BIO REFERENCE LABORATORIES INC
Form 10-Q
June 04, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended April 30, 2010

Or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECUTRIES 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	**22-2405059**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
481 Edward H. Ross Drive, Elmwood Park, NJ	**07407**
(Address of principal executive offices)	(Zip Code)

(201) 791-2600

(Registrant s telephone number, including area code)

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

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of the issuer s common stock, as of the latest practicable date: 27,794,204 shares of Common Stock ($.01 par value) at June 4, 2010.

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BIO-REFERENCE LABORATORIES, INC.

FORM 10-Q

April 30, 2010

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Item 1

BIO-REFERENCE LABORATORIES, INC. AND SUBSIDIARIES

PART I FINANCIAL INFORMATION

CONSOLIDATED BALANCE SHEETS

[Dollars In Thousands Except Per Share Data]

ASSETS

	April 30, 2010 (Unaudited)	October 31, 2009
CURRENT ASSETS:		
Cash and Cash Equivalents	$ 16,426	$ 16,995
Accounts Receivable - Net	117,255	104,995
Inventory	5,658	4,148
Other Current Assets	1,684	1,879
Deferred Tax Assets	15,265	12,456
TOTAL CURRENT ASSETS	156,288	140,473
PROPERTY AND EQUIPMENT - AT COST	57,084	53,645
LESS: Accumulated Depreciation	(25,455)	(25,885)
PROPERTY AND EQUIPMENT - NET	31,629	27,760
OTHER ASSETS:		
Deposits	1,357	630
Goodwill - Net	21,876	21,386
Intangible Assets - Net	8,942	4,588
Other Assets	1,507	1,373
Deferred Tax Asset	848	1,180
TOTAL OTHER ASSETS	34,530	29,157
TOTAL ASSETS	$ 222,447	$ 197,390

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

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BIO-REFERENCE LABORATORIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

[Dollars In Thousands Except Per Share Data]

LIABILITIES AND SHAREHOLDERS EQUITY

	April 30, 2010 (Unaudited)	October 31, 2009
CURRENT LIABILITIES:		
Accounts Payable	$ 29,995	$ 30,570
Accrued Salaries and Commissions Payable	9,063	8,758
Accrued Taxes and Expenses	8,066	9,108
Revolving Note Payable - Bank	27,850	12,452
Current Maturities of Long-Term Debt	1,204	1,192
Capital Lease Obligations - Short-Term Portion	2,382	2,409
TOTAL CURRENT LIABILITIES	78,560	64,489
LONG-TERM LIABILITIES		
Capital Lease Obligations - Long-Term Portion	3,718	3,843
Long - Term Debt - Net of Current Portion	3,930	4,535
Other Long Term Acquisition Payable	750	
TOTAL LONG-TERM LIABILITIES	8,398	8,378
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS EQUITY		
Preferred Stock $.10 Par Value; Authorized 1,666,667 shares, including 3,000 shares of Series A Junior Preferred Stock None Issued		
Common Stock, $.01 Par Value; Authorized 35,000,000 shares: Issued and Outstanding 27,794,204 and 27,694,876 at April 30, 2010 and at October 31, 2009, respectively	278	276
Additional Paid-In Capital	44,252	43,080
Retained Earnings	90,959	81,167
TOTAL SHAREHOLDERS EQUITY	135,489	124,523
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 222,447	$ 197,390

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

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BIO-REFERENCE LABORATORIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

[Dollars In Thousands Except Per Share Data]

[UNAUDITED]

	Three months ended April 30,		Six months ended April 30,	
	2010	2009	2010	2009
NET REVENUES:	$ 110,447	$ 87,183	$ 209,709	$ 162,918
COST OF SERVICES:				
Depreciation and Amortization	2,092	1,770	3,978	3,445
Employee Related Expenses	26,384	20,371	50,050	39,453
Reagents and Laboratory Supplies	18,237	14,774	35,054	26,655
Other Cost of Services	10,066	7,971	19,451	15,373
TOTAL COST OF SERVICES	56,779	44,886	108,533	84,926
GROSS PROFIT ON REVENUES	53,668	42,297	101,176	77,992
GENERAL AND ADMINISTRATIVE EXPENSES:				
Depreciation and Amortization	747	602	1,455	1,191
General and Administrative Expenses	27,016	21,215	52,376	40,393
Bad Debt Expense	15,053	12,122	29,034	23,080
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	42,816	33,939	82,865	64,664
INCOME FROM OPERATIONS	10,852	8,358	18,311	13,328
OTHER (INCOME) EXPENSE:				
Interest Expense	421	415	712	858
Interest Income	(32)	(39)	(69)	(92)
Other (Income) Expense				(1,600)
TOTAL OTHER EXPENSES - NET	389	376	643	(834)
INCOME BEFORE INCOME TAXES	10,463	7,982	17,668	14,162
Provision for Income Taxes	4,676	3,352	7,876	5,934
NET INCOME	$ 5,787	$ 4,630	$ 9,792	$ 8,228
NET INCOME PER COMMON SHARE - BASIC:	$ 0.21	$ 0.17	$ 0.35	$ 0.30
WEIGHTED AVERAGE NUMBER OF SHARES - BASIC:	27,771,649	27,597,816	27,747,295	27,584,334
NET INCOME PER COMMON SHARE - DILUTED:	$ 0.21	$ 0.17	$ 0.35	$ 0.30
WEIGHTED AVERAGE NUMBER OF SHARES - DILUTED:	28,077,388	27,823,018	28,038,447	27,818,220

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

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BIO-REFERENCE LABORATORIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

[Dollars In Thousands]

[UNAUDITED]

	Six months ended April 30	
	2010	**2009**
OPERATING ACTIVITIES:		
Net Income	$ 9,792	$ 8,228
Adjustments to Reconcile Net Income to Cash Provided by (Used for) Operating Activities:		
Depreciation and Amortization	5,433	4,636
Deferred Income Tax Benefit	(2,477)	(1,194)
Stock Based Compensation	290	40
Loss on Disposal of Fixed Assets	94	166
Change in Assets and Liabilities, (Increase) Decrease in:		
Accounts Receivable	(17,797)	(8,887)
Provision for Doubtful Accounts	5,537	2,635
Inventory	(1,510)	57
Other Current Assets	195	(480)
Other Assets	(134)	(56)
Deposits	(727)	(46)
Increase (Decrease) in:		
Accounts Payable and Accrued Liabilities	1,002	(4,044)
NET CASH - OPERATING ACTIVITIES	(302)	1,055
INVESTING ACTIVITIES:		
Acquisition of Equipment and Leasehold Improvements	(7,517)	(3,877)
Business Acquisitions and Related Costs	(1,917)	(1,917)
NET CASH - INVESTING ACTIVITIES	(9,434)	(5,794)
FINANCING ACTIVITIES:		
Payments of Long-Term Debt	(593)	(584)
Payments of Capital Lease Obligations	(1,385)	(1,248)
Increase in Revolving Line of Credit	10,658	7,008
Proceeds from Exercise of Options	487	142
NET CASH - FINANCING ACTIVITIES	9,167	5,318
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(569)	579
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIODS	16,995	12,696
CASH AND CASH EQUIVALENTS AT END OF PERIODS	$ 16,426	$ 13,275
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		

Cash paid during the period for:		
Interest	$ 669	$ 872
Income Taxes	$ 12,334	$ 9,045

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

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SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

[Dollars In Thousands]

During the six month periods ended April 30, 2010 and April 30, 2009 the Company entered into capital leases totaling $1,233 and $1,335 respectively.

During the six month periods ended April 30, 2010 and April 30, 2009, the Company wrote-off approximately $5,371 and $626 of furniture and equipment that were fully depreciated.

During the six month periods ended April 30, 2010 and April 30, 2009 the Company wrote-off approximately $-0- and $300 of intangible assets that were fully amortized.

During the six month periods ended April 30, 2010 and April 30, 2009 the Company recorded approximately $290 and $40 of stock based compensation expense related to granting of stock options and Company s stock to employees.

During the six month periods ended April 30, 2010 the Company financed the acquisition of certain assets of Lenetix for $5,490. See Note 12 for additional information regarding this acquisition.

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

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BIO-REFERENCE LABORATORIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(UNAUDITED)

[1] The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all information and footnotes necessary for a fair presentation of the financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. 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 the statements. Interim results are not necessarily indicative of results for a full year. Reference is made to the October 31, 2009 consolidated financial statements of Bio-Reference Laboratories, Inc. contained in its Annual Report on Form 10-K for the year ended October 31, 2009.

[2] 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, 2009 as filed with the Securities and Exchange Commission in the Company s Annual Report on Form 10-K.

[3] 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, 2009 Form 10-K. Fair Value Measurements disclosure under topic 820 of Accounting Standards Codification (ASC) based on a three-level hierarchy for the inputs used in the valuation techniques to derive fair values where Level 1 is having the highest priority and Level 3 having the lowest priority is as follows:

	4/30/2010	Quoted Prices in Active Markets for Identical Assets/Liabilities Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Cash surrender value of officers life insurance policies	$ 1,507		$ 1,507	

As of April 30, 2010 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. Accordingly, the Management believes that no such events have occurred that would warrant such recognition in the Company s financial statements.

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

[5] 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 realizable amounts from patients, third party payors and others for services rendered, are accrued on an estimated basis in the period the related services are rendered, and are adjusted in subsequent periods based upon an analysis of the Company s collection experience from each category of payor group as well as prospectively determined contractual adjustments and discounts with third party payors. Differences between these adjustments and any subsequent revisions are included in the statement of operations in which the revisions are made and are disclosed, if material. Applying this methodology and aggregating its collection experience from all payor groups, the Company has not been required to record an adjustment related to revenue recorded in prior periods that was material in nature. Revenues on the statements of operations are net of the following amounts for allowances and discounts.

	Three Months Ended April 30 [Unaudited]		Six Months Ended April 30 [Unaudited]	
	2010	**2009**	**2010**	**2009**
Medicare/Medicaid	$ 70,786	$ 61,382	$ 134,194	$ 113,767
Other	277,987	199,977	509,946	358,863
	$ 348,773	$ 261,359	$ 644,140	$ 472,630

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.

[6] An allowance for contractual credits and discounts is estimated by payor group and determined based upon a review of the reimbursement policies and subsequent collections from the different types of payors. The Company has not been required to record an adjustment in a subsequent period

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related to revenue recorded in a prior period, which was material in nature. Agings of accounts receivable are monitored by billing personnel and follow-up activities are conducted as necessary. Bad debt expense is recorded within selling, general and administrative expenses as a percentage of sales considered necessary to maintain an allowance for doubtful accounts at an appropriate level, based on the Company s experience with its accounts receivable. The Company writes off accounts receivable against the allowance for doubtful accounts when they are deemed to be uncollectible. For client billing, accounts are written off when all reasonable collection efforts prove to be unsuccessful. Patient accounts are written off after the normal dunning cycle has occurred, which may include transfer to a third party collection agency. Third party accounts are written off when they exceed the payer s timely filing limits. Accounts Receivable on the balance sheets are net of the following amounts for contractual credits and doubtful accounts:

	[Unaudited] April 30, 2010	October 31, 2009
Contractual Credits/Discounts	$ 159,370	$ 130,974
Doubtful Accounts	31,584	26,047
Total Allowance	$ 190,954	$ 157,021

[7] On 1/21/2010 FASB issued Accounting Standards Update (ASU) No. 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. This update requires reporting entities to provide information about movements of assets among Levels 1 and 2 of the three-tier fair value hierarchy established by FASB ASC 820. The guidance is effective for any fiscal year that begins after December 15, 2010, and it should be used for quarterly and annual filings. This update did not have a material impact on the Company s financial statements.

[8] During the period ended January 31, 2009, the Company executed a Restitution Agreement with a former Vice President in sales (the former employee). The former employee paid the Company $1,600,000 (Not in Thousands) for payments made to him and others that were from our perspective, improperly paid. These payments were paid for a) recruiting fees for new hires paid to parties with an undisclosed relationship to him and b) reimbursement to him or others of improperly or insufficiently documented expenses; both of which were in violation of the Company s policies (see Form 8-K; filed January 26, 2009 for more information). This amount is presented as Other Income in the Company s Consolidated Statements of Operations.

[9] The following disclosures present certain information on the Company s intangible assets as of April 30, 2010 (Unaudited) and October 31, 2009. All intangible assets are being amortized over their estimated useful lives, as indicated below, with no estimated residual value.

April 30, 2010 (Unaudited) Intangible Asset	Weighted-Average Initial Amortization Period	Cost	Accumulated Amortization	Net of Accumulated Amortization
Customer Lists	20	$ 4,573	$ 2,023	$ 2,550
Covenants Not-to-Compete	5	4,305	3,032	1,273
Patents and Licenses	17	5,296	177	5,119
Totals		$ 14,174	$ 5,232	$ 8,942

October 31, 2009 Intangible Asset	Weighted-Average Initial Amortization Period	Cost	Accumulated Amortization	Net of Accumulated Amortization

Customer Lists	20	$	4,573	$	1,902	$	2,671
Covenants Not-to-Compete	5		4,205		2,610		1,595
Patents and Licenses	17		457		135		322
Totals		$	9,235	$	4,647	$	4,588

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The aggregate intangible amortization expense for the three months ended April 30, 2010 and 2009 was $307 and $282, respectively, and for the six months ended April 30, 2010 and 2009 was $585 and $567, respectively. The estimated intangible asset amortization expense for the fiscal year ending October 31, 2009 and thereafter is as follows:

Year Ended October 31,		Amortization Expense
2010	$	1,235
2011		953
2012		561
2013		553
2014		546
Thereafter		5,094
Total	$	8,942

[10] In May 2008, the Company entered into an amended revolving note payable loan agreement with PNC Bank, N.A. (the bank). The maximum amount of the credit line available to the Company pursuant to the loan agreement is the lesser of (i) $40,000 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 interest on advances to be subject to the bank s prime rate or the Eurodollar rate of interest plus, in certain instances, an additional interest percentage. The additional interest percentage charges on Eurodollar borrowings range from 1% to 4% and are determined based upon certain financial ratios achieved by the Company. At April 30, 2010, the Company had elected to have all of the total advances outstanding to be subject to the bank s prime rate of interest of 3.25%. The credit line is collateralized by substantially all of the Company s assets. The line of credit is available through October 2012 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, fixed charge coverage, and the prohibition of the payment by the Company of cash dividends. As of April 30, 2010, the Company utilized $27,850 of the available credit under this revolving note payable loan agreement.

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 million 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, 2010 is approximately $2,083.

In January 2007, the Company issued a ten year term note of $4,100 for the financing of equipment. The note is payable in equal monthly installments of approximately $47 including principal and interest, with payment commencing on March 1, 2007 at an effective interest rate of 6.63% per annum. The balance on this note as of April 30, 2010 is approximately $3,051.

[11] The provision for income taxes for the three months ended April 30, 2010 consists of a current tax provision of $6,069 and a deferred tax benefit of $1,393. The provision for income taxes for the six months ended April 30, 2010 consists of a current tax provision of $10,036 and a deferred tax benefit of $2,160. The provision for income taxes for the three months ended April 30, 2009, consists of a current tax provision of $4,006 and a deferred tax benefit of $654. The provision for income taxes for the six months ended April 30, 2009, consists of a current tax provision of $7,326 and a deferred tax benefit of $1,392. On April 30, 2009, the Company had a current deferred tax asset of $8,659 included in other current assets and a long-term deferred tax asset of $1,078 included in other assets. On April 30, 2010 the Company had a current deferred tax asset of $15,265 and a long-term deferred tax asset of $848 included in other assets.

[12] On March 2, 2010, the Company completed the purchase of substantially all of the tangible and intangible assets, excluding cash, receivables and certain other assets, 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 laboratory diagnostic testing and genetic testing. The purchase price of $5,490,000 included a down payment of $4,740,000 and a hold-back of $750,000 to insure the accuracy of the Sellers representations and to protect the Company from any claims based on the operations of the Laboratory prior to the Closing. This acquisition resulted in an addition to Goodwill in the amount of $490.

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Item 2.

MANAGEMENT S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

OVERVIEW

We are a clinical laboratory located in northeastern New Jersey. Our regional footprint lies within the New York City metropolitan area and the surrounding areas of New Jersey and southern New York State as well eastern Pennsylvania and some areas of western Connecticut; under certain circumstances, we 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. We have also developed a national reputation for our expertise in certain focused areas of clinical testing. GenPath, the label under which we provide our cancer and oncology services, is recognized for the superior hematopathology services it provides throughout the country. 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. 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 publicly-traded full service laboratories operating in the U.S. While that means that the two national mega-laboratories and BioReference 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 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 are currently developing programs for cardiology, histology and women s health to go along with our existing hemostasis, hematopathology and correctional healthcare initiatives which have already been established and in which we have been increasing our market share for the past several years. 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.

During the fourth quarter of fiscal 2006, the Company acquired the operating assets of GeneDx, a leading DNA sequencing laboratory. As molecular testing in general becomes a more significant element in the diagnostic testing industry, the Company believes that genetic testing will become an essential diagnostic tool of the future. GeneDx was started by two geneticists from the National Institute of Health in 2000. Over the next six years, based on the reputation and expertise of the founders and the outstanding team they built around themselves, along with a very focused and dedicated understanding of the science of genetics, GeneDx became known as one of the premier genetic testing laboratories for the diagnosis of rare genetic diseases. The Company believed that the promise of genetic testing is in the diagnosis of the genetic variants of common diseases. It is the Company s intention to leverage the expertise and reputation of GeneDx in order to take a leadership role in the expanding area of genetic testing. The Company is seeking cutting edge methods of testing that will be commercially viable diagnostic tools for the advancement of genetic testing. During the past year, GeneDx introduced GenomeDx, a new test based on Comparative Genomic Hybridization Array technology, a high-speed, chip-based technology, that has allowed GeneDx to move to the forefront of an emerging technology platform. The Company is already expanding the menu of tests offered and employing marketing techniques that were extremely successful in building GenPath, our oncology laboratory. In addition to scientists and technicians to manage testing, GeneDx employs several genetic counselors to help patients and referring physicians and geneticists understand the meaning of the test results. Prior to the acquisition, GeneDx s revenues and profits were increasing at an accelerating rate. This increase has continued through the first two quarters of fiscal 2010. During the second quarter of fiscal 2010, the Company acquired operating assets of Lenetix a clinical testing laboratory located in Mineola, New York.

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 informatic 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 which they utilize to more effectively compete against the national laboratories. These other laboratories licensing our technology are not our competitors since they are outside our regional footprint.

We have also created our PSIMedica business unit which 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.

To date, neither our PSIMedica business unit nor CareEvolve has produced significant revenues.

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Summary

During the period ended January 31, 2009, the Company executed a Restitution Agreement with John Littleton, a former Vice President in sales. Mr. Littleton paid the Company $1,600,000 for payments made to him and others that were from our perspective, improperly paid. These payments were paid for a) recruiting fees for new hires paid to parties with an undisclosed relationship to him and b) reimbursement to him or others of improperly or insufficiently documented expenses; both of which are in violation of the Company s policies (See Other Income in table below). As such, in certain areas within the Management s Discussion and Analysis we will present an analysis of our operating results including the restitution amount and pro-forma operating results excluding the restitution amount (it will be labeled as such).

(Dollars in Thousands except Per Share Data)

(Unaudited)

Six Months Ended

April 30,

	2010	2009 Pro Forma	2009
Net Revenues	$ 209,709	$ 162,918	$ 162,918
Total Cost of Services	108,533	84,926	84,926
Gross Profit on Revenues	$ 101,176	$ 77,992	$ 77,992
General and Administrative Expenses	82,865	64,664	64,664
Operating Income	$ 18,311	$ 13,328	$ 13,328
Other (Income) Expense, Net	643	766	(834)
Income Before Taxes	$ 17,668	$ 12,562	$ 14,162
Taxes	7,876	5,263	5,934
Net Income	$ 9,792	$ 7,299	$ 8,228
Income Per Share	$ .35	$ .26	$ .30
Number of Shares	27,747,295	27,584,334	27,584,334
Income Per Share (Diluted)	$ .35	$ .26	$ .30
Number of Shares (Diluted)	28,038,447	27,818,220	27,818,220

OPERATING RESULTS (In Thousands)

COMPARISON OF SECOND QUARTER 2010 VS SECOND QUARTER 2009

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

NET REVENUES:

Net revenues for the three month period ended April 30, 2009 were $87,183 as compared to $110,447 for the three month period ended April 30, 2010; which represents a 27% increase in net revenues. This increase is due to a 22% increase in patient counts and an increase in revenue per patient of 4% due to a shift in business to higher reimbursement esoteric testing which continues to be the principal driver in net revenue per patient.

The number of patients serviced during the three month period ended April 30, 2010 was 1,370 thousand which was 22% greater when compared to the prior fiscal year s three month period. Net revenue per patient for the three month period ended April 30, 2009 was $76.74 compared to net revenue per patient of $80.00 for the three month period ended April 30, 2010, an increase of $3.26 or 4%.

COST OF SERVICES:

Cost of Services increased from $44,886 for the three month period ended April 30, 2009 to $56,779 for the three month period ended April 30, 2010, an increase of $11,893 or 27%. This increase in Cost of Services is basically in line with the increase in sales. However, approximately 5% or $550 of this increase is due to stock and cash compensation awarded to a key employee.

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GROSS PROFITS:

Gross profits increased from $42,297 for the three month period ended April 30, 2009 to $53,668 for the three month period ended April 30, 2010, an increase of $11,372 or 27%. Gross profit margin remained unchanged at 49%.

GENERAL AND ADMINISTRATIVE EXPENSES:

General and administrative expenses for the three month period ending April 30, 2009 were $33,939 as compared to $42,816 for the quarter ended April 30, 2010, an increase of $8,877 or 26%. This increase is in line with the increase in net revenues.

INTEREST EXPENSE:

Interest expense increased to $421 during the three month period ending April 30, 2010 from $415 during the three month period ended April 30, 2009. This increase is due to an increase in PNC Bank s credit line utilization.

INCOME:

We realized net income of $5,787 for the three month period ended April 30, 2010, as compared to $4,630 for the three month period ended April 30, 2009, an increase of $1,157 or 25%. Pre-tax income for the period ended April 30, 2010 was $10,463, compared to $7,982 for the three month period ended April 30, 2009, an increase of $2,481 or 31%. The provision for income taxes increased from $3,352 for the three month period ended April 30, 2009 to $4,676 for the period ended April 30, 2010.

SIX MONTHS 2010 COMPARED TO SIX MONTHS 2009

NET REVENUES:

Net Revenues for the six month period ended April 30, 2009 were $162,918 as compared to $209,709 for the six month period ended April 30, 2010; this represents a 29% increase in net revenues. This increase is due to a 25% increase in patient counts and an increase in revenue per patient of 3%.

The number of patients serviced during the six month period ended April 30, 2010 was 2,612 which was 25% greater when compared to the prior fiscal year s six month period. Net revenue per patient for the six month period ended April 30, 2009 was $77.23, compared to net revenue per patient for the six month period ended April 30, 2010 of $79.63, an increase of $2.40 or 3%.

COST OF SERVICES:

Cost of Services increased to $108,533 for the six month period ended April 30, 2010 from $84,926 for the six month period ended April 30, 2009. This represents a 28% increase in direct operating costs. This increase in cost of services is basically in line with the increase in sales. However, approximately 2% or $550 of this increase is due to stock and cash compensation awarded to a key employee.

GROSS PROFITS:

Gross profits on net revenues, increased to $101,176 for the six month period ended April 30, 2010 from $77,992 for the six month period ended April 30, 2009; an increase of $23,185 (30%). Gross profit margins remained constant between comparable periods at 48%.

GENERAL AND ADMINISTRATIVE EXPENSES:

General and administrative expenses for the six month period ended April 30, 2009 were $64,664 as compared to $82,865 for the six month period ended April 30, 2010. This represents an increase of $18,201 or 28%. This increase is in line with the increase in net revenues.

INTEREST EXPENSE:

Interest expense decreased to $712 during the six month period ending April 30, 2010 as compared to $858 during the six month period ending April 30, 2009, a decrease of $146. This decrease is due to a decrease in PNC Bank s prime rate to 3.25%. Management believes that this trend will continue in the short-term due to the bank s lower prime rate.

INCOME:

We realized net income of $9,792 for the six month period ended April 30, 2010 as compared to $8,228 for the six month period ended April 30, 2009, an increase of 19%. On a pro-forma basis (which excludes the restitution amount), the increase year over year would have been 34% not 19% as reported above.

Pre-tax income for the period ended April 30, 2010 was $17,668 as compared to $14,162 for the period ended April 30, 2009, an increase of $3,506 (25%). The provision for income taxes increased from $5,934 for the period ended April 30, 2009, to $7,876 (33%) for the current six month period. Our tax rate increased from 42% to 45%. However, on a pro-forma basis our pretax income for the period ended April 30, 2010

would have increased by $5,106 (41%). Our tax provision would have increased by $2,613 or 50%.

The most profound change on a pro-forma basis would have been that our fully-diluted earnings per share (EPS) went from $.26 on the pro forma basis to $.35 under current operating results - a difference of $.09 per share, which is more reflective of our true operating results.

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LIQUIDITY AND CAPITAL RESOURCES [In Thousands]:

Our working capital at April 30, 2010 was $77,728 as compared to $75,984 at October 31, 2009 an increase of $1,744. Our cash position decreased by $569 during the current period. We increased our short term debt by $15,398 and repaid $593 in existing debt. We had current liabilities of $78,560 at April 30, 2010. We utilized $302 in cash from operations, compared to generating $1,055 in cash from operations for the quarter ended April 30, 2009, an overall decrease of $1,357 in cash generated from operations year over year.

Accounts receivable, net of allowance for doubtful accounts, totaled $117,225 at April 30, 2010, an increase of $12,260 from October 31, 2009 or 12%. This increase was primarily attributable to increased revenue. Cash collected during the three month period ended April 30, 2010 increased 23% over the comparable three month period in 2009.

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 to the financial statements.

A number of proposals for legislation continue to be under discussion which could substantially reduce Medicare and Medicaid reimbursements to clinical laboratories. Depending upon the nature of 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 to which such actions will be taken.

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

Differences between fee schedules and reimbursement rates.

Incomplete or inaccurate billing information as provided by the physician.

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 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, 2010 was 95 days, a decrease of 9 days, or 9%, from the 104 days that we reported for the period ended April 30, 2009.

See note 10 to our Consolidated Financial Statements for information on the Company s long term debt.

Tabular Disclosure of Contractual Obligations

	Five Years	FY2010
Long - Term Debt	$ 5,727	$ 1,192
Capital Leases	6,882	2,685
Operating Leases	3,742	2,948
Purchase Obligations	44,723	13,425
Employment/Consultant Contracts	8,061	4,342
Total	$ 69,135	$ 24,592

Our cash balance at April 30, 2010 totaled $16,426 as compared to $16,995 at October 31, 2009. 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 2010.

Impact of Inflation - To date, inflation has not had a material effect on our operations.

New Authoritative Pronouncements

See Note 7 to our consolidated financial statements for a discussion of new authoritative pronouncements.

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 Goodwill.

We evaluate the recoverability and measure the possible impairment of goodwill under FASB Codification 350-20 Goodwill . The impairment test is a two-step process that begins with the estimation of the fair value of the reporting unit. The first step screens for potential impairment and the second step measures the amount of the impairment, if any. Management s estimate of fair value considers publicly available information regarding our market capitalization as well as (i) publicly available information regarding comparable publicly-traded companies in the clinical laboratory testing industry, (ii) the financial projections and future prospects of our business, including its growth opportunities and likely operational improvements, and (iii) comparable sales prices, if available. As part of the first step to assess potential impairment, management compares the estimate of fair value to book value on a consolidated net assets basis. If the book value of the consolidated net assets is greater than the estimate of fair value, we then proceed to the second step to measure the impairment, if any. The second step compares the implied fair value of goodwill with its carrying value

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The implied fair value is determined by allocating the fair value of the reporting unit to all of the assets and liabilities of that unit as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. If the carrying amount of the goodwill is greater than its implied fair value, an impairment loss will be recognized in that period.

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. These estimated net realizable amounts from patients, third party payors and others for services rendered, are accrued on an estimated basis in the period the related services are rendered and adjusted in subsequent periods based upon an analysis of the Company s collection experience from each category of payor group as well as prospectively determined contractual adjustments and discounts with third party payors. Differences between these adjustments and any subsequent revisions are included in the statement of operations in which the revisions are made and are disclosed, if material. Applying this methodology and aggregating its collection experience from all payor groups, the Company has not been required to record an adjustment related to revenue recorded in prior periods that was material in nature.

Accounting for Contractual Credits and Doubtful Accounts

An allowance for contractual credits and discounts is estimated by payor group and determined based upon a review of the reimbursement policies and subsequent collections from the different types of payors. The Company has not been required to record an adjustment in a subsequent period related to revenue recorded in a prior period that was material in nature.

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.

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 42% 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 in addition to those discussed under the caption Risk Factors contained in Item 1A of our Annual Report on Form 10-K for the year ended October 31, 2009, as well as elsewhere herein including:

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.

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 acceptable days sales outstanding levels.

increased competition, including price competition.

our ability to attract and retain experienced and qualified personnel.

adverse litigation results.

liabilities that result from our inability to comply with new corporate governance requirements.

failure to comply with the Sarbanes-Oxley Act of 2002.

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Item 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We do not invest in or trade market risk sensitive instruments. We also do not have any foreign operations or significant foreign sales so that our exposure to foreign currency exchange rate risk is minimal.

We do have exposure to both rising and falling interest rates. At April 30, 2010, advances of approximately $27,850 under our Loan Agreement with PNC Bank were subject to interest charges at the Bank s then prime rate of 3.25%.

We estimate that our monthly cash interest expense at April 30, 2010 was approximately $119 and that a one percentage point increase or decrease in short-term rates would increase or decrease our monthly interest expense by approximately $18.

Item 4 CONTROLS AND PROCEDURES

An evaluation was carried out under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, our principal executive officer and principal financial officer concluded that those disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission s rules and forms.

PART II - OTHER INFORMATION

Item 6

EXHIBITS

31.1 Certification of Chief Executive Officer

31.2 Certification of Chief Financial Officer

32.1 Certification Pursuant to 18 U.S.C. Section 1350 of Chief Executive Officer

32.2 Certification Pursuant to 18 U.S.C. Section 1350 of Chief Financial Officer

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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 4, 2010