed version of the Security Agreement for Entity Guarantor.
- (h) An executed version of the Mortgage, Security Agreement, Assignment of Rents and Leases and Fixture, executed by Borrower, creating a first lien on Premises #1, securing the Term Loan.
- (i) An executed version of the Mortgage, Security Agreement, Assignment of Rents and Leases and Fixture, executed by Entity Guarantor, creating a first lien on Premises #2, securing the Term Loan.
- (j) An executed version of the Mortgage, Security Agreement, Assignment of Rents and Leases and Fixture, executed by Borrower, creating a second lien on Premises #1, securing the Facility.
- (k) An executed version of the Mortgage, Security Agreement, Assignment of Rents and Leases and Fixture, executed by Entity Guarantor, creating a second lien on Premises #2, securing the Facility.
- (l) Mortgagor's Affidavit executed by Borrower related to Premises #1.
- (m) [intentionally omitted].
- (n) Environmental Indemnity Agreement executed by Borrower and Guarantor related to Premises #1 and Premises #2.
- (o) All appropriate financing statements (Form UCC-1).
- (p) UCC searches, insurance certificates, notices or other documents -which Bank may require to reflect, perfect or protect Bank's first and/or second priority lien, as applicable, in the Collateral and all other property pledged to secure the Obligations and to fully consummate this transaction.
- (q) All requisite releases of liens, termination statements and satisfactions necessary to release all liens and encumbrances against the Collateral and any other property pledged to secure the Loans and all requisite waivers and subordination agreements, in a form satisfactory to Bank, to be executed and delivered by Borrower's landlords, lenders, and mortgagees which are necessary to grant Bank a first lien in the Collateral, including but not limited to all business assets of Borrower and each Entity Guarantor.

- (r) A Guaranty Agreement executed by Entity Guarantor.
 - (s) Proof of insurance with respect to the Borrower, its assets and the Real Estate and in a form reasonably satisfactory to Bank:
 - (i) Commercial general public liability insurance in such an amount and with such deductibles as are customary for similar borrowers;
 - (ii) Flood Insurance if the Real Estate is located in an area designated as a special flood hazard area by any governmental authority having jurisdiction over the Real Estate; and
 - (iii) Such other insurance coverages as ordinarily insured against by other borrowers with such liabilities or such properties in similar businesses.
- All policies of insurance required to be maintained by Borrower shall be issued by companies reasonably satisfactory to Bank and shall have coverages and endorsements and be written for such amounts in accordance with the above. All policies of insurance shall (x) name Bank as mortgagee, lender loss payable or additional insured, as the case may require, and (y) provide that the policies may not be canceled or modified without thirty days (or, in the case of non-payment of premiums, 10 days) prior written notice to Bank.
- (t) Completed documentation in compliance with the Patriot Act by Borrower and Entity Guarantor.
 - (u) Two (2) copies of a survey (the "Survey") for Premises #1, prepared and certified by a registered surveyor licensed in Indiana in 2014 in compliance with the minimum detail requirements in existence at the time of certification for an ALTA/ACSM Survey, including, without limitation: the boundaries and legal descriptions of the Real Estate; the location of all existing improvements on the Land; the area of the Real Estate in acres (to the nearest one one-hundredth of an acre); the location of all set-back lines, rights-of-way, easements and public utilities; the location of all abutting roadways, streets, and alleys; the location of utility services and storm drain and sewer facilities; and showing any encroachments by improvements on the Land over easements or adjoining property and showing any encroachments from adjoining property onto the Real Estate. All matters shown on the Survey must be reasonably acceptable to Bank.
 - (v) An ALTA Loan Policy of Title Insurance issued by the Title Company insuring that the Mortgage of Premises #1 will be a prior first lien upon the fee simple title to the Real Estate, subject to no liens, claims, exceptions or encumbrances except the Permitted Encumbrances (as defined in the Mortgage) and containing the following endorsements:

- (i) Comprehensive Endorsement Form 9;
- (ii) Access Endorsement;
- (iii) Environmental Lien Endorsement;
- (iv) Tax Parcel Endorsement; and
- (v) Such additional endorsements as may be reasonably required by Bank based upon its review of the Title Policy and Survey.
- (w) A title search prepared by the Title Company related to Premises #2;
- (x) Opinion letter from counsel for Borrower and Entity Guarantor in a form reasonably satisfactory to Bank covering customary matters;
- (y) Appraisals prepared by an appraiser or appraisers satisfactory to Bank and indicating that the fair market value of the Real Estate, collectively, is not less than Ten Million and No/100 Dollars (\$10,000,000.00).
- (z) Such other assignments, certificates, opinions and other documents, instruments and information affecting or relating to Bank's interest in the Collateral securing the Loan as Lender may reasonably require.

Section 8. Miscellaneous Provisions.

8.1. Miscellaneous. This Agreement, the exhibits and the other Loan Documents are the complete agreement of the parties hereto and supersede all previous understandings relating to the subject matter hereof. This Agreement may be amended only in writing signed by the party against whom enforcement of the amendment is sought. This Agreement may be executed in counterparts. If any part of this Agreement is held invalid, illegal or unenforceable, the remainder of this Agreement will not in any way be affected. This Agreement is and is intended to be a continuing agreement and will remain in full force and effect until the Loans are finally and irrevocably paid in full and terminated.

8.2. Waiver by Borrower. Borrower waives notice of non-payment, demand, presentment, protest or notice of protest of any Accounts or other Collateral, and all other notices (except those notices specifically provided for in this Agreement); consents to any renewals or extensions of time of payment thereof; and generally waives any and all suretyship defenses and defenses in the nature thereof.

8.3. Binding Effect. This Agreement will be binding upon and inure to the benefit of the respective legal representatives, successors and assigns of the parties hereto; however, Borrower may not assign or transfer any of its rights or delegate any of its Obligations under this Agreement or any of the Loan Documents, by operation of law or otherwise. Bank (and any subsequent assignee) may, upon prior notice to Borrower, transfer and assign any of its rights or delegate any of its duties under this Agreement or may transfer or assign partial interests or participation in the Loans to other persons. Bank may disclose to all prospective and actual assignees and participants all financial, business and other information about Borrower which Bank may possess at any time; provided that any such prospective or actual assignees or participants agree in writing prior to any such disclosure to be bound by the provisions of Section 8.13 of this Agreement.

8.4. Subsidiaries. If Borrower has any additional Subsidiaries at any time during the term of this Agreement, the term "Borrower" in each representation, warranty and covenant herein will mean "Borrower" and each Subsidiary individually and in the aggregate, and Borrower will cause each Subsidiary to be in compliance therewith.

8.5. Security. The Obligations are secured as provided in this Agreement, the Security Agreements, the Mortgages, and the Loan Documents and in each other document or agreement which by its terms secures the repayment or performance of the Obligations.

8.6. Survival. All representations, warranties, covenants and agreements made by Borrower herein and in the Loan Documents will survive the execution and delivery of this Agreement, the Loan Documents and the issuance of the Notes.

8.7. Delay or Omission. No delay or omission on the part of Bank in exercising any right, remedy or power arising from any Event of Default will impair any such right, remedy or power or any other right remedy or power or be considered a waiver or any right, remedy or power or any Event of Default nor will the action or omission to act by Bank upon the occurrence of any Event of Default impair any right, remedy or power arising as a result thereof or affect any subsequent Event of Default of the same or different nature.

8.8. Notices. Any notices under or pursuant to this Agreement will be deemed duly sent when delivered in hand when deposited in the U.S. mail postage prepaid, or sent by overnight courier addressed as follows:

To Borrower: Bioanalytical Systems, Inc.
2701 Kent Avenue
West Lafayette, Indiana 47906
Attention: Chief Financial Officer

With a copy to (which shall not constitute notice):

Ice Miller LLP
One American Square, 29th Floor
Indianapolis, Indiana 46282
Attention: Stephen J. Hackman, Esq.

To Bank: First Internet Bank of Indiana
11201 USA Parkway
Fishers, Indiana 46037
Attention: Trina McWilliams

With a copy to (which shall not constitute notice):

Krieg DeVault LLP
12800 North Meridian Street, Suite 300
Carmel, Indiana 46032
Attention: Nicole Finelli, Esq.

Either party may change such address by sending written notice of the change to the other party.

8.9. No Partnership. Nothing contained herein or in any of the Loan Documents is intended to create or will be construed to create any partnership, joint venture or other relationship between Bank and Borrower other than as expressly set forth herein or therein and will not create any joint venture, partnership or other relationship.

8.10. Indemnification. If after receipt of any payment of all or part of the Obligations, Bank is for any reason compelled to surrender such payment to any person or entity, because such payment is determined to be void or voidable as a preference, impermissible setoff, or diversion of trust funds, or for any other reason, this Agreement will continue in full force and effect and Borrower will be liable to, and will indemnify, save and hold Bank, its officers, directors, attorneys, and employees harmless of and from the amount of such payment surrendered. The provisions of this Section will be and remain effective notwithstanding any contrary action which may have been taken by Bank in reliance on such payment, and any such contrary action so taken will be without prejudice to Bank's rights under this Agreement and will be deemed to have been conditioned upon such payment becoming final, indefeasible and irrevocable. In addition, Borrower will indemnify, defend, save and hold Bank, its officers, directors, attorneys and employees harmless of, from and against all claims, demands, liabilities, judgments, losses, damages, costs and expenses, joint or several (including all accounting fees and attorneys' fees reasonably incurred), that Bank or any such indemnified party may incur arising out of this Agreement, any of the Loan Documents or any act taken by Bank hereunder provided such action is either permitted or authorized under the Loan Documents and/or applicable law except for the illegal activities, willful misconduct or gross negligence of such indemnified party. The provisions of this Section will survive the termination of this Agreement.

8.11. Depository Account Acknowledgment. Borrower and Bank severally, each for itself, acknowledges and agrees that, except as provided herein with respect to Borrower's obligation to maintain depository account(s) (if any) with Bank, the extension(s) of credit provided for herein are neither conditioned upon nor have the interest rates and fees therefor been set based upon Borrower's agreement to purchase any other product or service from Bank. Further, Borrower and Bank severally, each for itself, acknowledges and agrees that Bank has not offered these extension(s) of credit or offered to reduce the interest rate(s) or fee(s) therefor except as provided herein.

8.12. Governing Law; Jurisdiction. This Agreement, the Notes and the other Loan Documents will be governed by the domestic laws of the State of Indiana. Borrower agrees that the state and federal courts in Marion County, Indiana, or any other court in which Bank initiates proceedings have exclusive jurisdiction over all matters arising out of this Agreement, and that service of process in any such proceeding will be effective if mailed to Borrower at its address described in the Notices section of this Agreement. BANK AND BORROWER HEREBY WAIVE THE RIGHT TO TRIAL BY JURY OF ANY MATTERS ARISING OUT OF THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

8.13. Confidentiality.

(a) Bank shall keep confidential, in accordance with its customary procedures for handling confidential information and safe and sound lending practices and consistent with its practices with respect to its own confidential information, any non-public written information supplied to it by Borrower pursuant to this Agreement; provided, that, nothing contained herein shall limit the disclosure of any such information: (i) to the extent required by statute, rule, regulation, subpoena or court order, (ii) to bank examiners and other regulators, auditors and/or accountants, in connection with any litigation to which Bank is a party, or (iii) to counsel for Bank.

(b) In the event that Bank receives a request or demand to disclose any confidential information pursuant to any subpoena or court order, Bank agrees (i) to the extent permitted by applicable law, Bank will promptly notify Borrower of such request so that Borrower may seek a protective order or other appropriate relief or remedy and (ii) if disclosure of such information is required, disclose such information and, subject to reimbursement by Borrower of Bank's expenses, cooperate with Borrower in the reasonable efforts to obtain an order or other reliable assurance that confidential treatment will be accorded to such portion of the disclosed information which Borrower so designates.

(c) In no event shall this Section 8.13 or any other provision of this Agreement be deemed: (i) to apply to or restrict disclosure of information that has been or is made public by Borrower or any third party or otherwise becomes generally available to the public other than as a result of a disclosure in violation hereof, (ii) to apply to or restrict disclosure of information that was or becomes available to Bank on a non-confidential basis from a person other than Borrower or a person Bank has actual knowledge has provided such information to Bank in violation of a binding agreement regarding the confidentiality of such information with Borrower or its subsidiaries, and (iii) to require Bank to return any materials furnished by Borrower to Bank. The obligations of Bank under this Section 8.13 shall supersede and replace the obligations of Bank under any confidentiality letter signed prior to the date hereof.

[SIGNATURE PAGE — CREDIT AGREEMENT]

IN WITNESS WHEREOF, Borrower and Bank have executed this Agreement by their duly authorized officers as of the date first above written,

BIOANALYTICAL SYSTEMS, INC.

By: /s/ Jill C. Blumhoff
Jill C. Blumhoff, Chief Financial Officer, VP Finance

FIRST INTERNET BANK OF INDIANA

By: /s/ Katrina McWilliams
Katrina McWilliams, Vice President

**EXHIBITS
TO
CREDIT AGREEMENT
BETWEEN
BIOANALYTICAL SYSTEMS, INC.
AND
FIRST INTERNET BANK OF INDIANA**

Exhibit 1	-	Definitions
Exhibit 2.1	-	Revolving Note
Exhibit 2.2	-	Term Note
Exhibit 3.3	-	Litigation Disclosure
Exhibit 3.6	-	Laws and Taxes Disclosure
Exhibit 3.8	-	Permitted Liens
Exhibit 3.10	-	Environmental Disclosure

EXHIBIT 1

DEFINITIONS

- "Account Debtor" means the party which is obligated on or under any Account.
- "Affiliates" shall mean any entity which is 10% owned by Borrower, or Entity Guarantor.
- "Collateral" shall mean the "collateral" as defined in the Security Agreement, together with the Real Estate.
- "Default" or "default" means a default (without regard to grace or cure periods) under any contract or agreement that with the passage of time could mature into an Event of Default.
- "Default Rate" means four percent (4%) in excess of the interest rate otherwise in effect under amounts outstanding under the Notes. In no event will the interest rate accruing under such Notes be increased to be in excess of the maximum interest rate permitted by applicable state or federal usury laws then in effect.
- "Entity Guarantor" means BAS Evansville, Inc.
- "Environmental Laws" means all federal, state, local and foreign laws relating to pollution or protection of the environment, including laws relating to emissions, discharges, releases or threatened releases of pollutants, contaminants, chemicals, or industrial toxic or hazardous substances or wastes into the environment (including without limitation ambient air, surface water, ground water or land), or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, chemicals or industrial, toxic or hazardous substances or wastes, and any and all regulations, codes, plans, orders, decrees, judgments, injunctions, notices or demand letters issued, entered promulgated or approved thereunder.
- "Environmental Reports" has the meaning set forth on Exhibit 3.10.
- "ERISA" means the Federal Employee Retirement Income Security Act of 1974.
- "Event(s) of Default" will have the meaning set forth in Section 6.1 of the Agreement.
- "Facility" will have the meaning set forth in Section 2.1 of the Agreement.
- "GAAP" means generally accepted accounting principles as in effect from time to time.
- "Guarantors" means the Entity Guarantor and any additional guarantor added from time to time, collectively.

- "Indebtedness" means (a) all items (except items of capital surplus, of general contingency reserves or of retained earnings, deferred income taxes, and amount attributable to minority interests, if any) which in accordance with GAAP would be included in determining total liabilities on a consolidated basis as shown on the liability side of a balance sheet as at the date as of which Indebtedness is to be determined, (b) all indebtedness secured by any mortgage, pledge, lien or conditional sale or other title retention agreement to which any property or asset owned or held is subject, whether or not the indebtedness secured thereby will have been assumed (excluding non-capitalized leases which may amount to title retention agreements but including capitalized leases), and (c) all indebtedness of others which Borrower or any Subsidiary or any Affiliate has directly or indirectly guaranteed, endorsed (otherwise than for collection or deposit in the ordinary course of business), discounted or sold with recourse or agreed (contingently or otherwise) to purchase or repurchase or otherwise acquire, or in respect of which Borrower or any Subsidiary has agreed to apply or advance funds (whether by way of loan, stock purchase, capital contribution or otherwise) or otherwise to become directly or indirectly liable.
- "knowledge" means to the actual knowledge of any of the executive officers of Borrower or Entity Guarantor, as the context requires.
- "Lien" means any security interest, mortgage, pledge, assignment, lien or other encumbrance of any kind, including interests of vendors or lessors under conditional sale contracts and capitalized leases.
- "Loan Documents" means this Agreement, the Notes, the Security Agreement, the Mortgage, and every other document or agreement executed by any party evidencing, guarantying or securing any of the Obligations; and "Loan Document" means any one of the Loan Documents.
- "Loans" means the Term Loan and the Revolving Loans.
- "Mortgage(s)" means individually or collectively as the context requires, (i) the Mortgage, Security Agreement, Assignment of Rents and Leases and Fixture Filing, executed by Borrower, creating a first lien on Premises #1, securing the Term Loan, (ii) the Mortgage, Security Agreement, Assignment of Rents and Leases and Fixture Filing, executed by Entity Guarantor, creating a first lien on Premises #2, securing the Term Loan, (iii) the Mortgage, Security Agreement, Assignment of Rents and Leases and Fixture Filing, executed by Borrower, creating a second lien on Premises #1, securing the Facility, and (iv) the Mortgage, Security Agreement, Assignment of Rents and Leases and Fixture Filing, executed by Entity Guarantor, creating a second lien on Premises #2, securing the Facility.
- "Notes" means the Term Note and Revolving Note, together with any renewals, amendments and extensions thereof.
- "Obligation(s)" means all loans, advances, indebtedness, liabilities and obligations of Borrower owed to Bank and/or the affiliates of Bank of every kind and description whether now existing or hereafter arising, and whether direct or indirect, primary or as guarantor or surety, absolute or contingent, liquidated or unliquidated, matured or unmatured, whether or not secured by additional collateral, in each case arising under this Agreement, the Notes and the other Loan Documents, including without limitation all obligations to perform or forbear from performing acts and all reasonable expenses and reasonable attorneys' fees incurred by Bank and any affiliate of Bank under this Agreement or any other document or instrument related to any of the foregoing.

- "Permitted Liens" has the meaning assigned thereto as set forth in Section 3.8 of the Agreement.
- "Person" means any individual, corporation, firm, enterprise, partnership, trust, incorporated or unincorporated association, joint venture, joint stock company, limited liability company or other entity of any kind, or any government or political subdivision or any agency, department or instrumentality thereof.
- "Premises #1" means the real estate and improvements located at 2701 Kent Avenue, West Lafayette, Indiana, owned by Borrower, and more particularly described in the Mortgage executed by Borrower in favor of Bank.
- "Premises #2" means the real estate and improvements located at 10424 Middle Mount Vernon Road, Evansville, Indiana, owned by Entity Guarantor, and more particularly described in the Mortgage executed by Entity Guarantor in favor of Bank.
- "Real Estate" means individually or collectively as the context requires, Premises #1 and Premises- #2.
- "Revolving Loans" has the meaning assigned to that term in Section 2.1 of the Agreement.
- "Revolving Note" has the meaning assigned to that term in Section 2.1 of the Agreement.
- "Security Agreement" means, individually or collectively as the context requires, (i) the Security Agreement and Perfection Certificate of even date herewith between Borrower and Bank, securing the Obligations, (ii) the Security Agreement and Perfection Certificate of even date herewith between Bank and Entity Guarantor, securing Entity Guarantor's Guaranty of the Obligations, (iii) the Grant of Security Interest in Trademarks of even date herewith executed by Borrower, securing the Obligations, and (iv) the Grant of Security Interest in Copyrights of even date herewith executed by Borrower, securing the Obligations.
- "Subsidiary" means any corporation of which Borrower directly or indirectly owns or controls at the time outstanding stock having under ordinary circumstances (not depending on the happening of a contingency) voting power to elect a majority of the board of directors of said corporation.
- "Term Loan" has the meaning assigned to that term in section 2.2 of the Agreement.
- "Term Note" has the meaning assigned to that term in Section 2.2 of the Agreement.
- "Title Company" means First American Title Insurance Company.

EXHIBIT 2.1

FORM OF
REVOLVING NOTE

\$2,000,000.00

Date: June 23, 2017

Due: June 23, 2019

FOR VALUE RECEIVED, **BIOANALYTICAL SYSTEMS, INC.**, an Indiana corporation (hereinafter referred to as "Maker"), hereby promises to pay to the order of **FIRST INTERNET BANK OF INDIANA**, an Indiana state bank, having its principal offices at 11201 USA Parkway, Fishers, Indiana 46037 (hereinafter referred to as "Bank"), in lawful money of the United States of America on the due date specified above, at Bank's principal offices or at such other place or to such other party as the holder hereof may from time to time designate by written notice, the principal sum of Two Million and No/100 Dollars (\$2,000,000.00) or as much thereof as may then be outstanding and to pay interest as hereinafter provided as follows:

- (a) Prior to maturity or the occurrence of an Event of Default, Maker shall pay interest on the principal balance of this Note outstanding from time to time at a floating per annum rate equal to the sum of the Prime Rate less Twenty-five Basis Points (0.25%), which rate shall change concurrently with the Prime Rate (the "Interest Rate"). Maker shall pay accrued but unpaid interest on this Note commencing on July 23, 2017, and on the 23'd day of each monthly period thereafter until maturity of this Note, whether by acceleration, demand or otherwise, at which time the unpaid balance of principal of this Note, together with all accrued but unpaid interest, costs and expenses, shall be due and payable in full.
- (b) After maturity and the expiration of applicable grace periods provided for in the Credit Agreement (as defined herein) or while there exists any uncured Event of Default, or in the event of acceleration hereunder or the exercise by the Bank of any remedies following any Event of Default under the Loan Documents, the rate of interest shall be increased to a per annum rate equal to the Interest Rate plus Four and No/100 Percent (4.0%) compounded monthly until paid or until the Event of Default shall have been cured.
- (c) If Maker fails to pay any amount due hereunder, or any fee in connection herewith, in full within ten (10) days after its due date, Maker, in each case, will incur and shall pay a late charge equal to Five Percent (5%) of the unpaid amount, with a minimum late charge in each instance of Twenty-Five and No/100 Dollars (\$25.00). After acceleration of repayment of this Note by Bank, the payment of a late charge will not cure or constitute a waiver of any Event of Default under this Note.

All amounts payable by Maker to the Bank under this Note shall be without relief from valuation and appraisal laws and with attorneys' fees and costs of collection as provided in the Credit Agreement. Interest shall be calculated on the basis of a Three Hundred Sixty (360) day year and charged for the actual number of days elapsed during the period for which interest is being charged. If any payment of principal of or interest on this Note falls due on a day which is not a Banking Day, the due date shall be extended to the next succeeding Banking Day and interest shall be payable at the applicable rate for the period of such extension.

All amounts which shall be paid with respect to this Note shall be applied first to costs of collection and expenses reimbursable by Maker to Bank, secondly to the payment of interest due monthly on the outstanding balance of the principal sum or so much thereof as shall from time to time remain unpaid, and the balance of each monthly payment shall be applied on account of principal. Maker shall be permitted to prepay the outstanding principal balance of this Note on any scheduled payment date without prepayment premium or payment.

This Note evidences indebtedness incurred under a revolving line of credit extended to Maker by Bank pursuant to that certain Credit Agreement dated as of the date hereof between the Bank and the Maker, as the same may be amended from time to time (collectively, the "Credit Agreement"), to which reference is made for definitions of capitalized terms used but not otherwise defined herein, for the terms and conditions upon which payment of this Note may be accelerated and all amounts outstanding hereunder declared immediately due and payable and for the security provided for the payment of this Note.

Upon the occurrence of an Event of Default under any of the Loan Documents which secure this Note, the holder may, without demand or notice, declare all of the indebtedness evidenced by this Note and remaining unpaid balances of interest and expenses immediately due and payable by written notice to Maker, notwithstanding any term or condition in any of the Loan Documents to the contrary. This Note may also be declared due at the option of the holder hereof prior to its expressed maturity at the time, upon the terms and in the manner provided in the Loan Documents. Failure to exercise any such option shall not constitute a waiver of the right to exercise any such option if Maker is in default hereunder.

Maker and all endorsers, sureties and guarantors hereof severally waive demand, presentment for payment, notice of dishonor, protest and notice of protest, and expressly agree that this Note and any payment coming due under it may be extended from time to time without in any way affecting their liability hereunder. This Note shall be the joint and several obligation of all makers, sureties, guarantors, and endorsers, and shall be binding upon them and their heirs, personal representatives, successors, and assigns.

The rights or remedies of the holder hereof as provided in this Note and the Loan Documents shall be cumulative and concurrent, and may be pursued singly, successively, or together.

Notwithstanding anything herein or in the Loan Documents to the contrary, no provision contained herein and no provision contained in any of the Loan Documents which purports to obligate Maker to pay any amount of interest or any fees, costs or expenses which are in excess of the maximum permitted by applicable law, shall be effective to the extent that it requires the payment of any interest or other sums in excess of such maximum. In the event Maker shall at any time following the date hereof pay any amount of interest or any fees, costs or expenses which are in excess of the maximum permitted by applicable law, such overpayments shall be deemed to be loans from Maker to the holder hereof, which loans shall be due and payable by the holder upon demand by Maker together with interest from the date or dates of such overpayments calculated at the same rate as Maker is required to pay under this Note, and the repayment of such loans by the holder hereof shall be the sole remedy at law or in equity of Maker for such overpayments.

The person executing this Note for and on behalf of Maker hereby certifies that he is duly empowered by Maker and has been duly authorized by all necessary action on the part of Maker to execute and deliver this Note for and on behalf of Maker.

This Note shall be construed according to and governed by the laws of the State of Indiana. Maker agrees that the state and federal courts in Marion County, Indiana, or any other court in which

Bank initiates proceedings have exclusive jurisdiction over all matters arising out of this Note. BANK AND MAKER HEREBY WAIVE THE RIGHT TO TRIAL BY JURY OF ANY MATTERS ARISING OUT OF THIS NOTE.

For purposes of this Note:

" Basis Point " means one one-hundredth of one percent (.01%).

" Banking Day " means a day which is not (a) a Saturday, Sunday or legal holiday on which banking institutions in the State of Indiana or the city in which the office of the Bank is located is authorized to remain closed, or (b) a day on which the New York Stock Exchange is closed. For the Bank, a "Banking Day" ends at 12:45 P.M. Eastern Standard Time, and all business transacted after such time on any particular day shall be deemed to have been transacted as of the next Banking Day.

" Prime Rate " means an independent index which is the highest rate identified as the "Prime Rate" in The Wall Street Journal "Money Rates" column on the date the interest rate is to be determined, or if that date is not a publication date, on the publication date immediately preceding. The Prime Rate is not necessarily the lowest rate charged by Bank on its loans. If the Prime Rate becomes unavailable, Bank may designate a substitute index after notifying Maker. Bank will inform Maker of the current Index upon Maker's request. Any changes or adjustments to the interest rate will not occur more often than each day. Maker understands that Bank may make loans based on rates other than the Prime Rate.

Maker authorizes Bank and its affiliates without notice, to apply any balances, credits, deposits or moneys of Maker in Bank's possession to payment of any of the foregoing. Time is of the essence of this Note and all other obligations of Maker to Bank or any of its affiliates.

IN WITNESS WHEREOF, Maker has executed this Note as of the day and year first above written.

BIOANALYTICAL SYSTEMS, INC.

By: EXHIBIT — DO NOT EXECUTE
Jill C. Blumhoff, Chief Financial Officer, VP Finance

Witness:

Katrina McWilliams

EXHIBIT 2.2

FORM OF
TERM LOAN NOTE

\$4,500,000.00

Date: June 23, 2017

Due: June 23, 2022

FOR VALUE RECEIVED, **BIOANALYTICAL SYSTEMS, INC.**, an Indiana corporation (hereinafter referred to as "Maker"), hereby promises to pay to the order of **FIRST INTERNET BANK OF INDIANA**, an Indiana state bank, having its principal offices at 11201 USA Parkway, Fishers, Indiana 46037 (hereinafter referred to as "Bank"), in lawful money of the United States of America, at the Bank's principal offices or at such other place or to such other party as the holder hereof may from time to time designate by written notice, the principal sum of Four Million Five Hundred Thousand and 00/100 Dollars (\$4,500,000.00) or as much thereof as may be then outstanding and to pay interest as hereinafter provided as follows:

- (a) Prior to maturity, Maker shall pay interest on the principal balance of this Note outstanding from time to time at a fixed per annum rate ("Interest Rate") equal to Three and 99/100 Percent (3.99%).
- (b) Commencing July 23, 2017, and on the 23'd day of each monthly period thereafter until and including June 23, 2022 (the "Maturity Date"), Maker shall make payments of principal and interest in monthly installments equal to Thirty-Three Thousand Two Hundred Sixty-Nine and 91/100 (\$33,269.91). The final installment of unpaid principal, together with accrued but unpaid interest, costs and expenses shall be due and payable on the Maturity Date.
- (c) After maturity and the expiration of applicable grace periods provided for in the Credit Agreement (as defined herein) or while there exists any uncured Event of Default, or in the event of acceleration hereunder or the exercise by the Bank of any remedies following any Event of Default under the Loan Documents, the rate of interest shall be increased to a per annum rate equal to the Interest Rate plus Four and No/100 Percent (4.0%) compounded monthly until paid or until the Event of Default shall have been cured.
- (d) If Maker fails to pay any amount due hereunder, or any fee in connection herewith, in full within ten (10) days after its due date, Maker, in each case, will incur and shall pay a late charge equal to Five Percent (5%) of the unpaid amount, with a minimum late charge in each instance of Twenty-Five and No/100 Dollars (\$25.00). After acceleration of repayment of this Note by the Bank, the payment of a late charge will not cure or constitute a waiver of any Event of Default under this Note.

All amounts payable by Maker to the Bank under this Note shall be without relief from valuation and appraisal laws and with attorneys' fees and costs of collection as provided in the Credit Agreement. Interest shall be calculated on the basis of a Three Hundred Sixty (360) day year and charged for the actual number of days elapsed during the period for which interest is being charged. If any payment of principal of or interest on this Note falls due on a day which is not a Banking Day, the due date shall be extended to the next succeeding Banking Day and interest shall be payable at the applicable rate for the period of such extension.

This Note may be prepaid, in whole or in part, upon any scheduled payment date, provided such prepayment is accompanied by a premium equal to (i) Two Percent (2.0%) multiplied by the principal amount prepaid, for any amounts prepaid between June 23, 2017 and June 22, 2020, or (ii) One Percent (1.0%) multiplied by the principal amount prepaid, for any amounts prepaid from June 23, 2020 through the Maturity Date.

All amounts which shall be paid with respect to this Note shall be applied first to costs of collection and expenses reimbursable by the Maker to the Bank, secondly to the payment of interest due monthly on the balance of the principal sum or so much thereof as shall from time to time remain unpaid, and the balance of each monthly payment shall be applied on account of principal. All prepaid principal shall be applied to payments due under this Note in the inverse order of maturity.

This Note evidences indebtedness incurred under a term loan ("Term Loan") extended to the Maker by the Bank pursuant to that certain Credit Agreement dated as of the date hereof between the Bank and the Maker, as the same may be amended from time to time ("Credit Agreement"), to which reference is made for definitions of capitalized terms used but not otherwise defined herein, for the terms and conditions upon which payment of this Note may be accelerated and all amounts outstanding hereunder declared immediately due and payable and for the security provided for the payment of this Note.

Upon the occurrence of an Event of Default under any of any Loan Documents (as defined in the Credit Agreement) which secure this Note, the holder may, without demand or notice, declare all of the indebtedness evidenced by this Note and remaining unpaid balances of interest and expenses immediately due and payable by written notice to Maker, notwithstanding any term or condition in any of the Loan Documents to the contrary. This Note may also be declared due at the option of the holder hereof prior to its expressed maturity at the time, upon the terms and in the manner provided in the Loan Documents. Failure to exercise any such option shall not constitute a waiver of the right to exercise any such option if the Maker is in default hereunder.

Maker and all endorsers, sureties and guarantors hereof severally waive demand, presentment for payment, notice of dishonor, protest and notice of protest, and expressly agree that this Note and any payment coming due under it may be extended from time to time without in any way affecting their liability hereunder. This Note shall be the joint and several obligation of all makers, sureties, guarantors, and endorsers, and shall be binding upon them and their heirs, personal representatives, successors, and assigns.

The rights or remedies of the holder hereof as provided in this Note and the Loan Documents shall be cumulative and concurrent, and may be pursued singly, successively, or together.

Notwithstanding anything herein or in the Loan Documents to the contrary, no provision contained herein and no provision contained in any of the Loan Documents which purports to obligate Maker to pay any amount of interest or any fees, costs or expenses which are in excess of the maximum permitted by applicable law, shall be effective to the extent that it requires the payment of any interest or other sums in excess of such maximum. In the event Maker shall at any time following the date hereof pay any amount of interest or any fees, costs or expenses which are in excess of the maximum permitted by applicable law, such overpayments shall be deemed to be loans from Maker to the holder hereof, which loans shall be due and payable by the holder upon demand by Maker together with interest from the date or dates of such overpayments calculated at the same rate as Maker is required to pay under this Note, and the repayment of such loans by the holder hereof shall be the sole remedy at law or in equity of Maker for such overpayments.

The person executing this Note for and on behalf of Maker hereby certifies that he is duly empowered by the Maker and has been duly authorized by all necessary action on the part of Maker to execute and deliver this Note for and on behalf of the Maker.

This Note shall be construed according to and governed by the laws of the State of Indiana. Maker agrees that the state and federal courts in Marion County, Indiana, or any other court in which Bank initiates proceedings have exclusive jurisdiction over all matters arising out of this Note. BANK AND MAKER HEREBY WAIVE THE RIGHT TO TRIAL BY JURY OF ANY MATTERS ARISING OUT OF THIS NOTE.

[SIGNATURE PAGE — TERM LOAN NOTE]

IN WITNESS WHEREOF, Maker has executed this Note as of the day and year first above written.

BIOANALYTICAL SYSTEMS, INC.

By: EXHIBIT — DO NOT EXECUTE
Jill C. Blumhoff, Chief Financial Officer, VP Finance

Witness:

Katrina McWilliams

EXHIBIT 3.3

Litigation Disclosure

None

EXHIBIT 3.6

Laws and Taxes Disclosure

None

EXHIBIT 3.8

Permitted Liens

None

EXHIBIT 3.10

Environmental Disclosure

Any disclosure or recognized environmental condition set forth in:

Phase I Environmental Site Assessment of Bioanalytical Systems, Inc. dated March 6, 2015;

Limited Microbial Evaluation Report for Bioanalytical Systems, Inc., dated March 5, 2015;

Asbestos Pre-Renovation Report for Bioanalytical Systems, Inc., dated March 3, 2015;

Report 2041 Prepared for Site Location Bioanalytical Systems, Inc., 2700 Kent Avenue, West Lafayette, Indiana, by PHASE I Environmental Engineering, dated October 11, 2002; and

Report 2032 Prepared for Site Location Bioanalytical Systems, Inc., 1024 Middle Mount Vernon Road, Mount Vernon, Indiana, by PHASE I Environmental Engineering, dated October 11, 2002;

(collectively, the "Environmental Reports").

CERTIFICATIONS

I, Philip A. Downing, Acting Principal Executive Officer, certify that:

1. I have reviewed this report on Form 10-Q of Bioanalytical Systems, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions);
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Philip A. Downing

Philip A. Downing

Acting Principal Executive Officer

Date: August 14, 2017

CERTIFICATIONS

I, Jill C. Blumhoff, Vice President of Finance and Chief Financial Officer, certify that:

1. I have reviewed this report on Form 10-Q of Bioanalytical Systems, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions);
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Jill C. Blumhoff

Jill C. Blumhoff

Vice President of Finance and Chief Financial Officer

Date: August 14, 2017

Certifications of Acting Principal Executive Officer

Pursuant to Section 906

Of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)

The undersigned, the Acting Principal Executive Officer of Bioanalytical Systems Inc. (the “Company”), hereby certifies that, to the best of his knowledge:

- (a) the Form 10-Q Quarterly Report of the Company for the three and nine months ended June 30, 2017 filed with the Securities and Exchange Commission (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Philip A. Downing
Philip A. Downing
Acting Principal Executive Officer
Date: August 14, 2017

Certifications of Chief Financial Officer

Pursuant to Section 906

Of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350)

The undersigned, the Vice President of Finance and Chief Financial Officer of Bioanalytical Systems Inc. (the “Company”), hereby certifies that, to the best of her knowledge:

- (a) the Form 10-Q Quarterly Report of the Company for the three and nine months ended June 30, 2017 filed with the Securities and Exchange Commission (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Jill C. Blumhoff

Jill C. Blumhoff

Vice President of Finance and Chief Financial Officer

Date: August 14, 2017
