

BIO REFERENCE LABORATORIES INC
Form 10-Q
June 08, 2004

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended April 30, 2004

Commission File Number 0-15266

BIO-REFERENCE LABORATORIES, INC.

481 Edward H. Ross Drive, Elmwood Park, NJ 07407

(201) 791-2600

NEW JERSEY
(State of incorporation)

22-2405059
(IRS Employer Identification No.)

Check whether the issuer (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 No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 12,028,023 shares of Common Stock (\$.01 par value) at June 1, 2004.

BIO-REFERENCE LABORATORIES, INC.

FORM 10-Q

APRIL 30, 2004

INDEX

PART I. FINANCIAL INFORMATION

- Item 1. Financial Statements
Consolidated Balance Sheet as of April 30, 2004 (unaudited) and October 31, 2003

Consolidated Statements of Operations for the three months and six months ended April 30, 2004 and April 30, 2003 (unaudited)

Consolidated Statements of Cash Flows for the six months ended April 30, 2004 and April 30, 2003 (unaudited)

Notes to consolidated financial statements (Unaudited)
- Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
- Item 4. Controls and Procedures

PART II. OTHER INFORMATION

- Item 6. Exhibits and Reports on Form 8-K

Signatures

Certifications

BIO-REFERENCE LABORATORIES, INC. AND SUBSIDIARIES**CONSOLIDATED BALANCE SHEETS**

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

ASSETS

	April 30, 2004 (Unaudited)	October 31, 2003
<u>CURRENT ASSETS:</u>		
Cash and Cash Equivalents	\$ 5,882	\$ 3,966
Accounts Receivable (Net)	36,660	32,913
Inventory	1,181	1,088
Other Current Assets	622	763
<u>TOTAL CURRENT ASSETS</u>	\$ 44,345	\$ 38,730
<u>PROPERTY, PLANT AND EQUIPMENT</u>		
	\$ 9,894	\$ 7,485
<u>LESS: Accumulated Depreciation</u>	3,592	2,722
<u>TOTAL PROPERTY, PLANT AND EQUIPMENT - NET</u>	\$ 6,302	\$ 4,763
<u>OTHER ASSETS:</u>		
Deposits	350	314
Goodwill (Net of Accumulated Amortization of \$2,401)	5,843	5,843
Deferred Charges (Net of Accumulated Amortization of \$2,922 and \$2,654 respectively)	2,593	2,299
Other Assets	992	1,270
<u>TOTAL OTHER ASSETS</u>	\$ 9,778	\$ 9,726
<u>TOTAL ASSETS</u>	\$ 60,425	\$ 53,219

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

LIABILITIES AND SHAREHOLDERS EQUITY

	April 30, 2004	October 31, 2003
	(Unaudited)	
<u>CURRENT LIABILITIES:</u>		
Accounts Payable	\$ 9,080	\$ 7,900
Salaries and Commissions Payable	1,783	1,719
Accrued Taxes and Expenses	478	1,789
Current Portion of Capital Leases Payable	1,087	933
Revolving Note Payable	11,188	8,718
<u>TOTAL CURRENT LIABILITIES</u>	\$ 23,616	\$ 21,059
<u>LONG-TERM LIABILITIES:</u>		
Long-Term Portion of Capital Leases Payable	2,344	2,127
Other Long-Term Liabilities	50	75
<u>TOTAL LONG-TERM LIABILITIES</u>	\$ 2,394	\$ 2,202
<u>COMMITMENTS AND CONTINGENCIES</u>		
<u>SHAREHOLDERS EQUITY:</u>		
Preferred Stock \$.10 Par Value; Authorized 1,059,589 shares, None Issued	\$	\$
Series A Senior Preferred Stock, \$.10 Par Value; Authorized Issued and Outstanding 604,078 shares	60	60
Series A - Junior Participating Preferred Stock, \$.10 Par Value, Authorized 3,000 Shares.		
Common Stock, \$.01 Par Value; Authorized shares, Issued and Outstanding shares 12,008,773 at April 30, 2004 and 11,451,023 shares at October 31, 2003	120	115
Additional Paid-In Capital	29,519	27,907
Retained Earnings	5,194	2,315
Totals	\$ 34,893	\$ 30,397
Deferred Compensation	(478)	(439)
<u>TOTAL SHAREHOLDERS EQUITY</u>	\$ 34,415	\$ 29,958
<u>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</u>	\$ 60,425	\$ 53,219

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

BIO-REFERENCE LABORATORIES, INC. AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF OPERATIONS**

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

[UNAUDITED]

	Three months ended April 30,		Six months ended April 30,	
	2004	2003	2004	2003
<u>NET REVENUES:</u>	\$ 33,647	\$ 25,951	\$ 62,597	\$ 49,710
<u>COST OF SERVICES:</u>				
Depreciation	\$ 406	\$ 230	\$ 754	\$ 448
Employee Related Expenses	7,651	6,528	14,529	12,927
Reagents and Lab Supplies	5,181	4,166	9,785	7,925
Other Cost of Services	3,860	2,786	7,076	5,597
<u>TOTAL COST OF SERVICES</u>	\$ 17,098	\$ 13,710	\$ 32,144	\$ 26,897
<u>GROSS PROFIT ON REVENUES</u>	\$ 16,549	\$ 12,241	\$ 30,453	\$ 22,813
<u>General and Administrative Expenses:</u>				
Depreciation and Amortization	\$ 192	\$ 170	\$ 382	\$ 330
Other General and Admin. Expenses	8,926	7,090	17,349	14,099
Bad Debt Expense	3,904	3,106	7,581	5,760
<u>TOTAL GENERAL AND ADMIN. EXPENSES</u>	\$ 13,022	\$ 10,366	\$ 25,312	\$ 20,189
<u>OPERATING INCOME</u>	\$ 3,527	\$ 1,875	\$ 5,141	\$ 2,624
<u>OTHER (INCOME) EXPENSES:</u>				
Interest Expense	\$ 151	\$ 186	\$ 308	\$ 398
Interest Income	(8)	(6)	(13)	(13)
<u>TOTAL OTHER EXPENSES - NET</u>	\$ 143	\$ 180	\$ 295	\$ 385
<u>INCOME BEFORE TAX</u>	\$ 3,384	\$ 1,695	\$ 4,846	\$ 2,239

Edgar Filing: BIO REFERENCE LABORATORIES INC - Form 10-Q

Provision for Income Taxes	1,425	172	1,967	246
NET INCOME	\$ 1,959	\$ 1,523	\$ 2,879	\$ 1,993
NET INCOME PER SHARE - BASIC:	\$.16	\$.13	\$.25	\$.17
WEIGHTED AVERAGE NUMBER OF SHARES - BASIC:	11,920,106	11,487,316	11,721,356	11,541,283
NET INCOME PER SHARE - DILUTED:	\$.15	.12	.22	.16
WEIGHTED AVERAGE NUMBER OF SHARES - DILUTED:	13,187,758	12,665,047	13,002,727	12,774,153

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

BIO-REFERENCE LABORATORIES, INC. AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF CASH FLOWS**

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

[UNAUDITED]

	Six months ended April 30,	
	2004	2003
<u>OPERATING ACTIVITIES:</u>		
Net Income	\$ 2,879	\$ 1,993
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities:		
Deferred Compensation	97	76
Depreciation and Amortization	1,136	777
Deferred Income Taxes		100
Provision for Bad Debts	7,581	5,760
Change in Assets and Liabilities:		
(Increase) Decrease in:		
Accounts Receivable	(11,113)	(7,725)
Inventory	(93)	46
Other Current Assets	141	259
Deferred Charges	(44)	
Other Assets and Deposits	242	23
Increase (Decrease) in:		
Accounts Payable and Accrued Liabilities	(278)	(532)
<u>NET CASH - OPERATING ACTIVITIES</u>	548	777
<u>INVESTING ACTIVITIES:</u>		
Acquisition of Equipment and		
Leasehold Improvements	\$ (1,344)	\$ (515)
Acquisition of Business Entity	(546)	
<u>NET CASH - INVESTING ACTIVITIES</u>	\$ (1,890)	\$ (515)
<u>FINANCING ACTIVITIES:</u>		
Proceeds from Exercise of Options	\$ 1,481	\$ 56
Stock Repurchase		(944)
Payments of Long-Term Debt		(400)
Payments of Capital Lease Obligations	(693)	(332)
Increase (Decrease) in Revolving Line of Credit	2,470	1,639

Edgar Filing: BIO REFERENCE LABORATORIES INC - Form 10-Q

<u>NET CASH - FINANCING ACTIVITIES</u>	\$	3,258		19
<u>NET INCREASE IN CASH AND CASH EQUIVALENTS</u>	\$	1,916	\$	281
<u>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIODS</u>		3,966		3,403
<u>CASH AND CASH EQUIVALENTS AT END OF PERIODS</u>	\$	5,882	\$	3,684
<u>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</u>				
Cash paid during the period for:				
Interest	\$	308	\$	269
Income Taxes	\$	1,967	\$	7

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

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

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

During the six month periods ended April 30, 2004 and April 30, 2003 the Company entered into capital leases totaling \$1,065 and \$151, respectively.

In February 2004 the Company acquired certain assets of a diagnostic facility for approximately \$546 including costs related to the acquisition. The acquisition price was allocated to the acquired assets with a fair value as follows:

Non-Compete Agreement	\$	5
Customer List		466
Deferred Acquisition costs		46
Accounts Receivable		215
Accounts Payable		(186)
Purchase Price	\$	546

During the six month period ended April 30, 2004 the Company recorded deferred compensation costs of approximately \$136.

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

BIO-REFERENCE LABORATORIES, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****[Dollars In Thousands Except Per Share Data, Or Unless Otherwise Noted]****(UNAUDITED)**

[1] In the opinion of management, the accompanying unaudited consolidated financial statements reflect all adjustments [consisting only of normal adjustments and recurring accruals] which are necessary to present a fair statement of the results for the interim periods presented and do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

[2] The results of operations for the six months ended April 30, 2004 are not necessarily indicative of the results to be expected for the entire year.

[3] The consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes for the year ended October 31, 2003 as filed with the Securities and Exchange Commission in the Company's Annual Report on Form 10-K.

[4] The significant accounting policies followed by the Company are set forth in Note 2 to the Company's consolidated financial statements in the October 31, 2003 Form 10-K.

[5] Revenues are recognized at the time the services are performed. Revenues on the statement of operations are net of the following amounts for allowances and discounts.

	Three Months Ended April 30 [Unaudited]		Six Months ended April 30 [Unaudited]	
	2004	2003	2004	2003
	Medicare/Medicaid	\$ 23,275	\$ 18,721	\$ 43,790
Other	28,671	19,411	51,498	37,609
	\$ 51,946	\$ 38,132	\$ 95,288	\$ 73,265

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. 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.

[6] An allowance for contractual credits and uncollectible accounts is determined based upon a review of the reimbursement policies and subsequent collections for the different types of payors. The aggregate allowance, which is net against accounts receivable was \$35,511 at April 30, 2004 and \$29,185 at October 31, 2003 and is comprised of the following items:

	[Unaudited]	
	April 30, 2004	October 31, 2003
Contractual Credits/Discounts	\$ 29,675	\$ 24,026
Doubtful Accounts	5,836	5,159
	\$ 35,511	\$ 29,185

[7] In December 2003, FASB issued Interpretation No. 46R, Consolidation of Variable Interest Entities, which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. This Interpretation replaces Interpretation 46, Consolidation of Variable Interest entities, an interpretation of ARB No. 51, which was issued in January 2003. The Company will be required to apply Interpretation No. 46R to variable interests in variable interest entities created after December 31, 2003. For variable interests in variable interest entities created before January 1, 2004, Interpretation No. 46R will be applied beginning on February 1, 2004. The Company currently does not have any controlling financial

interests that are within the scope of this Interpretation.

In May 2003, FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. SFAS No. 150 establishes standards for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. The Statement also includes required disclosures for financial instruments within its scope. For certain mandatorily redeemable financial instruments, the Statement will be effective for the Company on November 1, 2004. The effective date has been deferred indefinitely for certain other types of mandatorily redeemable financial instruments. The Company currently does not have any financial instruments that are within the scope of SFAS No. 150.

[8] At April 30, 2004, the Company had three stock-based employee compensation plans. The Company accounts for those plans under the measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provision of FASB Statement No. 123 to stock-based employee compensation.

	Three Months Ended April 30,		Six Months Ended April 30,	
	2004	2003	2004	2003
Net Income (Loss):				
As Reported	\$ 1,959	\$ 1,523	\$ 2,879	\$ 1,993
Deduct: Stock Based Employee compensation expense determined under the fair value based method-Net of Tax	\$ (.16)	\$ (117)	\$ (681)	\$ (541)
Pro-Forma Net income	\$ 1,943	\$ 1,406	\$ 2,198	\$ 1,452
Basic Earnings (Loss) Per Share:				
As Reported	\$ 0.16	\$ 0.13	\$ 0.25	\$ 0.17
Pro-Forma	\$ 0.16	\$ 0.12	\$ 0.19	\$ 0.13
Diluted Earnings (Loss) Per Share:				
As Reported	\$ 0.15	\$ 0.12	\$ 0.22	\$ 0.16
Pro-Forma	\$ 0.15	\$ 0.11	\$ 0.17	\$ 0.11

[9] The following disclosures present certain information on the Company's intangible assets as of April 30, 2004 (Unaudited) and October 31, 2003. All intangible assets are being amortized over their estimated useful lives, as indicated below, with no estimated residual value.

Edgar Filing: BIO REFERENCE LABORATORIES INC - Form 10-Q

Intangible Assets	Weighted-Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Balance
At April 30, 2004 [Unaudited]				
Software Costs	5 years	1,535	789	746
Customer Lists	20 years	1,696	818	878
Covenants not-to-Compete	2 years	124	119	5
Employment Agreements	7 years	825	596	229
Costs Related to Acquisitions	19 years	1,180	536	644
Patent	17 Years	156	65	91
Totals		\$ 5,516	\$ 2,923	\$ 2,593

Intangible Assets	Weighted-Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Balance
At October 31, 2003				
Software Costs	5 years	1,535	647	888
Customer Lists	20 years	1,230	783	447
Covenants not-to-Compete	2 years	119	119	
Employment Agreements	7 years	825	532	293
Costs Related to Acquisitions	19 years	1,088	512	576
Patent	17 Years	156	61	95
Totals		\$ 4,953	\$ 2,654	\$ 2,299

The aggregate intangible amortization expense for the three and six months ended April 30, 2004 and 2003 was \$127 and the estimated intangible asset amortization expense for the fiscal year ending October 31, 2004 and for the four subsequent years is as follows:

Fiscal Year Ended October 31,	Estimated Amortization Expense
2004	545
2005	533
2006	391

Edgar Filing: BIO REFERENCE LABORATORIES INC - Form 10-Q

2007		178
2008		136
Thereafter		516
Total	\$	2,299

[10] On January 22, 2004, the Company was informed that IMPATH, Inc., as a debtor-in-possession had commenced an adversary proceeding in Bankruptcy Court in the Southern District of New York against James Weisberger, M.D., Vice President, Assistant Chief Medical Officer and Director of Hematopathology of the Company, alleging that Dr. Weisberger had, among other things, misappropriated certain of IMPATH's alleged trade secrets and had unlawfully solicited former IMPATH employees to commence employment with the Company. The Company was not named as a party to this lawsuit. Management of the Company and Dr. Weisberger believe that the allegations in this proceeding are baseless and totally without merit and intend to fully contest the matter. Impath, Inc. has withdrawn its lawsuit against Dr. Weisberger.

[11] The Company has a revolving note payable loan under a Loan and Security agreement with a bank. The maximum amount of the credit line available to the Company is the lesser of (i) \$25,000 or (ii) 50% of the Company's qualified accounts receivable [as defined in the agreement]. Based on a January 2002 amendment of the Loan and Security Agreement, interest on advances will be subject to the bank's prime rate or Eurodollar rate of interest plus an additional interest percentage. The additional interest percentage charges on Eurodollar borrowings range from 1% to 3% and are determined based upon certain financial ratios achieved by the Company. At April 30, 2004, the Company had elected to have \$6,000 of the total advances outstanding converted into a Eurodollar rate loan with a variable interest rate of 2.74% at April 30, 2004. The remaining outstanding advances during that period were subject to the prime rate of interest. At April 30, 2004, advances of \$5,188 were subject to interest at the prime rate. As of April 30, 2004, the bank's prime rate of interest was 4.00%. The credit line is collateralized by substantially all of the Company's assets, the assignment of Care Evolve's \$615 promissory note payable out of the Company's share of Care Evolve's net after-tax income [if any], and a \$4,000 life insurance policy on the president of the Company also assigned to the bank. The line of credit is available through September 2004 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 net worth, various financial ratios, insurance coverage and the prohibition of the payment by the Company of cash dividends without the prior written consent of the bank. Effective September 2003, the Company amended its loan agreement to increase its annual capital expenditure covenant to \$3,000. As of April 30, 2004, the Company utilized \$11,188 and had \$8,812 of available unused credit under this revolving note payable loan.

Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains historical information as well as forward-looking statements. Statements looking forward in time are included in this Quarterly 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 that may cause our actual results in future periods to be materially different from any future performance suggested herein. For a further discussion concerning risks to our business, the results of our operations and our financial condition, reference is made to our Annual Report on Form 10-K for the year ended October 31, 2003.

OVERVIEW:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period. While many aspects of our business are subject to complex federal, state and local regulations, the accounting for our business is generally straightforward. Our revenues are primarily comprised of a high volume of relatively low dollar transactions, and about 46% of all our costs consist of employee compensation and benefits. Revenues are recognized at the time the services are performed and are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered including prospectively determined adjustments under reimbursement agreements with third-party payors. These adjustments are accrued on an estimated basis in the period the services are rendered and adjusted in future periods as final settlements are determined. These estimates are reviewed and adjusted, if warranted, by senior management on a monthly basis. We believe that our estimates and assumptions are correct; however, several factors could cause actual results to differ materially from those currently anticipated due to a number of factors:

our failure to integrate newly acquired businesses (if any) and the cost related to such integration.

our failure to obtain and retain new customers and alliance partners, or a reduction in tests ordered or specimens submitted by existing customers.

adverse results from investigations of clinical laboratories by the government, which may include significant monetary damages and/or exclusion from the Medicare and Medicaid programs.

loss or suspension of a license or imposition of a fine or penalties under, or future changes in, the law or regulations of CLIA-88, or those of Medicare, Medicaid or other federal, state or local agencies.

future changes in federal, state, local and third party payor regulations or policies (or in the interpretation of current regulations) affecting governmental and third-party reimbursement for clinical laboratory testing.

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 HIPAA, which could result in significant fines as well as substantial criminal penalties.

changes in payor mix.

failure to maintain our days sales outstanding levels.

increased competition, including price competition.

our ability to attract and retain experienced and qualified personnel.

adverse litigation results.

We utilize diluted earnings per share (EPS) on pre-tax income as a performance indicator rather than the traditional EPS calculation on an after tax basis. This pre-tax EPS takes out the nuance of tax differences caused by large net operating loss carryforwards which create benefits (which we used in the past) and tax expense (which we expect in the future). Our pre-tax EPS on a diluted basis is shown below:

	Three Months Ended		Six Months Ended
	January 31	April 30	April 30
<u>FY 2003</u>	.04	.13	.18
<u>FY 2004</u>	.11	.26	.37

COMPARISON OF SECOND QUARTER 2004 VS SECOND QUARTER 2003

NET REVENUES:

Net revenues for the three month period ended April 30, 2004 were \$33,647 as compared to \$25,951 for the three month period ended April 30, 2003; which represents a 30% increase in net revenues. This increase is due to a 28% increase in patient counts and a 2% increase in net revenues per patient.

The number of patients serviced during the three month period ended April 30, 2004 was 644 thousand which was 28% greater when compared to the prior fiscal year's three month period. Net revenue per patient for the three month period ended April 30, 2004 was \$52.24 compared to net revenue per patient of \$51.17 for the three month period ended April 30, 2003, an increase of \$1.07 or 2%.

COST OF SALES:

Cost of Services increased from \$13,710 for the three month period ended April 30, 2003 to \$17,098 for the three month period ended April 30, 2004, an increase of \$3,388 or 25%. This increase is 15% less than the increase in net revenues of 30%.

GROSS PROFITS:

Gross profits, increased from \$12,241 for the three month period ended April 30, 2003 to \$16,549 for the three month period ended April 30, 2004; an increase of \$4,308 or 35%. This is primarily attributable to the increase in net revenues and a decrease in indirect costs in relation to net revenues.

GENERAL AND ADMINISTRATIVE EXPENSES:

Edgar Filing: BIO REFERENCE LABORATORIES INC - Form 10-Q

General and administrative expenses for the three month period ending April 30, 2003 was \$10,366 as compared to \$13,022 for the quarter ended April 30, 2004, an increase of \$2,656 or 26%. This increase is in line with the increase in net revenues. However, marketing expense increased \$912 or 39% over the prior comparable period and is the result of our penetration into the oncology market.

INTEREST EXPENSE:

Interest expense decreased to \$151 during the three month period ending April 30, 2004 from \$186 during the three month period ended April 30, 2003. This decrease is due to a decline in the variable interest rates associated with the PNC Bank line of credit. This trend will not continue in the future if interest rates increase.

INCOME:

We realized net income of \$1,959 for the three month period ended April 30, 2004, as compared to \$1,523 for the three month period ended April 30, 2003 an increase of 29%. Pre-tax income for the period ended April 30, 2004 was \$3,384, compared to \$1,695 for the three month period ended April 30, 2003, an increase of \$1,689 (100%). The provision for income taxes increased from \$172 for the three month period ended April 30, 2003 to \$1,425 for the period ended April 30, 2004. This increase was anticipated due to the full utilization of certain Federal and state tax net operating loss carry-forwards in fiscal 2003.

SIX MONTHS 2004 COMPARED TO SIX MONTHS 2003

NET REVENUES:

Net Revenues for the six month period ended April 30, 2004 were \$62,597 as compared to \$49,710 for the six month period ended April 30, 2003; this represents a 26% increase in net revenues. This increase is due to a 24% increase in patient counts and a 2% increase in revenue per patient.

The number of patients serviced during the six month period ended April 30, 2004 was 1,213 thousand which was 24% greater when compared to the prior fiscal year's six month period. Net revenue per patient for the six month period ended April 30, 2004 was \$51.59, compared to net revenue per patient for the six month period ended April 30, 2003 of \$50.38, an increase of \$1.21 or 2%.

COST OF SALES:

Cost of Sales increased to \$32,144 for the six month period ended April 30, 2004 from \$26,897 for the six month period ended April 30, 2003. This represents a 20% increase in direct operating costs. This increase is 30% less than the increase in net revenues of 26%.

GROSS PROFITS:

Gross profits on net revenues, increased to \$30,453 for the six month period ended April 30, 2004 from \$22,813 for the six month period ended April 30, 2003; an increase of \$7,640 (33%). Gross profit margins increased to 49% from 46%, primarily attributable to the operating efficiencies realized with regard to the increase in net revenues.

GENERAL AND ADMINISTRATIVE EXPENSES:

General and administrative expenses for the six month period ended April 30, 2004 were \$25,312 as compared to \$20,189 for the six month period ended April 30, 2003. This represents an increase of \$5,123 or 25%, which was caused primarily by an increase of \$1,425 (30%) in marketing expense and is the result of our penetration into the oncology market.

INTEREST EXPENSE:

Interest expense decreased to \$308 during the six month period ending April 30, 2004 as compared to \$398 during the six month period ending April 30, 2003, a decrease of \$90, and is due to a decline in variable interest rates associated with the PNC Bank line of credit. If interest rates increase due to inflationary pressures, this expense will increase.

INCOME:

We realized net income of \$2,879 for the six months ended April 30, 2004 as compared to \$1,993 for the six month period ended April 30, 2003. Pre-tax income for the six month period ended April 30, 2004 was \$4,846, as compared to \$2,239 for the six month period ended April 30, 2003, an increase of \$2,607 (116%) and was caused primarily by a decrease in expenses in relation to an increase in net revenues. The provision for income taxes increased from \$246 for the six month period ended April 30, 2003 to \$1,967 for the six month period ended April 30, 2004. This increase was anticipated due to the full utilization of certain Federal and state tax net operating loss carry-forwards.

LIQUIDITY AND CAPITAL RESOURCES:

Our working capital at April 30, 2004 was \$20,729 as compared to \$17,671 at October 31, 2003, an increase of \$3,058. Our cash position increased \$1,916 during the current period. We borrowed \$2,470 in short term debt and repaid \$718 in existing debt. We had current liabilities of \$23,616 at April 30, 2004. We generated \$28 in cash from operations, compared to cash generated from operations for the quarter ended April 30, 2003 of \$777.

Accounts receivable, net of allowance for doubtful accounts, totaled approximately \$36,660 at April 30, 2004, an increase of approximately \$3,747 from October 31, 2003, or 11%. This increase was primarily attributable to increased revenue.

Cash collected during the six month period ended April 30, 2004 increased 22% over the prior comparable six month period.

Credit risk with respect to accounts receivable is generally diversified due to the large number of patients comprising the 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. While we maintain what we believe to be an adequate allowance for doubtful accounts, there can be no assurance that our ongoing review of accounts receivable will not result in the need for additional reserves. Such additional reserves could have a material impact on our financial position and results of operations.

The Company has a revolving note payable loan under a Loan and Security agreement with a bank. The maximum amount of the credit line available to the Company is the lesser of (i) \$25,000 or (ii) 50% of the Company's qualified accounts receivable [as defined in the agreement]. Based on a January 2002 amendment of the Loan and Security Agreement, interest on advances will be subject to the bank's prime rate or Eurodollar rate of interest plus an additional interest percentage. The additional interest percentage charges on Eurodollar borrowings range from 1% to 3% and are determined based upon certain financial ratios achieved by the Company. At April 30, 2004, the Company had elected to have \$6,000 of the total advances outstanding converted into a Eurodollar rate loan with a variable interest rate of 2.74% at April 30, 2004. The remaining outstanding advances during that period were subject to the prime rate of interest. At April 30, 2004, advances of \$5,188 were subject to interest at the prime rate. As of April 30, 2004, the bank's prime rate of interest was 4.00%. The credit line is collateralized by substantially all of the Company's assets, the assignment of Care Evolve's \$615 promissory note payable out of the Company's share of Care Evolve's net after-tax income [if any], and a \$4,000 life insurance policy on the president of the Company also assigned to the bank. The line of credit is available through September 2004 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 net worth, various financial ratios, insurance coverage and the prohibition of the payment by the Company of cash dividends without the prior written consent of the bank. Effective September 2003, the Company amended its loan agreement to increase its annual capital expenditure covenant to \$3,000. As of April 30, 2004, the Company utilized \$11,188 and had \$8,812 of available unused credit under this revolving note payable loan.

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

We have various employment and consulting agreements with commitments totaling \$9,957 over the next five years of which \$7,973 is due during fiscal 2004. We have operating and capital leases with commitments totaling \$6,011 of which \$2,474 is due during fiscal 2004.

Our cash balance at April 30, 2004 totaled \$5,882 as compared to \$3,966 at October 31, 2003. 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 in fiscal 2004. Although our Loan Agreement with PNC Bank is due to expire in September 2004, we are currently in negotiation with the Bank to extend the term and to modify certain of the provisions of the Agreement.

Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains historical information as well as forward-looking statements. Statements looking forward in time are included in this Quarterly 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 that may cause our actual results in future periods to be materially different from any future performance suggested herein. For a further discussion concerning risks to our business, the results of our operations and our financial condition, reference is made to our Annual Report on Form 10-K for the year ended October 31, 2003.

Impact of Inflation

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

New Authoritative Pronouncements

In December 2003, FASB issued Interpretation No. 46R, Consolidation of Variable Interest Entities, which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. This Interpretation replaces Interpretation 46, Consolidation of Variable Interest entities, an interpretation of ARB No. 51, which was issued in January 2003. The Company will be required to apply Interpretation No. 46R to variable interests in variable interest entities created after December 31, 2003. For variable interests in variable interest entities created before February 1, 2004, Interpretation No. 46R will be applied beginning on February 1, 2004. The Company currently does not have any controlling financial interests that are within the scope of this Interpretation.

In May 2003, FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. SFAS No. 150 establishes standards for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. The Statement also includes required disclosures for financial instruments within its scope. For certain mandatorily redeemable financial instruments, the Statement will be effective for the Company on November 1, 2004. The effective date has been deferred indefinitely for certain other types of mandatorily redeemable financial instruments. The Company currently does not have any financial instruments that are within the scope of SFAS No. 150.

Item 4

CONTROLS AND PROCEDURES

(a) Explanation of disclosure controls and procedures. The Company's chief executive officer and its chief financial officer after evaluating the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-14(c) and 15-d-14(c)) as of a date

Edgar Filing: BIO REFERENCE LABORATORIES INC - Form 10-Q

within 90 days of the filing date of this quarterly report (the Evaluation Date) have concluded that as of the Evaluation Date, the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities, particularly during the period in which this quarterly report was being prepared.

(b) Changes in internal controls. There were no significant changes in the Company's internal controls or in other factors that could significantly affect the Company's disclosure controls and procedures subsequent to the Evaluation Date, nor any significant deficiencies or material weaknesses in such disclosure controls and procedures requiring corrective actions. As a result, no corrective actions were taken.

PART II - OTHER INFORMATION

Item 6

EXHIBITS AND REPORTS ON FORM 8-K

- (a) None.

- (b) The Company filed no reports on Form 8-K during the quarter ended April 30, 2004

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

/S/ Sam Singer
Sam Singer
Chief Financial and Accounting Officer

Date: June 8, 2004