

BIO REFERENCE LABORATORIES INC  
Form 10-Q  
June 08, 2012  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended April 30, 2012

Or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-15266

# BIO-REFERENCE LABORATORIES, INC.

(Exact name of registrant as specified in its charter)

**NEW JERSEY**

(State or other jurisdiction of incorporation or organization)

**22-2405059**

(IRS Employer Identification No.)

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

(Address of principal executive offices)

**07407**

(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  No

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  No

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 filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated Filer

Non-accelerated Filer

Smaller reporting company

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

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

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

Indicate the number of shares outstanding of the issuer's common stock, as of the latest practicable date: 27,682,882 shares of Common Stock (\$0.01 par value) at June 7, 2012.

---

Table of Contents

**BIO-REFERENCE LABORATORIES, INC.**

**FORM 10-Q**

**April 30, 2012**

I N D E X

	<b>Page</b>
<b><u>PART I.</u></b>	<b><u>FINANCIAL INFORMATION</u></b>
Item 1.	Financial Statements
	<u>Consolidated Balance Sheets as of April 30, 2012 (unaudited) and October 31, 2011.</u>
	1
	<u>Consolidated Statements of Operations (unaudited) for the three months and six months ended April 30, 2012 and April 30, 2011</u>
	3
	<u>Consolidated Statements of Cash Flows (unaudited) for the six months ended April 30, 2012 and April 30, 2011</u>
	4
	<u>Notes to consolidated financial statements (unaudited)</u>
	6
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
	10
<u>Item 3</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
	15
<u>Item 4.</u>	<u>Controls and Procedures</u>
	15
<b><u>PART II.</u></b>	<b><u>OTHER INFORMATION</u></b>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>
	16
<u>Item 6.</u>	<u>Exhibits</u>
	16
<u>Signatures</u>	17
Certifications	18-21

---

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**

	April 30, 2012 (Unaudited)	October 31, 2011
<b><u>CURRENT ASSETS:</u></b>		
Cash and Cash Equivalents	\$ 19,726	\$ 22,013
Accounts Receivable - Net	147,462	148,060
Inventory	10,527	9,691
Other Current Assets	4,916	4,457
Deferred Tax Assets	23,438	22,559
<b><u>TOTAL CURRENT ASSETS</u></b>	<b>206,069</b>	<b>206,780</b>
<b><u>PROPERTY AND EQUIPMENT - AT COST</u></b>	<b>94,802</b>	<b>81,717</b>
<b><u>LESS: Accumulated Depreciation</u></b>	<b>(44,713)</b>	<b>(38,150)</b>
<b><u>PROPERTY AND EQUIPMENT - NET</u></b>	<b>50,089</b>	<b>43,567</b>
<b><u>OTHER ASSETS:</u></b>		
Investments	4,000	0
Deposits	942	882
Goodwill - Net	23,408	23,408
Intangible Assets - Net	6,605	6,904
Other Assets	975	725
Deferred Tax Asset	2,357	993
<b><u>TOTAL OTHER ASSETS</u></b>	<b>38,287</b>	<b>32,912</b>
<b><u>TOTAL ASSETS</u></b>	<b>\$ 294,445</b>	<b>\$ 283,259</b>

The Accompanying Notes are an Integral Part of These 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**

	April 30, 2012 (Unaudited)	October 31, 2011
<b><u>CURRENT LIABILITIES:</u></b>		
Accounts Payable	\$ 42,962	\$ 38,612
Accrued Salaries and Commissions Payable	13,052	11,770
Accrued Taxes and Expenses	4,820	8,853
Other Short Term Acquisition Payable	0	375
Revolving Note Payable - Bank	14,163	18,632
Current Maturities of Long-Term Debt	867	1,270
Capital Lease Obligations - Short-Term Portion	3,595	3,002
<b><u>TOTAL CURRENT LIABILITIES</u></b>	<b>79,459</b>	<b>82,514</b>
<b><u>LONG-TERM LIABILITIES</u></b>		
Capital Lease Obligations - Long-Term Portion	8,988	6,351
Long - Term Debt Net of Current Portion	4,399	4,627
<b><u>TOTAL LONG-TERM LIABILITIES</u></b>	<b>13,387</b>	<b>10,978</b>
<b><u>SHAREHOLDERS EQUITY</u></b>		
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 27,682,882 and 27,949,900 at April 30, 2012 and at October 31, 2011, respectively	277	280
Additional Paid-In Capital	40,744	45,580
Retained Earnings	160,578	143,907
<b><u>TOTAL SHAREHOLDERS EQUITY</u></b>	<b>201,599</b>	<b>189,767</b>
<b><u>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</u></b>	<b>\$ 294,445</b>	<b>\$ 283,259</b>

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 April 30,		Six months ended April 30,	
	2012	2011	2012	2011
<b><u>NET REVENUES:</u></b>	\$ 163,388	\$ 137,658	\$ 313,307	\$ 259,317
<b><u>COST OF SERVICES:</u></b>				
Depreciation and Amortization	3,265	2,712	6,274	5,251
Employee Related Expenses	36,811	31,947	71,250	61,423
Reagents and Laboratory Supplies	29,546	25,410	57,325	47,243
Other Cost of Services	14,287	11,950	27,735	22,956
<b><u>TOTAL COST OF SERVICES</u></b>	<b>83,909</b>	<b>72,019</b>	<b>162,584</b>	<b>136,873</b>
<b><u>GROSS PROFIT ON REVENUES</u></b>	<b>79,479</b>	<b>65,639</b>	<b>150,723</b>	<b>122,444</b>
<b><u>GENERAL AND ADMINISTRATIVE EXPENSES:</u></b>				
Depreciation and Amortization	881	1,026	1,723	1,964
General and Administrative Expenses	39,772	32,873	76,616	63,633
Bad Debt Expense	22,055	18,427	42,329	34,817
<b><u>TOTAL GENERAL AND ADMINISTRATIVE EXPENSES</u></b>	<b>62,708</b>	<b>52,326</b>	<b>120,668</b>	<b>100,414</b>
<b><u>INCOME FROM OPERATIONS</u></b>	<b>16,771</b>	<b>13,313</b>	<b>30,055</b>	<b>22,030</b>
<b><u>OTHER (INCOME) EXPENSE:</u></b>				
Interest Expense	412	419	771	765
Interest Income	(42)	(39)	(84)	(78)
Other (Income) Expense	0	(1,087)	0	(6,656)
<b><u>TOTAL OTHER (INCOME) EXPENSES - NET</u></b>	<b>370</b>	<b>(707)</b>	<b>687</b>	<b>(5,969)</b>
<b><u>INCOME BEFORE INCOME TAXES</u></b>	<b>16,401</b>	<b>14,020</b>	<b>29,368</b>	<b>27,999</b>
Provision for Income Taxes	7,095	6,203	12,697	12,197
<b><u>NET INCOME</u></b>	<b>\$ 9,306</b>	<b>\$ 7,817</b>	<b>\$ 16,671</b>	<b>\$ 15,802</b>
<b><u>NET INCOME PER COMMON SHARE - BASIC:</u></b>	<b>\$ 0.34</b>	<b>\$ 0.28</b>	<b>\$ 0.60</b>	<b>\$ 0.57</b>
<b><u>WEIGHTED AVERAGE NUMBER OF SHARES - BASIC:</u></b>	<b>27,684,715</b>	<b>27,920,233</b>	<b>27,786,216</b>	<b>27,902,167</b>
<b><u>NET INCOME PER COMMON SHARE - DILUTED:</u></b>	<b>\$ 0.33</b>	<b>\$ 0.28</b>	<b>\$ 0.60</b>	<b>\$ 0.56</b>

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

<u>WEIGHTED AVERAGE NUMBER OF SHARES - DILUTED:</u>	27,877,697	28,142,176	27,960,069	28,121,852
---	------------	------------	------------	------------

The Accompanying Notes are an Integral Part of These 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]**

	Six months ended April 30	
	2012	2011
<b><u>OPERATING ACTIVITIES:</u></b>		
Net Income	\$ 16,671	\$ 15,802
Adjustments to Reconcile Net Income to Cash Provided by (Used for) Operating Activities:		
Depreciation and Amortization	7,997	7,215
Deferred Income Tax (Benefit) Expense	(2,243)	(2,768)
Stock Based Compensation	290	40
(Gain) Loss on Disposal of Fixed Assets	343	1,455
Change in Assets and Liabilities, (Increase) Decrease in:		
Accounts Receivable	(2,773)	(12,956)
Provision for Doubtful Accounts	3,371	3,060
Inventory	(836)	(1,806)
Other Current Assets	(459)	(726)
Other Assets	(250)	684
Deposits	(60)	587
Increase (Decrease) in:		
Accounts Payable and Accrued Liabilities	1,599	(391)
<b><u>NET CASH - OPERATING ACTIVITIES</u></b>	<b>23,650</b>	<b>10,196</b>
<b><u>INVESTING ACTIVITIES:</u></b>		
Acquisition of Equipment and Leasehold Improvements	(9,667)	(11,478)
Business Acquisitions and Related Costs	(4,375)	(250)
<b><u>NET CASH - INVESTING ACTIVITIES</u></b>	<b>(14,042)</b>	<b>(11,728)</b>
<b><u>FINANCING ACTIVITIES:</u></b>		
Payments of Long-Term Debt	(631)	(552)
Payments of Capital Lease Obligations	(1,666)	(1,374)
Increase (Decrease) in Revolving Line of Credit	(4,469)	6,478
Common Stock Repurchase	(5,193)	0
Proceeds from Exercise of Options	64	370
<b><u>NET CASH - FINANCING ACTIVITIES</u></b>	<b>(11,895)</b>	<b>4,922</b>
<b><u>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u></b>	<b>(2,287)</b>	<b>3,390</b>
<b><u>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIODS</u></b>	<b>22,013</b>	<b>17,779</b>
<b><u>CASH AND CASH EQUIVALENTS AT END OF PERIODS</u></b>	<b>\$ 19,726</b>	<b>\$ 21,169</b>
<b><u>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</u></b>		

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

Cash paid during the period for:

Interest	\$	761	\$	763
Income Taxes	\$	20,340	\$	13,314

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

Table of Contents

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

[Dollars In Thousands]

[UNAUDITED]

During the six-month periods ended April 30, 2012 and April 30, 2011, the Company entered into capital leases totaling \$4,896 and \$1,210, respectively.

During the six-month periods ended April 30, 2012 and April 30, 2011, the Company wrote-off approximately \$1,478 and \$5,186 of property and equipment that were mostly fully depreciated.

During the six-month periods ended April 30, 2012 and April 30, 2011, the Company recorded approximately \$290 and \$40 of stock based compensation expense, respectively, related to granting of stock options and stock to employees.

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 of Bio-Reference Laboratories, Inc. and its consolidated subsidiaries ( BRLI, the Company, we or us ) 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, 2011 audited consolidated financial statements of Bio-Reference Laboratories, Inc. contained in its Annual Report on Form 10-K for the year ended October 31, 2011 (our 2011 Form 10-K ).

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, 2011 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 financial statements included in the 2011 Form 10-K.

[2] Fair Value Measurements.

The Company s population of investments and non-financial assets and liabilities subject to Fair Value Measurements under topic 820 of Accounting Standards Codification ( ASC ) as used in the preparation of the Company s consolidated financial statements is as follows.

Inputs used in the valuation techniques to derive fair values are classified based on a three -level hierarchy that utilizes and ranks the level of market price observability used in measuring assets and liabilities that are measured at fair value, where Level 1 has the highest priority and rank and Level 3 has the lowest.

	(\$) 4/30/2012	Quoted Prices in Active Markets for Identical Assets/Liabilities Level 1	Significant Other Observable Inputs (\$) Level 2	Significant Unobservable Inputs Level 3
Assets:	975		975	

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

Cash surrender value of officer's life insurance policies

As of April 30, 2012, 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 events have occurred.

[3] Certain prior year amounts may have been reclassified to conform to the current year presentation.

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

Net service revenues are determined utilizing gross service revenues net of contractual allowances. 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 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. Bad Debt represents our estimate of net revenues that will ultimately be uncollectable and is based upon our analysis of historical payment rates by specific payor groups on a monthly basis with primary weight being given to the most recent trends; this approach allows bad debt to more accurately adjust to short-term changes in the business environment. These two calculations are 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 chart below shows the adjustments made to gross service revenues to arrive at net service revenues.

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

Table of Contents

	(\$)			
	Three Months Ended 30-Apr [Unaudited]		Six Months Ended 30-Apr [Unaudited]	
	2012	2011	2012	2011
Gross Service Revenues	763,823	621,601	1,447,639	1,152,903
<b>Contractual Adjustments and Discounts:</b>				
Medicare/Medicaid Portion	81,318	71,508	156,059	137,544
All Other Third Party Payors*	519,117	412,435	978,273	756,042
Total Contractual Adjustments and Discounts	600,435	483,943	1,134,332	893,586
Net Service Revenues	163,388	137,658	313,307	259,317
Percent of Contractual Adjustments and Discounts to Gross Revenues	78.6%	77.9%	78.4%	77.5%

\* 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.

When new business is received by BRLI, net service revenues are calculated by reducing gross service revenues by the estimated contractual allowance. The bad debt expense is determined by calculating the appropriate collection rate for net current service revenues and is a component of general and administrative expenses. BRLI recognized the amounts in subsequent periods for actual allowances/discounts to gross service revenue; bad debt was adjusted over the same periods of time to maintain an accurate balance between net service 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.

[5] 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 to 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 credits 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. Bad debt expense is recorded within selling, general and administrative expenses. 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 payor's timely filing limits. Accounts Receivable on the balance sheet is net of the following amounts for contractual credits and doubtful accounts:

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

	(\$)	
	[Unaudited] 30-Apr-12	31-Oct-11
Contractual Credits/Discounts	256,822	235,922
Doubtful Accounts	48,591	45,220
Total Allowance	305,413	281,142

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

Table of Contents

[6] The following disclosures present certain information on the Company's intangible assets as of April 30, 2012 (Unaudited) and October 31, 2011. All intangible assets are being amortized over their estimated useful lives, as indicated below, with no estimated residual value.

April 30, 2012

Intangible Asset	Weighted-Average Amortization Period	Cost (\$)	Accumulated Amortization (\$)	Net of Accumulated Amortization (\$)
Customer Lists	20	4,573	2,442	2,131
Covenants Not-to-Compete	5	4,305	4,246	59
Patents and Licenses	17	5,297	882	4,415
Totals		14,175	7,570	6,605

October 31, 2011

Intangible Asset	Weighted-Average Amortization Period	Cost (\$)	Accumulated Amortization (\$)	Net of Accumulated Amortization (\$)
Customer Lists	20	4,573	2,328	2,245
Covenants Not-to-Compete	5	4,305	4,237	68
Patents and Licenses	17	5,297	706	4,591
Totals		14,175	7,271	6,904

The aggregate intangible amortization expense for the three months ended April 30, 2012 and 2011 was \$156 and \$334, respectively. The aggregate intangible amortization expense for the six months ended April 30, 2012 and 2011 was \$299 and \$668, respectively. The estimated intangible asset amortization expense for the fiscal year ending October 31, 2012 and for the four subsequent years is as follows:

October 31,	(\$)
2012	282
2013	558
2014	551
2015	526
2016	509
Thereafter	4,179
<b>Total</b>	<b>6,605</b>



**[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. On April 30, 2012, 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 April 30, 2012, the Company utilized \$14,163 of the available credit under this revolving note payable loan agreement.

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

Effective as of October 31, 2007, we executed a fifth amendment to the Loan Agreement formalizing the repayment terms of the \$5 million term loan from PNC Bank used by our wholly owned BRLI No. 2 Acquisition Corp. subsidiary to fund the \$5,000 acquisition cash payment in connection with its purchase of the operating assets of GeneDx, Inc. The term loan is evidenced by a secured promissory note payable over a six-year term in equal monthly principal payments of approximately \$69, plus interest at an annual rate of 6.85%. The balance on this note as of April 30, 2012 is approximately \$417.

Table of Contents

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 April 30, 2012 is approximately \$4,849.

[9] The provision for income taxes for the three months ended April 30, 2012 consists of a current tax provision of \$8,398 and a deferred tax benefit of \$1,302. The provision for income taxes for the six months ended April 30, 2012 consists of a current tax provision of \$14,940 and a deferred tax benefit of \$2,243. The provision for income taxes for the three months ended April 30, 2011 consists of a current tax provision of \$8,027 and a deferred tax benefit of \$1,824. The provision for income taxes for the six months ended April 30, 2011 consists of a current tax provision of \$14,965 and a deferred tax benefit of \$2,768. On April 30, 2012, the Company had a current deferred tax asset of \$23,438 and a long-term deferred tax asset of \$2,357 included in other assets. On April 30, 2011, the Company had a current deferred tax asset of \$18,282 included in other current assets and a long-term deferred tax asset of \$2,127 included in other assets.

**[10] 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. During the period ended April 30, 2012, the Company repurchased 285,450 shares of its common stock at a cost of \$5,193. These repurchased shares have been recorded as canceled, reducing outstanding shares of Common Stock by 285,450, the par value of Common Stock by \$3 and Additional Paid-In Capital by \$5,190.

[11] On April 27, 2012, the Company entered into an agreement pursuant to which the Company 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 the Company filed on May 1, 2012.

The transaction is accounted under the equity method. An asset of \$4,000 was recorded for the shares and warrants of IncellDx purchased with cash. The Company also signed a note for the purchase of additional shares and warrants for \$2,000. The note calls for funds to be disbursed to IncellDx up to the \$2,000 note amount on as-needed basis up to the note end date of December 31, 2012. In the event funds under the terms of the note remain unpaid as of the note end date - all stock certificates and warrants of IncellDx attributable to such unpaid loan funds, if any, will be canceled.

The Company does not believe that the note meets the definition of liability based on its terms. Accordingly, the note is not recognized in the Company's financial statements.

Table of Contents

**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 similar import 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 therein.

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 2011 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;

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

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

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 technically advanced multiplex process for identifying sexually transmitted infections, is also offered as GenPath. Our regional footprint lays within the New York City metropolitan area and the surrounding areas of New Jersey and southern New York State as well 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. Physicians outside of our 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. 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 within the region. Even within our regional footprint, we provide the same services that we provide on a national basis as well as some regional focused diagnostic services, such as histology and pathology support services, substance abuse testing, fertility testing, hemostasis testing, women's health testing and molecular diagnostics that are unavailable from many of the smaller regional competitors; testing in some of these areas may be provided outside of physician offices.

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 only three U.S. publicly traded-full service laboratories operating in the U.S. While that means that the two national mega-laboratories and Bio-Reference Laboratories are the only remaining publicly traded full service commercial laboratories, there are numerous hospital outreach programs and smaller reference laboratories that compete for the commercial clinical laboratory business scattered throughout the country. 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 Metropolitan area. 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 that have already been established and in which we have been increasing our market share for the past several years. We have recently begun the launch of a comprehensive pre-natal program to leverage our presence in the women's health environment and we will continue to vigilantly seek focused diagnostic marketing opportunities where we can provide information, technology, service or support that expand and grow our clinical laboratory.

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

In late January, we introduced OncoMatch, our solid tumor genotyping service, based on a commercialization agreement with a major hospital in the Northeast. OncoMatch looks at a number of oncogenes and the multiple mutations associated with them and provides what we believe is useful information to clinicians.

Late in our second quarter, we introduced Inherigen, our pan-ethnic carrier screen that looks at a number of carrier states that before would have required very specific or targeted testing and, in so doing, addressing the needs of all groups, regardless of ethnic background. This test looks at almost 600 mutation sites, addressing over 160 carrier states.

On March 2, 2010, we completed the purchase of Lenetix Medical Screening Laboratory, Inc. ( Lenetix ) from Lenetix and its sole stockholder. These assets were utilized in Lenetix 's operation of a clinical testing laboratory located in Mineola, New York. The laboratory performs both clinical

Table of Contents

laboratory diagnostic testing and genetic testing.

On August 5, 2011, we acquired all of the authorized, issued and outstanding shares of The Genetics Center, Inc. ( GCI ), a New York corporation engaged in the clinical laboratory business with principal place of business in Smithtown, New York.

On April 27, 2012, we entered into an agreement pursuant to which we purchased preferred shares of IncellDx, Inc., a Delaware corporation. Information about IncellDx, Inc. and the agreement may be found in the Current Report on Form 8-K we filed on May 1, 2012.

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.

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 needed to build a web-based solution to quickly, accurately, conveniently and competitively collect ordering information and deliver results, so we built an internal solution that we call CareEvolve. That solution has been essential to our own operations. We license the technology to other laboratories throughout the country that they utilize to more effectively compete against the national laboratories. These other laboratories licensing our technology are typically not our competitors.

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 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.

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 39% 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.

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

### Second Quarter Fiscal 2012 Compared to Second Quarter Fiscal 2011

#### NET REVENUES:

Net revenues for the three-month period ended April 30, 2012 were \$163,388 as compared to \$137,658 for the three-month period ended April 30, 2011; this represents a 19% increase in net revenues. This increase is due to a 16% increase in patient counts and an increase in revenue per patient of 2% 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 April 30, 2012 was 1,952, which was 16% greater when compared to the prior fiscal year's three-month period. This increase in patient counts is due to the milder than normal weather conditions throughout the country, particularly in the Northeast, and the overall success of all our lines of business. Net revenue per patient for the three-month period ended April 30, 2011 was \$81.33 compared to net revenue per patient of \$83.21 for the three-month period ended April 30, 2012, an increase of \$1.88 or 2%.

During the three-month period ended April 30, 2012, we increased our sales force by approximately 2%. This increase was mainly in the specialty testing services we market nationally. We believe that this increase in the sales personnel together with continued efforts by our existing sales force significantly contributed to the 16% increase in patient counts.

Our revenues and patient counts could be adversely affected by a number of factors, including, but not limited, to an extended 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 18 years of sustained growth.

#### COST OF SERVICES:

Cost of services increased from \$72,019 for the three-month period ended April 30, 2011 to \$83,909 for the three-month period ended April 30, 2012, an increase of \$11,890 or 17%. This increase in cost of services is basically in line with the increase in net revenues. In addition, our medical equipment repair expense increased by 63%.

#### GROSS PROFITS:

Gross profits increased from \$65,639 for the three-month period ended April 30, 2011 to \$79,479 for the three-month period ended April 30, 2012, an increase of \$13,840 or 21%. Gross profit margin increased to 49% from 48%.

#### GENERAL AND ADMINISTRATIVE EXPENSES:

General and administrative expenses for the three-month period ending April 30, 2011 were \$52,326 as compared to \$62,708 for the quarter ended April 30, 2012, an increase of \$10,382 or 20%. This increase is in line with the increase in net revenues.





Table of Contents

INTEREST EXPENSE:

Interest expense decreased to \$370 during the three-month period ending April 30, 2012 from \$380 during the three-month period ended April 30, 2011. This decrease is due to a decrease in the utilization of our PNC Bank's credit line, which offset the marginal increase in our rates effective October 31, 2011.

NET INCOME:

We realized net income of \$9,306 for the three-month period ended April 30, 2012, as compared to \$7,817 for the three-month period ended April 30, 2011, an increase of \$1,489 or 19%. Pre-tax income for the period ended April 30, 2012 was \$16,401, compared to \$14,020 for the three-month period ended April 30, 2011, an increase of \$2,381 or 17%. The provision for income taxes increased to \$7,095 for the three-month period ended April 30, 2012 from \$6,203 for the period ended April 30, 2011.

SIX MONTHS 2012 COMPARED TO SIX MONTHS 2011

NET REVENUES:

Net revenues for the six month period ended April 30, 2012 were \$313,307 as compared to \$259,317 for the six month period ended April 30, 2011; this represents a 21% increase in net revenues. This increase is due to a 19% increase in patient counts and an increase in revenue per patient of 2%.

The number of patients serviced during the six-month period ended April 30, 2012 was 3,766, which was 19% greater when compared to the prior fiscal year's six-month period. Net revenue per patient for the six-month period ended April 30, 2011 was \$81.12, compared to net revenue per patient for the six-month period ended April 30, 2012 of \$82.63, an increase of \$1.51 or 2%.

COST OF SERVICES:

Cost of services increased to \$162,584 for the six-month period ended April 30, 2012 from \$136,873 for the six-month period ended April 30, 2011. This represents a 19% increase in direct operating costs. This increase in cost of services is basically in line with the increase in sales.

GROSS PROFITS:

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

Gross profits on net revenues increased to \$150,723 for the six-month period ended April 30, 2012 from \$122,444 for the six-month period ended April 30, 2011; an increase of \$28,279 (23%). Gross profit margins increased to 48% from 47% for the six month period ended April 30, 2012 compared to the corresponding six-month period ended April 30, 2011. This is due to an increase in cost of services of 19% while net revenues increased only 21%.

### GENERAL AND ADMINISTRATIVE EXPENSES:

General and administrative expenses for the six-month period ended April 30, 2011 were \$100,414 as compared to \$120,668 for the six-month period ended April 30, 2012. This represents an increase of \$20,254 or 20%. This increase is 1% less than the increase in net revenues.

### INTEREST EXPENSE:

Interest expense increased to \$771 during the six-month period ending April 30, 2012 as compared to \$765 during the six-month period ending April 30, 2011, an increase of \$6. This increase is due to primarily a marginal increase in our rates on our PNC Bank credit line.

### INCOME:

We realized net income of \$16,671 or \$0.60 EPS for the six-month period ended April 30, 2012 as compared to \$15,802 or \$0.56 EPS for the six-month period ended April 30, 2011, an increase of \$869 or 5%. This increase is smaller in relation to an increase in our net revenues because of non-recurring other income we realized in fiscal 2011. Our operating income increased by \$8,025 or 36% for the six-month period ended April 30, 2012 as compared to the six-month period ended April 30, 2011. Pre-tax income for the period ended April 30, 2012 was \$29,368 as compared to \$27,999 for the period ended April 30, 2011, an increase of \$1,369 (5%). The provision for income taxes increased from \$12,197 for the period ended April 30, 2011, to \$12,697 (4%) for the current six-month period. Our effective tax rate decreased from 44% to 43% due to an increase in our revenues earned in jurisdictions with lower tax rates.

### LIQUIDITY AND CAPITAL RESOURCES:

Our working capital at April 30, 2012 was \$126,610 as compared to \$124,266 at October 31, 2011, an increase of \$2,344. During the current period, we made a \$4,000 cash investment in IncellDx, Inc. Our cash position decreased by approximately \$2,287 during the current period. Our investment of \$4,000 in IncellDx, Inc. caused a reduction in our cash position, which otherwise would have been a \$1,713 increase in our cash position. We repaid our short-term debt by \$403 and repaid \$228 in existing debt. We had current liabilities of \$79,459 at April 30, 2012. We generated \$23,650 in cash from operations, compared to \$10,196 for the quarter ended April 30, 2011, an overall increase of \$13,454 in cash generated from operations year over year.

Accounts receivable, net of allowance for doubtful accounts, totaled \$147,462 at April 30, 2012, a decrease of \$598 from October 31, 2011. Cash collected during the three-month period ended April 30, 2012 increased 28% over the comparable prior year three-month period.

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

Credit risk with respect to accounts receivable is generally diversified due to the large number of patients 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

Table of Contents

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 April 30, 2012 was 81 days, a decrease of 9 days, or 10%, from the 90 days that we reported for the period ended April 30, 2011. 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 2012 (\$)
Long-Term Debt	4,627	1,270
Capital Leases	6,788	3,330
Operating Leases	7,900	5,942

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

Purchase Obligations	47,022	17,448
Long-Term Liabilities under Employment and Consultant Contracts	9,828	4,011

Our cash balance at April 30, 2012 totaled \$19,726 as compared to \$22,013 at October 31, 2011. Our investment of \$4,000 in IncellDx caused a reduction in our cash position, which otherwise would have been an approximate increase of \$1,700 in our cash position. 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.

### 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. Net service revenues are recognized at the time the testing services are performed and are reported at their estimated net realizable amounts.

Net service revenues are determined utilizing gross service revenues net of contractual allowances. 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

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

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 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. Bad Debt represents our estimate of net revenues that

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

Table of Contents

will ultimately be uncollectable and is based upon our analysis of historical payment rates by specific payor groups on a monthly basis with primary weight being given to the most recent trends; this approach allows bad debt to more accurately adjust to short-term changes in the business environment. These two calculations are 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 chart below shows the adjustments made to gross service revenues to arrive at net service revenues.

	Three Months Ended 30-Apr [Unaudited]		Six Months Ended 30-Apr [Unaudited]	
	2012	2011	2012	2011
Gross Service Revenues	763,823	621,601	1,447,639	1,152,903
Contractual Adjustments and Discounts:				
Medicare/Medicaid Portion	81,318	71,508	156,059	137,544
All Other Third Party Payors*	519,117	412,435	978,273	756,042
Total Contractual Adjustments and Discounts	600,435	483,943	1,134,332	893,586
Net Service Revenues	163,388	137,658	313,307	259,317
Percent of Contractual Adjustments and Discounts to Gross Revenues	78.6%	77.9%	78.4%	77.5%

\* 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.

When new business is received by BRLI, net service revenues are calculated by reducing gross service revenues by the estimated contractual allowance. The bad debt expense is determined by calculating the appropriate collection rate for net current service revenues and is a component of general and administrative expenses. BRLI recognized the amounts in subsequent periods for actual allowances/discounts to gross service revenue; bad debt was adjusted over the same periods of time to maintain an accurate balance between net service 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.

Accounting for Contractual Discounts and Doubtful Accounts.

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

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 to 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 credits 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. Bad debt expense is recorded within selling, general and administrative expenses. 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 payor'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] 30-Apr-12	(\$) 31-Oct-11
Contractual Credits/Discounts	256,822	235,922
Doubtful Accounts	48,591	45,220
Total Allowance	305,413	281,142

**Item 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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 April 30, 2012, advances of approximately \$14,163,000 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 April 30, 2012 was approximately \$129,000 and that a one percentage point increase or decrease in short-term rates would increase or decrease our monthly interest expense by approximately \$20,000.

**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.

Table of Contents**BIO-REFERENCE LABORATORIES, INC.****PART II OTHER INFORMATION****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The table below sets forth information regarding repurchases of our common stock by us since November 11, 2011:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share \$	(c) Total Number of Shares Purchased as part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plan \$
Q1 Month #2 (12/27/11 to 12/30/2011)	16,100	15.92	16,100	983,900
Q1 Month #3 (1/3/2012 to 1/31/2012)	154,350	17.21	154,350	829,550
Q2 Month #1 (2/01/2012 to 0/29/2012)	100,500	19.86	100,500	729,050
Q2 Month #2 (3/01/2012 to 3/05/2012)	14,500	20.93	14,500	714,550
Total	285,450		285,450	

\*\*\* On November 11, 2011, we announced that our board of directors approved a Stock Repurchase Program authorizing the repurchase of up to 1,000,000 shares of our common stock at prevailing market prices over the period ending October 31, 2012.

**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  
Chief Financial and Accounting Officer

Date: June 7, 2012