BIO REFERENCE LABORATORIES INC
Form 10-Q
September 06, 2013
Table of Contents

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the quarterly period ended July 31, 2013

Or

o **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 000-15266

BIO-REFERENCE LABORATORIES, INC.

(Exact name of registrant as specified in its charter)

NEW JERSEY	**22-2405059**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
481 Edward H. Ross Drive, Elmwood Park, NJ	**07407**
(Address of principal executive offices)	(Zip Code)

(201) 791-2600

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities and Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated file in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated Filer x Non-accelerated Filer o Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of the issuer s common stock, as of the latest practicable date: 27,673,213 shares of Common Stock ($.01 par value) at September 3, 2013.

Table of Contents

BIO-REFERENCE LABORATORIES, INC.

FORM 10-Q

July 31, 2013

I N D E X

Table of Contents

PART I FINANCIAL INFORMATION

BIO-REFERENCE LABORATORIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

[Dollars In Thousands Except Share and Per Share Data]

ASSETS

	July 31, 2013 (Unaudited)	October 31, 2012
CURRENT ASSETS:		
Cash and Cash Equivalents	$ 28,567	$ 25,143
Accounts Receivable - Net	191,798	153,247
Inventory	16,865	14,902
Other Current Assets	6,965	5,373
Deferred Tax Assets	29,188	24,912
TOTAL CURRENT ASSETS	273,383	223,577
PROPERTY AND EQUIPMENT - AT COST	120,950	102,701
LESS: Accumulated Depreciation	(63,107)	(52,261)
PROPERTY AND EQUIPMENT - NET	57,843	50,440
OTHER ASSETS:		
Investments in Unconsolidated Affiliate	5,447	4,977
Deposits	1,025	956
Goodwill - Net	25,986	23,408
Intangible Assets - Net	10,681	6,323
Other Assets	1,115	866
Deferred Tax Asset	2,993	2,278
TOTAL OTHER ASSETS	47,247	38,808
TOTAL ASSETS	$ 378,473	$ 312,825

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements.

Table of Contents

BIO-REFERENCE LABORATORIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

[Dollars In Thousands Except Share and Per Share Data]

LIABILITIES AND SHAREHOLDERS EQUITY

	July 31, 2013 (Unaudited)	October 31, 2012
CURRENT LIABILITIES:		
Accounts Payable	$ 55,770	$ 41,288
Accrued Salaries and Commissions Payable	15,005	16,490
Accrued Taxes and Expenses	11,402	9,753
Other Short Term Acquisition Payable	1,296	0
Revolving Note Payable - Bank	16,576	0
Current Maturities of Long-Term Debt	486	464
Capital Lease Obligations - Short-Term Portion	4,477	3,957
TOTAL CURRENT LIABILITIES	105,012	71,952
LONG-TERM LIABILITIES		
Capital Lease Obligations - Long-Term Portion	9,268	9,463
Long - Term Debt Net of Current Portion	3,796	4,163
TOTAL LONG-TERM LIABILITIES	13,064	13,626
SHAREHOLDERS EQUITY		
Preferred Stock $.10 Par Value; Authorized 1,666,667 shares, including 3,000 shares of Series A Junior Preferred Stock None Issued	0	0
Common Stock, $.01 Par Value; Authorized 35,000,000 shares:		
Issued and Outstanding 27,673,213 and 27,707,382 at July 31, 2013 and at October 31, 2012, respectively	277	277
Additional Paid-In Capital	39,353	40,907
Retained Earnings	220,767	186,063
TOTAL SHAREHOLDERS EQUITY	260,397	227,247
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 378,473	$ 312,825

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements.

Table of Contents

BIO-REFERENCE LABORATORIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

[Dollars In Thousands Except Share and Per Share Data]

[UNAUDITED]

	Three months ended July 31, 2013	Three months ended July 31, 2012	Nine months ended July 31, 2013	Nine months ended July 31, 2012
NET REVENUES:	$ 185,427	$ 160,532	$ 523,136	$ 450,767
COST OF SERVICES:				
Depreciation and Amortization	3,981	3,375	11,296	9,649
Employee Related Expenses	43,397	36,915	125,280	108,165
Reagents and Laboratory Supplies	33,943	31,473	99,421	88,798
Other Cost of Services	18,446	14,490	49,881	42,225
TOTAL COST OF SERVICES	99,767	86,253	285,878	248,837
GROSS PROFIT ON REVENUES	85,660	74,279	237,258	201,930
GENERAL AND ADMINISTRATIVE EXPENSES:				
Depreciation and Amortization	1,022	897	2,913	2,620
General and Administrative Expenses	43,987	39,177	129,441	115,793
Bad Debt Expense	15,592	11,531	43,377	30,789
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	60,601	51,605	175,731	149,202
INCOME FROM OPERATIONS	25,059	22,674	61,527	52,728
OTHER (INCOME) EXPENSE:				
Interest Expense	350	382	1,077	1,153
Interest Income	0	(41)	(822)	(125)
Other (Income) Expense	(1,046)	151	(52)	151
TOTAL OTHER (INCOME) EXPENSES - NET	(696)	492	203	1,179
INCOME BEFORE INCOME TAXES	25,755	22,182	61,324	51,549
Provision for Income Taxes	11,054	9,586	26,620	22,282
NET INCOME	$ 14,701	$ 12,596	$ 34,704	$ 29,267
NET INCOME PER COMMON SHARE - BASIC:	$ 0.53	$ 0.45	$ 1.25	$ 1.05
WEIGHTED AVERAGE NUMBER OF SHARES - BASIC:	27,671,880	27,695,215	27,695,387	27,754,771
NET INCOME PER COMMON SHARE - DILUTED:	$ 0.53	$ 0.45	$ 1.25	$ 1.05
WEIGHTED AVERAGE NUMBER OF SHARES - DILUTED:	27,841,998	27,887,765	27,861,372	27,930,202

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements.

Table of Contents

BIO-REFERENCE LABORATORIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

[Dollars In Thousands Except Share and Per Share Data]

[UNAUDITED]

	Nine months ended July, 31 2013	2012
OPERATING ACTIVITIES:		
Net Income	$ 34,704	$ 29,267
Adjustments to Reconcile Net Income to Cash Provided by (Used for) Operating Activities:		
Depreciation and Amortization	14,209	12,269
Deferred Income Tax (Benefit) Expense	(4,991)	(2,530)
Stock Based Compensation	290	290
(Gain) Loss on Disposal of Fixed Assets	301	448
Undistributed Equity Method (Income) Loss	240	151
Change in Assets and Liabilities, (Increase) Decrease in:		
Accounts Receivable	(47,704)	(3,410)
Provision for Doubtful Accounts	9,153	3,924
Inventory	(1,963)	(3,524)
Other Current Assets	(1,592)	(1,018)
Other Assets	(249)	(250)
Deposits	(69)	(83)
Increase (Decrease) in:		
Accounts Payable and Accrued Liabilities	14,646	1,027
NET CASH - OPERATING ACTIVITIES	16,975	36,561
INVESTING ACTIVITIES:		
Acquisition of Equipment and Leasehold Improvements	(17,616)	(11,359)
Business Acquisitions and Related Costs	(6,947)	(4,775)
NET CASH - INVESTING ACTIVITIES	(24,563)	(16,134)
FINANCING ACTIVITIES:		
Payments of Long-Term Debt	(345)	(950)
Payments of Capital Lease Obligations	(3,375)	(2,658)
Increase (Decrease) in Revolving Line of Credit	16,576	(13,558)
Common Stock Repurchase	(2,030)	(5,193)
Proceeds from Exercise of Options	186	157
NET CASH - FINANCING ACTIVITIES	11,012	(22,202)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,424	(1,775)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIODS	25,143	22,013
CASH AND CASH EQUIVALENTS AT END OF PERIODS	$ 28,567	$ 20,238
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		

Cash paid during the period for:				
Interest	$	1,010	$	1,220
Income Taxes	$	29,387	$	24,864

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements.

Table of Contents

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

[Dollars In Thousands]

[UNAUDITED]

During the nine-month periods ended July 31, 2013 and July 31, 2012, the Company entered into capital leases totaling $3,700 and $7,351, respectively.

During the nine-month periods ended July 31, 2013 and July 31, 2012, the Company wrote-off approximately $3,067 and $2,146 of property and equipment, most of which were fully depreciated.

Table of Contents

BIO-REFERENCE LABORATORIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Dollars In Thousands Except Share and Per Share Data, Or Unless Otherwise Noted]

(UNAUDITED)

[1] Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and the instructions to Form 10-Q and, therefore, do not include all information and footnotes necessary for complete audited financial statements. However, in the opinion of the management of the Company, all adjustments necessary for a fair presentation of the financial position and operating results have been included in these statements. Interim results are not necessarily indicative of results for a full year. Reference is made to the October 31, 2012 audited consolidated financial statements of Bio-Reference Laboratories, Inc. contained in its Annual Report on Form 10-K for the year ended October 31, 2012.

The consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements and notes for the year ended October 31, 2012 as filed with the Securities and Exchange Commission in the Company s Annual Report on Form 10-K. Significant accounting policies followed by the Company are set forth in Note 2 to the Company s 2012 Annual Report on Form 10-K.

[2] Fair Value Measurements

As of July 31, 2013, the Company s financial instruments primarily consist of cash, short-term trade receivables and payables for which their carrying amounts approximate fair values, and long term debt, for which based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities, its carrying amount approximates its fair value.

The Company has evaluated subsequent events through the date the financial statements are issued as evidenced by the date of filing of this report with the Securities and Exchange Commission. No such reportable events have occurred.

[3] **New Accounting Pronouncements**

Certain prior year amounts have been reclassified to conform to the current year presentation. The Company adopted Accounting Standard Update (ASU) No. 2011-7: Health Care Entities (Topic 954) Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities commencing with the current fiscal year, the first year such standard is required for the Company. The adoption of this update did not have a material impact on the Company s financial statements.

Although this update does not have a material impact on the Company s financial statements as a whole, it requires that we adjust our presentation of our statement of operations along with prior periods presented in this report to maintain comparability. As the result of this change in presentation, our Net Revenues , Gross Profit on Revenues and our General and Administrative Expenses would change while our Operating Income , Net Income and Earnings per Share will remain the same. The presentation is adjusted for a portion of our Bad Debt Expense that is now reported in our Net Revenues as required under ASU No. 2011-7.

[4] **Revenue Recognition and Contractual Adjustments**

Service revenues are principally generated from laboratory testing services including chemical diagnostic tests such as blood analysis, urine analysis and genetic testing among others. Service revenues are recognized at the time the testing services are performed and are reported at their estimated net realizable amounts.

Service revenues before provision for bad debts are determined utilizing gross service revenues net of contractual adjustments and discounts. Even though it is the responsibility of the patient to pay for laboratory service bills, most individuals in the United States have an agreement with a third party payor such as Medicare, Medicaid or a commercial insurance provider to pay all or a portion of their healthcare expenses; the majority of services provided by Bio-Reference Laboratories, Inc. (BRLI) are to patients covered under a third party payor contract. In certain cases, the individual has no insurance or does not provide insurance information and in other cases tests are performed under contract to a professional organization (such as physicians, hospitals, and clinics) which reimburse BRLI directly; in the remainder of the cases, BRLI is provided the third party billing information and seeks payment from the third party under the terms and conditions of the third party payor for health service providers like BRLI. Each of these third party payors may differ not only with regard to rates, but also with regard to terms and conditions of payment and providing coverage (reimbursement) for specific tests. Estimated revenues are established based on a series of highly complex procedures and judgments that require industry specific healthcare experience and an understanding of payor methods and trends. We review our calculations on a monthly basis in order to make certain that we are properly allowing for the uncollectable portion of our gross billings due to the contractual adjustments and discounts and that our estimates remain sensitive to variances and changes within our payor groups. The contractual allowance calculation is made on the basis of historical allowance rates for the various specific payor groups on a monthly basis with a greater weight being given to the most recent trends; this process is adjusted based on recent changes in underlying contract provisions and shifts in the testing being performed. This calculation is routinely analyzed by BRLI on the basis of actual allowances issued by payors and the actual payments made to determine what adjustments, if any, are needed. The table below shows the adjustments made to gross service revenues to arrive at net revenues, the amount reported on our statement of operations.

Table of Contents

	Three Months Ended July 31, [Unaudited]		Nine Months Ended July 31, [Unaudited]	
	2013	2012	2013	2012
Gross Service Revenues	905,713	790,524	2,565,929	2,238,162
Contractual Adjustments and Discounts:				
Medicare/Medicaid Portion	91,173	81,587	259,433	237,645
All Other Third Party Payors*	612,769	536,635	1,740,265	1,514,909
Total Contractual Adjustments and Discounts	703,942	618,222	1,999,698	1,752,554
Service Revenues Net of Contractual Adjustments and Discounts	201,771	172,302	566,231	485,608
Patient Service Revenue Provision for Bad Debts**	16,344	11,770	43,095	34,841
Net Revenues	185,427	160,532	523,136	450,767

* All Other Third Party and Direct Payors consists of almost eight hundred distinct payors, including commercial health insurers and administrators as well as professionally billed accounts such as physicians, hospitals, clinics and other direct billed accounts.

** Represents the amount of Bad Debt Expense that is now required to be presented as a deduction from patient service revenue (net of contractual allowances and discounts) pursuant to ASU No. 2011-7.

When new business is received by BRLI, service revenues net of contractual adjustments and discounts are calculated by reducing gross service revenues by the estimated contractual allowance. The Patient Service Revenue Provision for Bad Debts represents the amount of bad debt expense expected to occur on patient service revenue based upon our experience. The remaining bad debt expense is presented as part of operating expenses. The bad debt expense presented as part of operating expense represents the bad debt expense related to receivables from service revenues determined after taking into account our ability to collect on such revenue.

BRLI recognized the amounts in subsequent periods for actual allowances/discounts to gross service revenue; bad debt may have been adjusted over the same periods of time to maintain an accurate balance between net revenues and actual revenues. Management has reviewed the allowances/discounts recognized in subsequent periods and believes the amounts to be immaterial. A number of proposals for legislation or regulation continue to be under discussion which could have the effect of substantially reducing Medicare reimbursements for clinical laboratories or introducing cost sharing to beneficiaries. Depending upon the nature of regulatory action, if any, which is taken and the content of legislation, if any, which is adopted, the Company could experience a significant decrease in revenues from Medicare and Medicaid, which could have a material adverse effect on the Company. The Company is unable to predict, however, the extent to which such actions will be taken.

During the quarter ended July 31, 2013 the Company received a refund of $1,062 for its New York State clinical laboratory inspection fee that was included in other income.

[5] **Accounts Receivable Allowances**

It is typically the responsibility of the patient to pay for laboratory service bills. Most individuals in the United States have an agreement with a third party payor such as Medicare, Medicaid or commercial insurance to pay all or a portion of their healthcare expenses; this represents the major portion of payment for all services provided by BRLI. In certain cases, the individual has no insurance or does not provide insurance information; in the remainder of the cases, BRLI is provided the third party billing information, usually by the referring physician, and seeks payment from the third party under the terms and conditions of the third party payor for health service providers like BRLI. Each of these third party payors may differ not only with regard to rates, but also with regard to terms and conditions of payment and coverage of specific tests. BRLI routinely reviews the reimbursement policies and subsequent payments and collection rates from these different types of payors. Contractual adjustments and discounts are recorded as reductions to gross service revenues and are collectively referred to as the contractual allowance. BRLI has not been required to record an adjustment in a subsequent period related to revenue recorded in a prior period which was material in nature. Aging of accounts receivable is monitored by billing personnel and follow-up activities including collection efforts are conducted as necessary. BRLI writes off receivables against the allowance for doubtful accounts when they are deemed uncollectible. For client billing, accounts are written off when all reasonable collection efforts prove to be unsuccessful. Patient accounts, where the patient is directly responsible for all or a remainder portion of the account after partial payment or denial by a third party payor, are written off after the normal dunning cycle has occurred, although these may be subsequently transferred to a third party collection agency after being written off. Third party payor accounts are written off when they exceed the payer s timely filing limits. Accounts Receivable on the balance sheet is net of the following amounts for contractual credits and doubtful accounts:

Table of Contents

	($)	
	[Unaudited] July 31, 2013	**October 31, 2012**
Contractual Credits/Discounts	358,020	267,921
Doubtful Accounts	60,427	51,274
Total Allowance	418,447	319,195

[6] **Intangible Assets**

The following disclosures present certain information on the Company s intangible assets as of July 31, 2013 (Unaudited) and October 31, 2012. All intangible assets are being amortized over their estimated useful lives, as indicated below, with no estimated residual value.

July 31, 2013

Intangible Asset	**Weighted-Average Amortization Period**	**Cost ($)**	**Accumulated Amortization ($)**	**Net of Accumulated Amortization ($)**
Customer Lists	20	8,738	2,779	5,959
Covenants Not-to-Compete	5	5,095	4,350	745
Patents and Licenses	17	5,297	1,320	3,977
Totals		19,130	8,449	10,681

October 31, 2012

Intangible Asset	**Weighted-Average Amortization Period**	**Cost ($)**	**Accumulated Amortization ($)**	**Net of Accumulated Amortization ($)**
Customer Lists	20	4,573	2,537	2,036
Covenants Not-to-Compete	5	4,305	4,257	48
Patents and Licenses	17	5,297	1,058	4,239
Totals		14,175	7,852	6,323

The aggregate intangible amortization expense for the three months ended July 31, 2013 and 2012 was $230 and $142, respectively. The aggregate intangible amortization expense for the nine months ended July 31, 2013 and 2012 was $597 and $441, respectively. The estimated intangible asset amortization expense for the remainder of fiscal year ending October 31, 2013 and for the four subsequent years is as follows:

October 31,	**($)**
2013	221
2014	917
2015	892
2016	875
2017	870
Thereafter	6,906
Total	10,681

Table of Contents

[7] **Revolving Note Payable - Bank**

In October 2011, the Company entered into an amended revolving note payable loan agreement with PNC Bank, N.A. The maximum amount of the credit line available to the Company pursuant to the loan agreement is the lesser of (i) $45,000 or (ii) 50% of the Company s qualified accounts receivable, as defined in the agreement. The amendment to the Loan and Security Agreement provides for an interest rate on advances to be subject, at the election of the Company, to either the bank s base rate or the Eurodollar rate of interest plus, in certain instances, an additional interest percentage. The additional interest percentage charge on bank s base rate borrowings and on Eurodollar rate borrowings ranges from 1% to 4% and is determined based upon certain financial ratios achieved by the Company. As of July 31, 2013, the Company had elected to have all of the total advances outstanding to be subject to the bank s base rate of interest of 3.5%. The credit line is collateralized by substantially all of the Company s assets. The line of credit is available through October 2016 and may be extended for annual periods by mutual consent thereafter. The terms of this agreement contain, among other provisions, requirements for maintaining defined levels of capital expenditures and fixed charge coverage, and the prohibition of the payment of cash dividends by the Company. As of July 31, 2013, the Company utilized $16,576 of the available credit under this revolving note payable loan agreement.

[8] **Long-Term Debt - Bank**

In December 2010, the Company issued a seven-year term note for $5,408 at the rate of interest of 6.12% per annum for the financing of new equipment. The note is payable in 84 equal monthly installments commencing on January 29, 2011 of $61 including principal and interest followed by a balloon payment of the principal and interest outstanding on the loan repayment date of December 29, 2017. The balance on this note as of July 31, 2013 is approximately $4,282.

[9] **Provision for Income Taxes**

The provision for income taxes for the three-months ended July 31, 2013 consists of a current tax provision of $13,009 and a deferred tax benefit of $1,955. The provision for income taxes for the nine-months ended July 31, 2013 consists of a current tax provision of $31,611 and a deferred tax benefit of $4,991. The provision for income taxes for the three-months ended July 31, 2012 consists of a current tax provision of $9,872 and a deferred tax benefit of $287. The provision for income taxes for the nine months ended July 31, 2012 consists of a current tax provision of $24,812 and a deferred tax benefit of $2,530. On July 31, 2012, the Company had a current deferred tax asset of $23,697 and a long-term deferred tax asset of $2,385 included in other assets.

[10] **Business Combinations**

On December 21, 2012, we entered into an agreement pursuant to which we agreed to purchase all of the authorized, issued and outstanding shares of Meridian Clinical Laboratory, Corp. (MCL), a Florida corporation. More information about MCL and the agreement may be found in the Form 8-K the Company filed on December 27, 2012.

On December 31, 2012, we entered into an agreement pursuant to which we agreed to purchase all of the authorized, issued and outstanding shares of Florida Clinical Laboratory, Inc. (FCL), a Florida corporation. More information about FCL and the agreement may be found in the Form 8-K we filed on January 4, 2013.

The following table sets forth these final allocations.

	FCL	($) MCL	Totals:
Accounts Receivable	1,008	232	1,240
Autos	137	48	185
Medical Equipment	225	3	228
Computer Equipment	21		21
Leasehold Improvements	53		53
Other Non-Current Assets	3		3
Non-Compete Agreement	747	43	790
Deposits		2	2
Customer Relationships in Place	3,235	930	4,165
Goodwill	1,905	673	2,578
Accounts Payable	118	83	201
Long Term Debt (Auto-Loans)	200	0	200
Short Term Acquisition Payable	1,000	250	1,250

Table of Contents

[11] **Common Stock Repurchase**

On November 11, 2011, the Company announced that its board of directors approved a Stock Repurchase Program authorizing the repurchase of up to 1,000,000 shares of its Common Stock at prevailing market prices over the period ending October 31, 2012. That period was subsequently extended by the Board of Directors on December 6, 2012 to October 31, 2013. During the three-month period ended July 31, 2013 the Company did not repurchase any shares of its common stock. During the nine-month period ended July 31, 2013, the Company repurchased 81,600 shares of its common stock at a cost of $2,030. These repurchased shares were subsequently recorded as canceled.

[12] **Subsequent Events**

On August 13, 2013 the Company acquired certain assets and liabilities of Hunter Laboratories, Inc. located in the northern California. The gross purchase price was $14,400, $7,000 of which was deferred for various anticipated pre-closing liabilities for periods of up to 36 months following the closing of the acquisition. The acquisition of Hunter assets provides the Company a West Coast presence with complex capability as well as Medi-Cal in-network status. The acquisition from Hunter includes most of its current business and a sophisticated facility that the Company will use as a base of operations for its growing western U.S. business. The Company believes that its existing comprehensive payer relationships will greatly enhance the anticipated business opportunities of the acquisition.

On August 21, 2013 GeneDX, Inc., our wholly owned subsidiary entered into a definitive agreement with Edge BioSystems a CLIA laboratory business to acquire Edge BioServe , primarily a genetic sequencing service business located in Gaithersburg, MD. GeneDx, BRLI s wholly-owned clinical diagnostic sequencing laboratory, will acquire the Edge BioServe genetic sequencing services business. The purchase price will be approximately $3,100 subject to adjustment for certain liabilities of which $375 will be deferred payment for various anticipated pre-closing liabilities. The acquisition will include sequencing equipment and capabilities that are expected to enhance the ability of GeneDx to maintain and improve its position as a premier provider of clinical genetic sequencing services. GeneDx is one of the leading full service genetic laboratories in the world and the Company believes the additional capacity and technical expertise that will result from this acquisition will greatly enhance the opportunity for further growth and expansion of the GeneDx service offerings. The acquisition will provide GeneDx with additional equipment on multiple testing platforms operating in a CLIA-certified environment as well as additional infrastructure for R&D initiatives.

Forward-Looking Statements

Statements included in this quarterly report on Form 10-Q (the Quarterly Report) that are not historical in nature, are intended to be, and are hereby identified as forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by words such as expects, anticipates, intends, plans, believes, seeks, estimates, will or words of simil and include, but are not limited to, statements about our expected future business and financial performance. Statements looking forward in time are included in this report pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements involve known and unknown risks and uncertainties, many of which are beyond our ability to control, that may cause our actual results in future periods to be materially different from any future performance suggested herein.

Several factors could cause actual results to differ materially from those currently anticipated due to a number of factors in addition to those discussed under Risk Factors in our October 31, 2012 Form 10-K including:

Loss or suspension of a license or imposition of a fine or penalties under, or future changes in, the law or regulations of CLIA, or those of state laboratory licensing laws;

Failure to comply with HIPAA, which could negatively impact profitability and cash flows;

FDA regulation of Laboratory Developed Tests and clinical laboratories;

Failure to comply with federal and state anti-kickback laws;

Failure to maintain the security of patient-related information;

Failure to comply with the Federal Occupational Safety and Health Administration requirements and the recently passed Needlestick Safety and Prevention Act;

Failure to comply with federal and state laws and regulations related to submission of claims for our services;

Changes in regulation and policies, including increasing downward pressure on health care reimbursement;

Efforts by third-party payors to reduce utilization and reimbursement for clinical testing services;

Failure to timely or accurately bill for our services;

Our failure to integrate newly acquired businesses and the costs related to such integration;

Increased competition, including price competition;

Our ability to attract and retain experienced and qualified personnel;

Our failure to obtain and retain new clients and business partners, or a reduction in tests ordered or specimens submitted by existing clients;

Adverse litigation results; and

Failure to establish, and perform to, appropriate quality standards to assure that the highest level of quality is observed in the performance of our testing services.

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

[Dollars In Thousands Except Per Share Data, Total Patient Data Or Unless Otherwise Noted]

Overview

We are a national clinical diagnostic laboratory located in northeastern New Jersey. We are a national laboratory in certain focused areas of laboratory testing and a full service laboratory in the New York super-region. We have developed a national reputation for our expertise in certain focused areas of clinical testing. GenPath, the name by which we are known for our cancer and oncology services, is recognized for the superior hematopathology services it provides throughout the country. Our Women s Health initiative, through which we provide dedicated services for obstetrics and gynecology practices, including a unique, technically advanced multiplex process for identifying sexually transmitted infections, is also offered as GenPath. Our regional footprint lies within the New York City metropolitan area and the surrounding areas of New Jersey and southern New York State as well as eastern Pennsylvania and some areas of western Connecticut; we also provide services further into New York State, Pennsylvania, Delaware and Maryland. As a regional provider, we are a full-service laboratory that primarily services physician office practices. Our drivers pick up samples and deliver reports and supplies; we provide sophisticated technical support, phlebotomy services or patient service centers where appropriate, and electronic communication services in many cases.

Table of Contents

Physicians outside of this regional footprint send samples to our laboratory in order to take advantage of the expertise that we are able to provide in blood-based cancer pathology and associated diagnostics or to take advantage of the superior service, support and technologically advanced testing we offer in our Women s Health initiative. These accounts frequently send routine testing to us as well in order to simplify their office workflow and to take advantage of our outstanding capability, service and support. Our correctional healthcare services are used throughout the country at prisons and jails. The focused markets we serve on a national basis outside of our regional footprint do not require many of the logistical and other ancillary support services required as a full service laboratory on a regional basis. Within our regional footprint, we provide all of the same services that we provide on a national basis as well as some regionally focused diagnostic services, such as histology and pathology support services, substance abuse testing, fertility testing, hemostasis testing, and molecular diagnostics that are unavailable from many of our smaller regional competitors; some of the regional testing may be provided outside of physician offices in clinics or other bulk deliverers of healthcare. In October 2012, we launched Laboratorio Buena Salud (LBS), the first national testing laboratory dedicated to serving Spanish-speaking populations in the United States on a Spanish language first basis. All interactions with patients and physician offices are handled in Spanish unless otherwise requested by the patient or office without the need of choosing Spanish or English.

Over the last few years, there have been fundamental changes in the laboratory services industry. In the 1990s, the industry was negatively impacted by the growth of managed care, increased government regulation, and investigations into fraud and abuse. These factors led to revenue and profit declines and industry consolidations, especially among commercial laboratories. There are currently two national mega-laboratories and Bio-Reference Laboratories, together with some specialty laboratories and a few small laboratories in the US public markets. There is one other Australian-based laboratory with significant presence in the US markets. In addition to these publicly-traded commercial laboratories, there are numerous hospital outreach programs and smaller reference laboratories that compete for the commercial clinical laboratory business scattered throughout the country. These clinical laboratories have had to improve efficiency, leverage economies of scale, comply with government regulations and other laws and develop more profitable approaches to pricing. Moreover, there has been a proliferation of technology advancements in clinical diagnostics over the last decade that has created significant opportunities for new testing and growth.

As a full service clinical laboratory, we are constantly looking for new technologies and new methodologies that will help us to grow. Since the turn of the century, our size alone has made us attractive to companies that are driving the advances in technology. We represent a significant opportunity for these companies to market their products with a nationally recognized specialty provider in our focused areas of specialty or in one of the major population centers of the world the New York super-region. We have had several successful strategic relationships with such technology opportunities. In addition to new technology opportunities, we have an extremely seasoned and talented management staff that has been able to identify emerging laboratory markets that are under-served or under-utilized. We have recently developed programs for cardiology, histology and women s health to go along with our existing hemostasis, hematopathology and correctional healthcare initiatives which have already been established and in which we have been increasing our market share for the past several years. Over the past few years, we launched several new, disruptive testing services. OnkoMatch, an offering that has emerged as a result of our joint venture with Massachusetts General Hospital, provides tumor genotyping for solid tumor cancer patients at reasonable and affordable pricing. Inherigen, our pre-natal carrier detection panel, provides broad-spectrum carrier detection of autosomal conditions that may affect child-bearing decisions. GenCerv is an advanced test for identifying which HPV positive patients are likely to have cervical cancer. StormPath is our virtual pathology solution that allows remote pathologists to use our technical laboratory capabilities and consult with our pathologists remotely in order to provide improved diagnostics. We continually seek to offer innovative testing services that are clinically relevant and which improve patient care.

GeneDx, Inc (GeneDX) is our wholly-owned genetic sequencing clinical diagnostic laboratory. As molecular testing in general has become a more significant element in the diagnostic testing industry, the Company believes that genetic testing is an essential diagnostic tool of the future. GeneDx was started by two geneticists from the National Institute of Health (NIH) in 2000. Over the next six years, based on the reputation and expertise of the founders and the outstanding team they built around themselves, along with a very focused and dedicated understanding of the science of genetics, GeneDx became known as one of the premier genetic testing laboratories for the diagnosis of rare genetic diseases. The Company believes that the promise of genetic testing is in the diagnosis of the genetic variants of common diseases. It has been the Company s intention to leverage the expertise and reputation of GeneDx in order to take a leadership role in the expanding area of genetic testing. The Company is seeking cutting edge methods of testing that will be commercially viable diagnostic tools for the advancement of genetic testing. In 2007, GeneDx introduced GenomeDx, a then new test based on CGH Array technology, a high-speed, chip-based technology that has allowed GeneDx to move to the forefront of an emerging technology platform. In 2008, GeneDx became the first commercial laboratory in the world to offer next generation (NextGen) sequencing (high-speed computer-based whole genome sequencing) and has since built up a comprehensive suite of cardiac arrhythmia panels, as well as other multi-gene testing panels, that have enhanced its reputation as a technology and service leader in the area of genetic testing. The Company believes that GeneDx has become a leader in clinical genetic testing with more than 13-years experience and currently offering over 450 disease-specific tests as well as whole exome sequencing for all 20,000+ genes, and comparative genomic array. The laboratory has 35 board-certified geneticists and genetic counselors on staff available to address physician concerns and questions about genetic testing. The Company employs marketing techniques that were extremely successful in building GenPath, our oncology laboratory. In addition to scientists and technicians to manage testing, GeneDx employs 13 genetic counselors and 129 geneticists to help patients and referring physicians and geneticists understand the meaning of the test results.

The Company believes that it has an outstanding sales and marketing team and has implemented an acquisition strategy based on seeking out opportunities to acquire new technologies, new techniques, new opportunities that will enhance our existing business rather than seeking to acquire laboratories for their underlying business. Over the recent past we have made some strategic acquisitions based on this approach. Our philosophy regarding acquisitions is: we buy laboratories we consider to be synergistic and accretive. As we have explained in the past, we offer one stop shopping to physicians as a specialty lab. When we buy laboratories in other geographic areas that do not bring in specific technical expertise, we do so to better service our clients and to add growth in the area.

On December 21, 2012, we entered into an agreement pursuant to which we agreed to purchase all of the authorized, issued and outstanding shares of Meridian Clinical Laboratory, Corp. (MCL), a Florida corporation. Information about MCL and the agreement may be found in the Form 8-K we filed with the Securities and Exchange Commission on December 21, 2012. MCL is a small laboratory located in the heart of the South Florida Hispanic community and will serve as a base of operations for our Florida LBS program. This acquisition will be our Florida presence for LBS.

On December 31, 2012, we entered into an agreement pursuant to which we agreed to purchase all of the authorized, issued and outstanding shares of Florida Clinical Laboratory, Inc. (FCL), a Florida corporation. Information about FCL and the agreement may be found in the Form 8-K we filed with the Securities and Exchange Commission on January 4, 2013. FCL had excess capacity and a strong presence in an underserved area of testing in Florida; its facilities provide the Company with better capability in Florida while expanding our service into an underserved area for testing.

On April 27, 2012, we entered into an agreement pursuant to which we purchased preferred shares of IncellDx, Inc. (IncellDx), a Delaware corporation. Information about IncellDx and the agreement may be found in the Current Report on Form 8-K we filed on May 1, 2012. InCellDx developed a valuable test for more positively identifying the likelihood that a woman may have cervical cancer than HPV testing alone. The Company has since introduced GenCerv based on the technology developed at InCellDx.

Table of Contents

On August 13, 2013 the Company acquired certain assets and liabilities of Hunter Laboratories, Inc. located in the northern California. The gross purchase price was $14,400, $7,000 of which was deferred for various anticipated pre-closing liabilities for periods of up to 36 months following the closing of the acquisition. The acquisition of Hunter assets provides the Company a West Coast presence with complex capability as well as Medi-Cal in-network status. The acquisition from Hunter includes most of its current business and a sophisticated facility that the Company will use as a base of operations for its growing western U.S. business. The Company believes that its existing comprehensive payer relationships will greatly enhance the anticipated business opportunities of the acquisition.

On August 21, 2013 GeneDX, Inc., our wholly owned subsidiary entered into a definitive agreement with Edge BioSystems a CLIA laboratory business to acquire Edge BioServe , primarily a genetic sequencing service business located in Gaithersburg, MD. GeneDx, BRLI s wholly-owned clinical diagnostic sequencing laboratory, will acquire the Edge BioServe genetic sequencing services business. The purchase price will be approximately $3,100 subject to adjustment for certain liabilities of which $375 will be deferred payment for various anticipated pre-closing liabilities. The acquisition will include sequencing equipment and capabilities that are expected to enhance the ability of GeneDx to maintain and improve its position as a premier provider of clinical genetic sequencing services. GeneDx is one of the leading full service genetic laboratories in the world and the Company believes the additional capacity and technical expertise that will result from this acquisition will greatly enhance the opportunity for further growth and expansion of the GeneDx service offerings. The acquisition will provide GeneDx with additional equipment on multiple testing platforms operating in a CLIA-certified environment as well as additional infrastructure for R&D initiatives.

While we recognize that we are a clinical laboratory that processes samples, we also understand that we are an information company that needs to effectively communicate the results of our efforts back to healthcare providers. Laboratory results play a major role in the implementation of physician healthcare. Laboratory results are used to diagnose, monitor and classify health concerns. In many cases, laboratory results represent the confirming data in diagnosing complicated health issues. Since laboratory results play such an important role in routine physician care, we have developed informatics solutions that leverage our role in healthcare. We built a web-based solution to quickly, accurately, conveniently and competitively collect ordering information and deliver results. That solution is called CareEvolve. CareEvolve is a basic tool for our own operations. We license the technology to other laboratories throughout the country in order for them to more effectively compete against the national mega-laboratories. The laboratories licensing our technology are typically not our competitors since they are outside our regional footprint.

We have also created our PSIMedica business unit that has developed a Clinical Knowledge Management (CKM) System that takes data from enrollment, claims, pharmacy, laboratory results and any other available electronic source to provide both administrative and clinical analysis of a population. The system uses proprietary algorithms to cleanse and configure the data and transfer the resulting information into a healthcare data repository. Using advanced cube technology methodologies, the data can be analyzed from a myriad of views and from highly granular transactional detail to global trended overview. Events such as the Hurricane Katrina disaster in Louisiana and general pressures from the government have made development of an electronic medical record system and Pay-for Performance reimbursement priority goals in the healthcare industry. A large portion of an individual s medical record consists of laboratory data and a key performance indicator in any Pay-for-Performance initiative is laboratory result data. Our CKM system is a mature, full functioning solution that will allow us to play a role in these important national initiatives.

To date, neither our PSIMedica business unit nor CareEvolve have produced significant independent revenues relative to the primary laboratory operations, but they are important tools that we offer in the ordinary course of our laboratory business operations.

Recent Events:

Effective February 27, 2013, we announced that we will be offering NonInvasive PreNatal Testing (NIPT) through the Natera Panorama program. NIPT is a substitute for invasive amniocentesis and CVS testing and reduces risks associated with the testing process itself. We believe that offering an NIPT test enhances our Women s Health program and helps us to be a more comprehensive solution for the Obstetrician office.

We adopted the Accounting Standard Update (ASU) No. 2011-07: Health Care Entities (Topic 954) Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities commencing with the current fiscal year, the first year such standard is required for the Company, We believe this update will have no material impact on the Company s financial statements.

Although this update does not have a material impact on the Company s financial statements as a whole, this update requires that we adjust the presentation of our statement of operations along with prior periods presented in this report to maintain comparability. As the result of this change in presentation, our Net Revenues , Gross Profit on Revenues and our General and Administrative Expenses will change while our Operating Income , Net Income and Earnings per Share will remain the same. The presentation is adjusted for a portion of our Bad Debt Expense that is now reported in our Net Revenues as required under ASU No. 2011-7.

Note [4] to our financial statements includes a table that shows the amount of Bad Debt expense relating to patient service revenue that was moved from the Selling and Administrative expense section of our statement of operations to the Net Revenue section.

Third Quarter Fiscal 2013 Compared to Third Quarter Fiscal 2012

The numbers in this comparison are affected by the change in presentation on our statement of operations as the result of the Company adopting ASU 2011-7 on November 1, 2012. See discussion of ASU 2011-7 in the notes to our consolidated financial statements for more information.

NET REVENUES:

Net revenues for the three-month period ended July 31, 2013 were $185,427 as compared to $160,532 for the three-month period ended July 31, 2012. This represents a 15% increase in net revenues. This increase is due to an 8% increase in patient counts and an increase in revenue per patient of 7% due to a shift in business to higher reimbursement esoteric testing, which continues to be the principal driver in increasing net revenue per patient. The number of patients serviced during the three-month period ended July 31, 2013 was 2,161, which was 8% greater when compared to the prior fiscal year s corresponding three-month period. This increase in patient counts is mainly due to the overall success of all our lines of business. Net revenue per patient for the three-month period ended July 31, 2013 was $85.25 compared to net revenue per patient of $79.75 for the three-month period ended July 31, 2012, an increase of 7%.

Our revenues and patient counts could be adversely affected by a number of factors, including, but not limited, to an extended economic downturn in general

Table of Contents

or healthcare economic conditions, an unexpected reduction in reimbursement rates, increased market penetration by our competitors or a substantial adverse change in federal regulatory requirements governing our industry as well as a failure to continue the sizeable annual percentage increase in base business from significantly higher levels after 19 years of sustained growth.

Many provisions of Affordable Care Act (ACA) became effective January 1, 2013. At this time we are not yet aware as to how this will affect our revenues.

COST OF SERVICES:

Cost of services increased from $86,253 for the three-month period ended July 31, 2012 to $99,767 for the three-month period ended July 31, 2013, an increase of 16%. This increase in cost of services is basically in line with the increase in net revenues.

GROSS PROFITS:

Gross profits increased from $74,279 for the three-month period ended July 31, 2012 to $85,660 for the three-month period ended July 31, 2013, an increase of 15%. Gross profit margin remained the same at 46%.

GENERAL AND ADMINISTRATIVE EXPENSES:

General and administrative expenses for the three-month period ending July 31, 2012 were $51,605 as compared to $60,601 for the quarter ended July 31, 2013, an increase of 17%. This increase is slightly more than the increase in our net revenues as the result of additional employee related expenses incurred by the Company that increased by 23% this quarter over the corresponding quarter in fiscal 2012.

INTEREST EXPENSE:

Interest expense decreased to $350 during the three-month period ending July 31, 2013 from $382 during the three-month period ended July 31, 2012. This decrease is due to a decrease in the utilization of our PNC Bank s credit line.

NET INCOME:

We realized net income of $14,701 for the three-month period ended July 31, 2013, as compared to $12,596 for the three-month period ended July 31, 2012, an increase of 17%. Pre-tax income for the period ended July 31, 2012 was $22,182, compared to $25,755 for the three-month period ended July 31, 2013, an increase of 16%. The provision for income taxes increased to $11,054 for the three-month period ended July 31, 2013 from $9,586 for the period ended July 31, 2012. During the quarter ended July 31, 2013 the Company received a refund of $1,062 for its New York State clinical laboratory inspection fee that was included in other income.

Nine Months 2013 Compared to Nine Months 2012

NET REVENUES:

Net revenues for the nine-month period ended July 31, 2013 were $523,136 as compared to $450,767 for the nine-month period ended July 31, 2012. This represents a 16% increase in net revenues. This increase is due to an 8% increase in patient counts and an increase in revenue per patient of 8% due to a shift in business to higher reimbursement esoteric testing, which continues to be the principal driver in increasing net revenue per patient. The number of patients serviced during the nine-month period ended July 31, 2013 was 6,199, which was 8% greater when compared to the prior fiscal year   s corresponding nine-month period. This increase in patient counts is mainly due to the overall success of all our lines of business. Net revenue per patient for the nine-month period ended July 31, 2012 was $77.63 compared to net revenue per patient for the nine-month period ended July 31, 2013 of $83.83, an increase of 8%.

Our revenues and patient counts could be adversely affected by a number of factors, including, but not limited, to an extended economic downturn in general or healthcare economic conditions, an unexpected reduction in reimbursement rates, increased market penetration by our competitors or a substantial adverse change in federal regulatory requirements governing our industry as well as a failure to continue the sizeable annual percentage increase in base business from significantly higher levels after 19 years of sustained growth.

COST OF SERVICES:

Cost of services increased to $285,878 for the nine-month period ended July 31, 2013 from $248,837 for the nine-month period ended July 31, 2012. This represents a 15% increase in direct operating costs. This increase in cost of services is basically in line with the increase in sales.

GROSS PROFITS:

Gross profits on net revenues increased to $237,258 for the nine-month period ended July 31, 2013 from $201,930 for the nine-month period ended July 31, 2012; an increase of 17%. Gross profit margins remained the same at 45% for the nine-month period ended July 31, 2013 compared to the corresponding nine-month period ended July 31, 2012.

GENERAL AND ADMINISTRATIVE EXPENSES:

General and administrative expenses for the nine-month period ended July 31, 2013 were $175,731 as compared to $149,202 for the nine-month period ended July 31, 2012. This represents an increase of 18%. This increase is 2% more than the increase in net revenues. This increase is basically in line with the increase to our net revenues.

INTEREST EXPENSE:

Interest expense decreased to $1,077 during the nine-month period ending July 31, 2013 as compared to $1,153 during the nine-month period ending July 31, 2012, a decrease of $76. This decrease is due to primarily a decrease in our utilization of our PNC Bank credit line.

INCOME:

We realized net income of $34,704 for the nine-month period ended July 31, 2013 as compared to $29,267 for the nine-month period ended July 31, 2012, an increase of 19%. Our operating income increased by 17% for the nine-month period ended July 31, 2013 as compared to the nine-month period ended July 31, 2012. Pre-tax income for the nine-month period ended July 31, 2013 was $61,324 as compared to $51,549 for the period ended July 31, 2012, an increase of 19%. The provision for income taxes increased from $22,282 for the period ended July 31, 2012, to $26,620 for the current nine-month period; an increase of 19%.

LIQUIDITY AND CAPITAL RESOURCES:

Our working capital at July 31, 2013 was $168,371 as compared to $151,625 at October 31, 2012, an increase of 11%. Our cash position increased by

Table of Contents

$3,424 during the current period. We increased our short-term debt by $22 and repaid $367 in existing debt. We had current liabilities of $105,012 at July 31, 2013. We generated $16,975 in cash from operations, compared to $36,561 for the nine-month period ended July 31, 2012, an overall decrease of $19,586 in cash generated from operations year over year.

The decrease is primarily due to slower cash collections. These slower collections are, in the opinion of management, attributable first in part to the expired grandfather provision, a rule that allowed us to bill Medicare directly for in hospital laboratory work that was performed on Medicare patients even though the patient was in the hospital at the time the service was rendered. This exemption expired at the end of 2012 and starting in 2013 we were required to bill the hospital directly for such laboratory work instead of billing Medicare for it. As a consequence of this change collection cycle has increased and in some cases prices may have decreased. The second reason for slower collection, in our opinion, involves changes in the molecular coding around the country by Medicare and in some cases Medicaid, who have simply stopped paying at all for these molecular tests. These reimbursement levels are set my CMS. With regard to payments by Medicare, there still remain many of these tests whose reimbursement has not been determined by the carrier. Another reason for slower collections is the change in the Blue Cross Blue Shield (BCBS) reimbursement practices whereby instead of billing BCBS for all of the laboratory services preformed nationwide on one bill we are now required to bill each local BCBS only for the services preformed based on the location where a patient s sample was drawn. This new practice, also effective in 2013, significantly increased the complexity of our BCBS billing and collection processes. In many cases billings were delayed for some time until prices were loaded in the various systems around the country. Lastly, slower collections occurred due to a dispute with Horizon Blue Cross Blue Shield of New Jersey (Horizon BCBSNJ) concerning Horizon BCBSNJ s obligation to pay Bio-Reference with respect to certain of its insurance plans. There continues to be ongoing communications, however we are uncertain as to whether this will be resolved through negotiations or must be litigated.

Accounts receivable, net of allowance for doubtful accounts, totaled $191,798 at July 31, 2013, an increase of $38,551 or 25% from October 31, 2012. Cash collected during the three-month period ended July 31, 2013 increased 4% over the comparable prior year three-month period.

Credit risk with respect to accounts receivable is generally diversified due to the large number of patients and payers comprising our client base. We have significant receivable balances with government payors and various insurance carriers. Generally, we do not require collateral or other security to support customer receivables. However, we continually monitor and evaluate our client acceptance and collection procedures to minimize potential credit risks associated with our accounts receivable and establish an allowance for uncollectible accounts. As a consequence, we believe that our accounts receivable credit risk exposure beyond such allowance is not material.

A number of proposals for legislation continue to be under discussion that could substantially reduce Medicare and Medicaid reimbursements to clinical laboratories. Depending upon the nature of any regulatory action, and the content of legislation, we could experience a significant decrease in revenues from Medicare and Medicaid, which could have a material adverse effect on us. We are unable to predict, however, the extent of which such actions will be taken if at all.

Billing for laboratory services is complicated and we must bill various payors, such as the individual, the insurance company, the government (federal or state), the private company or the health clinic. Other factors that may complicate billing include:

Differences between fee schedules and actual reimbursement rates.

Incomplete or inaccurate billing information provided by physicians or clinics.

Disparity in coverage and information requirements.

Disputes with payors.

Internal and external compliance policies and procedures.

Significant costs are incurred as a result of our participation in government programs since billing and reimbursement for laboratory tests are subject to complex regulations. We perform the requested tests and report the results whether the billing information is correct or not or even missing. This adds to the complexity and slows the collection process and increases the aging of our accounts receivable (A/R). When patient invoices are not collected in a timely manner, the item is written off to the allowance. Days Sales Outstanding (DSO) for the period ended July 31, 2013 was 95 days, an increase of 11 days, or about 13%, from the 84 days that we reported for the period ended July 31, 2012, computed under the new method taking into account the change in presentation for patient service revenue provision for bad debts. Depending on the period in question, our actual collections represent between 98% and 102% of our net collectable revenues after giving effect to our DSO lag.

See Notes to our consolidated financial statements for the information on our short and long term debt.

We intend to expand our laboratory operations organically through marketing while also diversifying into related medical fields through acquisitions. These acquisitions may involve cash, notes, common stock and/or combinations thereof.

Tabular Disclosure of Contractual Obligations

	Next Four Years and Thereafter ($)	**FY 2013 ($)**
Long-Term Debt	4,627	458
Capital Leases	5,395	1,200
Operating Leases	15,250	7,127
Purchase Obligations	91,073	23,758
Long-Term Liabilities under Employment and Consultant Contracts	16,961	4,982

Our cash balance at July 31, 2013 totaled $28,567 as compared to $25,143 at October 31, 2012. We believe that our cash position, the anticipated cash generated from future operations and the availability of our credit line with PNC Bank will meet our anticipated cash needs for the next 12 months.

Table of Contents

Impact of Inflation

To date, inflation has not had a material effect on our operations.

Critical Accounting Policies

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported periods.

Accounting for Intangible and Other Long-Lived Assets

We evaluate the possible impairment of our long-lived assets, including intangible assets. We review the recoverability of our long-lived assets when events or changes in circumstances occur that indicate that the carrying value of the asset may not be recoverable. Evaluation of possible impairment is based on our ability to recover the asset from the expected future pretax cash flows (undiscounted and without interest charges) of the related operations. If the expected undiscounted pretax cash flows are less than the carrying amount of such asset, an impairment loss is recognized for the difference between the estimated fair value and the carrying amount of the asset.

Accounting for Revenue

Service revenues are principally generated from laboratory testing services including chemical diagnostic tests such as blood analysis, urine analysis and genetic testing among others. Service revenues are recognized at the time the testing services are performed and are reported at their estimated net realizable amounts.

Service revenues before provision for bad debts are determined utilizing gross service revenues net of contractual adjustments and discounts. Even though it is the responsibility of the patient to pay for laboratory service bills, most individuals in the United States have an agreement with a third party payor such as Medicare, Medicaid or a commercial insurance provider to pay all or a portion of their healthcare expenses; the majority of services provided by Bio-Reference Laboratories, Inc. (BRLI) are to patients covered under a third party payor contract. In certain cases, the individual has no insurance or does not provide insurance information and in other cases tests are performed under contract to a professional organization (such as physicians, hospitals, and clinics) which reimburse BRLI directly; in the remainder of the cases, BRLI is provided the third party billing information and seeks payment from the third party under the terms and conditions of the third party payor for health service providers like BRLI. Each of these third party payors may differ not only with regard to rates, but also with regard to terms and conditions of payment and providing coverage (reimbursement) for specific tests. Estimated revenues are established based on a series of highly complex procedures and judgments that require industry specific healthcare experience and an understanding of payor methods and trends. We review our calculations on a monthly basis in order to make certain that we are properly allowing for the uncollectable portion of our gross billings due to the contractual adjustments and discounts and that our estimates remain sensitive to variances and changes within our payor groups. The contractual allowance calculation is made on the basis of historical allowance rates for the various specific payor groups on a monthly basis with a greater weight being given to the most recent trends; this process is adjusted based on recent changes in underlying contract provisions and shifts in the testing being performed. This calculation is routinely analyzed by BRLI on the basis of actual allowances issued by payors and the actual payments made to determine what adjustments, if any, are needed. The table below shows the adjustments made to gross service revenues to arrive at net revenues, the amount reported on our statement of operations.

	Three Months Ended July 31, [Unaudited]		**Nine Months Ended July 31, [Unaudited]**	
	2013	**2012**	**2013**	**2012**
Gross Service Revenues	905,713	790,524	2,565,929	2,238,162
Contractual Adjustments and Discounts:				
Medicare/Medicaid Portion	91,173	81,587	259,433	237,645
All Other Third Party Payors*	612,769	536,635	1,740,265	1,514,909
Total Contractual Adjustments and Discounts	703,942	618,222	1,999,698	1,752,554
Service Revenues Net of Contractual Adjustments and Discounts	201,771	172,302	566,231	485,608
Patient Service Revenue Provision for Bad Debts**	16,344	11,770	43,095	34,841
Net Revenues	185,427	160,532	523,136	450,767

* All Other Third Party and Direct Payors consists of almost eight hundred distinct payors, including commercial health insurers and administrators as well as professionally billed accounts such as physicians, hospitals, clinics and other direct billed accounts.

** Represents the amount of Bad Debt Expense that is now required to be presented as a deduction from patient service revenue (net of contractual allowances and discounts) pursuant to ASU No. 2011-7.

When new business is received by BRLI, service revenues net of contractual adjustments and discounts are calculated by reducing gross service revenues by the estimated contractual allowance. The Patient Service Revenue Provision for Bad Debts represents the amount of bad debt expense expected to occur on patient service revenue based upon our experience. The remaining bad debt expense is presented as part of operating expenses. The bad debt expense presented as part of operating expense represents the bad debt expense related to receivables from service revenues determined after taking into account our ability to collect on such revenue.

BRLI recognized the amounts in subsequent periods for actual allowances/discounts to gross service revenue; bad debt may have been adjusted over the same periods of time to maintain an accurate balance between net revenues and actual revenues. Management has reviewed the allowances/discounts

Table of Contents

recognized in subsequent periods and believes the amounts to be immaterial. A number of proposals for legislation or regulation continue to be under discussion which could have the effect of substantially reducing Medicare reimbursements for clinical laboratories or introducing cost sharing to beneficiaries. Depending upon the nature of regulatory action, if any, which is taken and the content of legislation, if any, which is adopted, the Company could experience a significant decrease in revenues from Medicare and Medicaid, which could have a material adverse effect on the Company. The Company is unable to predict, however, the extent to which such actions will be taken.

It is typically the responsibility of the patient to pay for laboratory service bills. Most individuals in the United States have an agreement with a third party payor such as Medicare, Medicaid or commercial insurance to pay all or a portion of their healthcare expenses; this represents the major portion of payment for all services provided by BRLI. In certain cases, the individual has no insurance or does not provide insurance information; in the remainder of the cases, BRLI is provided the third party billing information, usually by the referring physician, and seeks payment from the third party under the terms and conditions of the third party payor for health service providers like BRLI. Each of these third party payors may differ not only with regard to rates, but also with regard to terms and conditions of payment and coverage of specific tests. BRLI routinely reviews the reimbursement policies and subsequent payments and collection rates from these different types of payors. Contractual adjustments and discounts are recorded as reductions to gross service revenues and are collectively referred to as the contractual allowance. BRLI has not been required to record an adjustment in a subsequent period related to revenue recorded in a prior period which was material in nature. Aging of accounts receivable is monitored by billing personnel and follow-up activities including collection efforts are conducted as necessary. BRLI writes off receivables against the allowance for doubtful accounts when they are deemed uncollectible. For client billing, accounts are written off when all reasonable collection efforts prove to be unsuccessful. Patient accounts, where the patient is directly responsible for all or a remainder portion of the account after partial payment or denial by a third party payor, are written off after the normal dunning cycle has occurred, although these may be subsequently transferred to a third party collection agency after being written off. Third party payor accounts are written off when they exceed the payer s timely filing limits. Accounts Receivable on the balance sheet is net of the following amounts for contractual credits and doubtful accounts:

	($)	
	[Unaudited] July 31, 2013	**October 31, 2012**
Contractual Credits/Discounts	358,020	267,921
Doubtful Accounts	60,427	51,274
Total Allowance	418,447	319,195

Item 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK [Not in Thousands]

We do not invest in or trade instruments that are sensitive to market risk. We also do not have any material foreign operations or foreign sales so we have no exposure to foreign currency exchange rate risk.

We do have exposure to both rising and falling interest rates. At July 31, 2013, advances of approximately $16,576,000 under our Loan Agreement with PNC Bank were subject to interest charges at the bank s then prime rate of 3.50%.

We estimate that our monthly cash interest expense at July 31, 2013 was approximately $180,000 and that a one percentage point increase or decrease in short-term rates would increase or decrease our monthly interest expense by approximately $26,000.

Item 4 CONTROLS AND PROCEDURES

An evaluation was performed under the supervision and with the participation of our management, including our principal executive officer and our principal financial officer, as to the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, our principal executive officer and our principal financial officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC forms and rules, and include controls and procedures designed to ensure that information required to be disclosed by us in such reports is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

There have been no changes in our internal control over financial reporting during the fiscal quarter ended July 31, 2013 that has materially affected, or is reasonably likely to materially affect, the registrant s internal control over financial reporting.

Table of Contents

BIO-REFERENCE LABORATORIES, INC.

PART II OTHER INFORMATION

Item 6 EXHIBITS

31.1	Certification of Chief Executive Officer
31.2	Certification of Chief Financial Officer
32.1	Certification Pursuant to 18 U.S.C. Section 1350 of Chief Executive Officer
32.2	Certification Pursuant to 18 U.S.C. Section 1350 of Chief Financial Officer
101	Interactive Data File

Table of Contents

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.

BIO-REFERENCE LABORATORIES, INC.
(Registrant)

/S/ Marc D. Grodman M.D.
Marc D. Grodman, M.D.
President and Chief Executive Officer

/S/ Sam Singer
Sam Singer
Senior Vice President, Chief Financial and Chief Accounting Officer

Date: September 6, 2013