BIO REFERENCE LABORATORIES INC
Form 10-Q
March 09, 2015
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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 January 31, 2015

Or

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

For the transition period from to

Commission File Number 000-15266

BIO-REFERENCE LABORATORIES, INC.

(Exact name of registrant as specified in its charter)

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

(201) 791-2600

(Registrant s telephone number, including area code)

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

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

Yes x No o

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

Yes x No o

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

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

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

Yes o No x

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of the issuer s common stock, as of the latest practicable date: 27,776,976 shares of Common Stock ($.01 par value) at March 6, 2015.

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FORM 10-Q

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PART I FINANCIAL INFORMATION

BIO-REFERENCE LABORATORIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

[Dollars In Thousands Except Share and Per Share Data]

ASSETS

	January 31, 2015 (Unaudited)	October 31, 2014
CURRENT ASSETS:		
Cash and Cash Equivalents	$ 22,240	$ 17,507
Accounts Receivable - Net	268,720	263,346
Inventory	22,511	20,791
Other Current Assets	9,809	10,165
Deferred Tax Assets	38,068	40,040
TOTAL CURRENT ASSETS	361,348	351,849
PROPERTY AND EQUIPMENT - AT COST	160,965	156,342
LESS: Accumulated Depreciation	(95,323)	(89,954)
PROPERTY AND EQUIPMENT - NET	65,642	66,388
OTHER ASSETS:		
Investments	5,267	5,153
Deposits	1,113	1,056
Goodwill - Net	35,185	35,185
Intangible Assets - Net	13,925	14,403
Other Assets	1,416	1,415
Deferred Tax Assets	4,247	3,414
TOTAL OTHER ASSETS	61,153	60,626
TOTAL ASSETS	$ 488,143	$ 478,863

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 Share and Per Share Data]

LIABILITIES AND SHAREHOLDERS EQUITY

	January 31, 2015 (Unaudited)	October 31, 2014
CURRENT LIABILITIES:		
Accounts Payable	$ 68,030	$ 71,166
Accrued Salaries and Commissions Payable	20,710	15,822
Accrued Taxes and Expenses	16,391	15,620
Other Short Term Acquisition Payable	1,895	1,924
Revolving Note Payable - Bank	33,735	33,380
Current Maturities of Long-Term Debt	533	524
Capital Lease Obligations - Short-Term Portion	6,262	6,128
TOTAL CURRENT LIABILITIES	147,556	144,564
LONG-TERM LIABILITIES:		
Capital Lease Obligations - Long-Term Portion	11,760	12,252
Long Term Debt - Net of Current Portion	3,009	3,145
TOTAL LONG-TERM LIABILITIES	14,769	15,397
SHAREHOLDERS EQUITY:		
Preferred Stock, 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 27,752,976 and 27,727,644 at January 31, 2015 and at October 31, 2014, respectively	277	277
Additional Paid-In Capital	40,262	39,979
Retained Earnings	285,279	278,646
TOTAL SHAREHOLDERS EQUITY	325,818	318,902
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 488,143	$ 478,863

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 Share and Per Share Data]

[UNAUDITED]

	Three months ended January 31,	
	2015	2014
NET REVENUES:	$ 208,833	$ 181,270
COST OF SERVICES:		
Depreciation	4,966	4,575
Employee Related Expenses	53,685	49,110
Reagents and Lab Supplies	40,582	37,231
Other Cost of Services	19,845	18,200
TOTAL COST OF SERVICES	119,078	109,116
GROSS PROFIT ON REVENUES	89,755	72,154
General and Administrative Expenses:		
Depreciation and Amortization	1,567	1,114
Other General and Administrative Expenses	58,260	49,586
Bad Debt Expense	18,000	15,574
TOTAL GENERAL AND ADMIN. EXPENSES	77,827	66,274
OPERATING INCOME	11,928	5,880
OTHER (INCOME) EXPENSES:		
Interest Expense	560	609
Interest Income	(22)	(14)
Other (Income) Expense	(114)	30
TOTAL OTHER (INCOME) EXPENSES - NET	424	625
INCOME BEFORE INCOME TAXES	11,504	5,255
Provision for Income Taxes	4,871	2,301
NET INCOME	$ 6,633	$ 2,954
NET INCOME PER SHARE - BASIC:	$ 0.24	$ 0.11
WEIGHTED AVERAGE NUMBER OF SHARES BASIC:	27,740,309	27,700,167
NET INCOME PER SHARE - DILUTED:	$ 0.24	$ 0.11

WEIGHTED AVERAGE NUMBER OF SHARES - DILUTED:	27,867,214	27,848,492

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

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BIO-REFERENCE LABORATORIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

[Dollars In Thousands Except Share and Per Share Data]

[UNAUDITED]

	Three months ended January 31,	
	2015	**2014**
OPERATING ACTIVITIES:		
Net Income	$ 6,633	$ 2,954
Adjustments to Reconcile Net Income to		
Cash Provided by Operating Activities:		
Depreciation and Amortization	6,533	5,689
Deferred Income Taxes (Benefit)	1,139	5,519
Stock Based Compensation	40	290
Loss (Gain) on Disposal of Fixed Assets	99	38
Undistributed Equity Method (Income) Loss	(114)	30
Change in Assets and Liabilities:		
(Increase) Decrease in:		
Accounts Receivable	611	2,166
Provision for Doubtful Accounts	(5,985)	(13,646)
Inventory	(1,720)	(2,647)
Other Current Assets	356	289
Other Assets	(1)	
Deposits	(57)	(3)
Increase (Decrease) in:		
Accounts Payable and Accrued Liabilities	2,523	(3,431)
NET CASH - OPERATING ACTIVITIES	$ 10,057	$ (2,752)
INVESTING ACTIVITIES:		
Acquisition of Equipment and Leasehold Improvements	(4,149)	(2,771)
Business Acquisitions Related Costs	(29)	(258)
NET CASH - INVESTING ACTIVITIES	(4,178)	(3,029)
FINANCING ACTIVITIES:		
Payments of Long-Term Debt	(127)	(121)
Payments of Capital Lease Obligations	(1,617)	(1,479)
Increase (Decrease) in Revolving Line of Credit	355	3,840
Proceeds from Exercise of Options	243	122
NET CASH - FINANCING ACTIVITIES	(1,146)	2,362
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,733	(3,419)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIODS	17,507	17,952

CASH AND CASH EQUIVALENTS AT END OF PERIODS		22,240		14,533
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:				
Cash paid during the period for:				
Interest	$	570	$	583
Income Taxes	$	2,791	$	2,813

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

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SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

[Dollars In Thousands]

[Unaudited]

During the three-month periods ended January 31, 2015 and January 31, 2014, the Company entered into capital leases totaling $1,259 and $4,191, respectively.

During the three-month periods ended January 31, 2015 and January 31, 2014, the Company wrote-off approximately $785 and $644 of property and equipment that were fully depreciated.

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BIO-REFERENCE LABORATORIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(UNAUDITED)

[1] Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and the instructions to Form 10-Q and, therefore, do not include all information and footnotes necessary for complete audited financial statements. However, in the opinion of the management of the Company, all adjustments necessary for a fair presentation of the financial position and operating results have been included in these statements. Interim results are not necessarily indicative of results for a full year. Reference is made to the October 31, 2014 audited consolidated financial statements of Bio-Reference Laboratories, Inc.(BRLI or the Company) contained in its Annual Report on Form 10-K for the year ended October 31, 2014.

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, 2014 as filed with the Securities and Exchange Commission in the Company s Annual Report on Form 10-K. Significant accounting policies followed by the Company are set forth in Note 2 to the Company s 2014 Annual Report on Form 10-K.

[2] Fair Value Measurements

As of January 31, 2015, the Company s financial instruments primarily consist of cash, cash equivalents, 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.

[3] New Accounting Pronouncements, Reclassifications and Other Matters

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

[4] Revenue Recognition and Contractual Adjustments

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

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

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	($) Three Months Ended January 31 [Unaudited]	
	2015	2014
Gross Service Revenues	1,065,293	909,879
Contractual Adjustments and Discounts:		
Medicare/Medicaid Portion	94,063	88,919
All Other Third Party Payors*	749,201	624,145
Total Contractual Adjustments and Discounts	843,264	713,064
Service Revenues Net of Contractual Adjustments and Discounts	222,029	196,815
Patient Service Revenue Provision for Bad Debts**	13,196	15,545
Net Revenues	208,833	181,270

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

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

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

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

[5] Accounts Receivable Allowances

It is typically the responsibility of the patient to pay for laboratory service bills. Most individuals in the United States have an agreement with a third party payor such as Medicare, Medicaid or commercial insurance to pay all or a portion of their healthcare expenses; this represents the major portion of payment for all services provided by BRLI. In certain cases, the individual has no insurance or does not provide insurance information; in the remainder of the cases, BRLI is provided the third party billing information, usually by the referring physician, and seeks payment from the third party under the terms and conditions of the third party payor for health service providers like BRLI. Each of these third party payors may differ not only with regard to rates, but also with regard to terms and conditions of payment and coverage of specific tests.

BRLI routinely reviews the reimbursement policies and subsequent payments and collection rates from these different types of payors. Contractual adjustments and discounts are recorded as reductions to gross service revenues and are collectively referred to as the contractual allowance. BRLI has not been required to record an adjustment in a subsequent period related to revenue recorded in a prior period which was material in nature. Aging of accounts receivable is monitored by billing personnel and follow-up activities including collection efforts are conducted as necessary. BRLI writes off receivables against the allowance for doubtful accounts when they are deemed uncollectible. For client billing, accounts are written off when all reasonable collection efforts prove to be unsuccessful. Patient accounts, where the patient is directly responsible for all or a remainder portion of the account after partial payment or denial by a third party payor, are written off after the normal dunning cycle has occurred, although these may be subsequently transferred to a third party collection agency after being written off. Third party payor accounts are written off when they exceed the payer s timely filing limits. Accounts Receivable on the balance sheet is net of the following amounts for contractual credits and doubtful accounts:

	[Unaudited] January 31, 2015	**October 31, 2014**
Contractual Credits/Discounts	535,118	513,466
Doubtful Accounts	78,541	83,276
Total Allowance	613,659	596,742

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[6] Intangible Assets

The following disclosures present certain information on the Company s intangible assets as of January 31, 2015 (Unaudited) and October 31, 2014. All intangible assets are being amortized over their estimated useful lives, as indicated below, with no estimated residual value.

January 31, 2015

Intangible Asset	Weighted-Average Amortization Period Years	Cost ($)	Accumulated Amortization ($)	Net of Accumulated Amortization ($)
Customer Lists	20	8,738	3,373	5,365
Covenants Not-to-Compete	5	11,131	6,032	5,099
Patents and Licenses	17	5,297	1,836	3,461
Totals		25,166	11,241	13,925

October 31, 2014

Intangible Asset	Weighted-Average Amortization Period Years	Cost ($)	Accumulated Amortization ($)	Net of Accumulated Amortization ($)
Customer Lists	20	$ 8,738	$ 3,275	$ 5,463
Covenants Not-to-Compete	3	11,131	5,738	5,393
Patents and Licenses	17	5,297	1,750	3,547
Totals		$ 25,166	$ 10,763	$ 14,403

The aggregate intangible amortization expense for the three months ended January 31, 2015 and 2014 was $478 and $229, respectively. The estimated intangible asset amortization expense for the remainder of the fiscal year ending October 31, 2015 and for the four subsequent years is as follows:

October 31,	($)
2015	1,375
2016	1,540
2017	1,063
2018	946
2019	904
Thereafter	8,097
Total	13,925

[7] Revolving Note Payable - Bank

On February 3, 2014, the Company entered into an amended revolving note payable loan agreement with PNC Bank, N.A. (PNC Bank Credit Line). This amendment increased the maximum credit line to $70,000. The maximum amount of the credit line available to the Company pursuant to the loan agreement is the lesser of (i) $70,000 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. At January 31, 2015, the Company elected to have all of the total advances outstanding to be subject to the bank s base rate of interest of 3.50%. 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 January 31, 2015, the Company utilized $33,735 of the available credit under this revolving note payable loan agreement.

[8] Long-Term Debt - Bank

In December 2010, the Company issued a seven year term note for $5,408 at the rate of interest of 6.12% per annum for the financing of new equipment. The note is payable in 84 equal monthly installments commencing on January 29, 2011 of $61 including principal and interest followed by a balloon payment of the principal and interest outstanding on the loan repayment date of December 29, 2017. The balance on this note as of January 31, 2015 is approximately $3,542.

[9] Provision for Income Taxes

The provision for income taxes for the three months ended January 31, 2015 consists of a current tax expense of $3,731 and a deferred tax expense of $1,140. At January 31, 2015, the Company had a current deferred tax asset of $38,068 included in other current assets and a long-term deferred tax asset of $4,247 included in other assets.

The provision for income taxes for the three months ended January 31, 2014 consists of a current tax benefit of $3,218 and a deferred tax expense of $5,519. At January 31, 2014, the Company had a current deferred tax asset of $36,265 included in other current assets and a long-term deferred tax asset of $2,447 included in other assets.

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Forward-Looking Statements

Statements included in this Annual Report on Form 10-Q (Quarterly Report) that are not historical in nature, are intended to be, and are hereby identified as forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by words such as expects, anticipates, intends, plans, believes, seeks, estimates, will or words of simil and include, but are not limited to, statements about the expected future business and financial performance of Bio-Reference Laboratories, Inc. and its subsidiaries. Such statements concern matters that involve known and unknown risks and uncertainties that may cause the Company s actual results in future periods, performance or achievements, or industry results, to be materially different from any future results, performance or achievements described, implied or suggested herein. Although we believe our expectations are based upon reasonable assumptions, there can be no assurance that our financial goals will be realized.

Factors could cause actual results, performance or achievement to differ materially from those expressed or implied from these forward-looking statements include, but are not limited to, the factors discussed under Risk Factors as well as elsewhere herein, which may include:

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

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

FDA regulation of Laboratory Developed Tests and clinical laboratories;

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

Failure to maintain the security of patient-related information;

Failure to comply with the Federal Occupational Safety and Health Administration requirements and 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;

Changing relationships with payers, including the various state and multi-state Blues programs, suppliers and strategic partners; Efforts by third-party payors to reduce utilization and reimbursement for clinical testing services;

Failure to timely or accurately bill for our services;

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

Increased competition, including price competition;

Ability to attract and retain experienced and qualified personnel;

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

Adverse litigation results; and

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

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this filing. We assume no obligation to update the forward-looking statements to reflect actual results or changes in the factors affecting such forward-looking statements.

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

Overview

We are a clinical diagnostic laboratory headquartered in northeastern New Jersey. We are a national laboratory in certain focused areas of laboratory testing and a full service laboratory in the larger metropolitan areas of New York, New Jersey, Maryland, Pennsylvania, Delaware, Washington DC, Florida, California, Texas, Illinois and Massachusetts.

We have developed a national reputation for our expertise in certain focused areas of clinical testing. GenPath Oncology, 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 offered as GenPath Women s Health. 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. These accounts frequently send routine testing to us for processing along with specialized testing in order to simplify their diagnostic ordering and review procedures and to take advantage of our outstanding capability, service and support. Our correctional healthcare services are used throughout the country at prisons and jails. The focused markets we serve on a national basis outside of our regional footprint do not require many of the logistical and other ancillary support services required 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. Laboratorio Buena Salud is the first national testing laboratory dedicated to serving Spanish-speaking populations in the United States. All business is conducted in Spanish, including patient and physician interactions.

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 US publicly traded full service laboratories operating primarily 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.

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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 which have already been established and in which we have been increasing our market share for the past several years. We offer 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.

While we recognize that we are a clinical laboratory that processes samples, we also understand that we are an information company that needs to effectively communicate the results of our efforts back to healthcare providers. Laboratory results play a major role in the implementation of physician healthcare. Laboratory results are used to diagnose, monitor and classify health concerns. In many cases, laboratory results represent the confirming data in diagnosing complicated health issues. Since laboratory results play such an important role in routine physician care, we have developed informatics solutions that leverage our role in healthcare. We built a web-based solution to quickly, accurately, conveniently and competitively collect ordering information and deliver results. That solution is called CareEvolve. CareEvolve 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 since they are outside our regional footprint.

We have also created our PSIMedica business unit that has developed a Clinical Knowledge Management (CKM) System that takes data from enrollment, claims, pharmacy, laboratory results and any other available electronic source to provide both administrative and clinical analysis of a population. The system uses proprietary algorithms to cleanse and configure the data and transfer the resulting information into a healthcare data repository. Using advanced cube technology methodologies, the data can be analyzed from a myriad of views and from highly granular transactional detail to global trended overview. Events such as the Hurricane Katrina 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 relative to the primary laboratory operations.

First Quarter Fiscal 2015 Compared to First Quarter Fiscal 2014

NET REVENUES:

Net revenues for the three-month period ended January 31, 2015 were $208,833 as compared to $181,270 for the three-month period ended January 31, 2014. This represents a 15% increase in net revenues. This increase is due to a 7% increase in patient counts and an increase in revenue per patient of 8% due to a shift in business to higher reimbursement esoteric testing which continues to be the principal driver in net revenue per patient. The number of patients serviced during the three-month period ended January 31, 2015 was 2,352 which was 7% greater

when compared to the prior fiscal year s three-month period. Net revenue per patient for the three-month period ended January 31, 2015 was $88.09 compared to net revenue per patient of $81.17 for the three-month period ended January 31, 2014, an increase of 8%. In comparing these two quarters it is important to keep in mind the effect of inclement weather on the first quarter of 2014 s numbers. This impact in our estimate amounted to be about 5 cents per share.

Our revenues and patient counts could be adversely affected by a number of factors, including, but not limited, to an extended economic downturn in general or healthcare economic conditions, an unexpected reduction in reimbursement rates, increased market penetration by our competitors or a substantial adverse change in federal regulatory requirements governing our industry.

COST OF SERVICES:

Cost of services increased from $109,116 for the three-month period ended January 31, 2014 to $119,078 for the three-month period ended January 31, 2015, an increase of $9,962 or 9%. This increase is less than the increase in net as the company is beginning to realize savings associated with the increased scale of its operations.

GROSS PROFITS:

Gross profits increased from $72,154 for the three-month period ended January 31, 2014 to $89,755 for the three-month period ended January 31, 2015, an increase of $17,601 or 24%. Gross profit margin increased to 43% from 40%.

GENERAL AND ADMINISTRATIVE EXPENSES:

General and administrative expenses for the three month period ending January 31, 2014 were $66,274 as compared to $77,827 for the quarter ended January 31, 2015, an increase of $11,553or 17%. This increase is only slightly greater than the increase in net revenues. This is mainly due to additional legal and administrative expenses incurred as the result of two large ongoing litigations disclosed separately as well as integrating operations of recently acquired businesses in Florida and California.

INTEREST EXPENSE:

Interest expense decreased to $560 during the three-month period ending January 31, 2015 from $609 during the three-month period ended January 31, 2014. This decrease is due to a decrease in the utilization of our PNC Bank Credit Line.

NET INCOME:

We realized net income of $6,633 for the three-month period ended January 31, 2015, as compared to $2,954 for the three-month period ended January 31, 2014, an increase of $3,679 or 125%. Pre-tax income for the period ended January 31, 2015 was $11,504, compared to $5,255 for the three-month period ended January 31, 2014, an increase of $6,249 or 119%. This substantial increase in pre-tax income is the result of several factors such as substantial winding down of additional integration costs related to our acquisitions in Florida and California and being more adapt to the changing reimbursement landscape. The provision for income taxes increased to $4,871 for the three-month period ended January 31, 2015 from $2,301 for the period ended January 31, 2014.

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LIQUIDITY AND CAPITAL RESOURCES:

Our working capital at January 31, 2015 was $213,792 as compared to $207,285 at October 31, 2014. This represents an increase of about 3%. Our cash position increased by about $4,733 during the current period. We increased our short term debt by $364 and repaid $136 in existing debt. We had current liabilities of $147,556 at January 31, 2015. We generated $10,057 in cash from operations, compared to utilizing $3,431 for the quarter ended January 31, 2014, an increase of $12,809 in cash generated from operations year over year. The increase is attributable to a better collection rate in relation to sales growth rate happening as the result of us being more adapt to the changing reimbursement landscape associated with the implementation of the Affordable Care Act. We believe that this represents the latest trend.

Our cash balance at January 31, 2015 totaled $22,240 as compared to $17,507 at October 31, 2014, an increase of $4,733. 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 2015.

Accounts receivable, net of allowance for doubtful accounts, totaled $268,720 at January 31, 2015, an increase of $5,374 or 2% from October 31, 2014. Cash collected during the three-month period ended January 31, 2015 increased 18% over the comparable prior year three-month period.

Credit risk with respect to accounts receivable is generally diversified due to the large number of patients 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 that 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 of which such actions will be taken if at all.

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

Differences between fee schedules and actual reimbursement rates.

Incomplete or inaccurate billing information provided by physicians or clinics.

Disparity in coverage and information requirements.

Disputes with payors.

Internal and external compliance policies and procedures.

Significant costs are incurred as a result of our participation in government programs since billing and reimbursement for laboratory tests are subject to complex regulations. We perform the requested tests and report the results whether the billing information is correct or not or even missing. This adds to the complexity and slows the collection process and increases the aging of our accounts receivable (A/R). When patient invoices are not collected in a timely manner the item is written off to the accounts receivable allowance for doubtful accounts. Days Sales Outstanding (DSO) for the period ended January 31, 2015 was 113 days up from 111 days in the quarter end January 31, 2014. However, when you compare our collections to our net collectible revenues as reported on our financial statements for the comparable periods in question, it varies between 98% to 102% depending on the period.

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

We intend to expand our laboratory operations through aggressive marketing while also diversifying into related medical fields through acquisitions. These acquisitions may involve cash, notes, common stock, and/or combinations thereof. In the event stock is used for such acquisition dilution of ownership will occur.

Tabular Disclosure of Contractual Obligations

	Next Four Years and Thereafter ($)	FY 2015 ($)
Long-Term Debt	3,145	524
Capital Leases	12,789	6,624
Operating Leases	4,637	8,909
Purchase Obligations	121,707	63,692
Long-Term Liabilities under Employment and Consultant Contracts	9,113	4,582

Impact of Inflation

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

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Critical Accounting Policies

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

Accounting for Intangible and Other Long-Lived Assets

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

Accounting for Revenue

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

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

($)

	Three Months Ended January 31 [Unaudited]	
	2015	**2014**
Gross Service Revenues	1,065,293	909,879
Contractual Adjustments and Discounts:		
Medicare/Medicaid Portion	94,063	88,919
All Other Third Party Payors*	749,201	624,145
Total Contractual Adjustments and Discounts	843,264	713,064
Service Revenues Net of Contractual Adjustments and Discounts	222,029	196,815
Patient Service Revenue Provision for Bad Debts**	13,196	15,545
Net Revenues	208,833	181,270

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

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

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

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

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

	[Unaudited] January 31, 2015	October 31, 2014
Contractual Credits/Discounts	535,118	513,466
Doubtful Accounts	78,541	83,276
Total Allowance	613,659	596,742

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

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

We do have exposure to both rising and falling interest rates. At January 31, 2015, advances of approximately $33,735,000 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 January 31, 2015 was approximately $187,000 and that a one percentage point increase or decrease in short-term rates would increase or decrease our monthly interest expense by approximately $28,000.

Item 4 - CONTROLS AND PROCEDURES

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

There have been no changes in our internal control over financial reporting during the fiscal quarter ended January 31, 2015 that has materially affected, or is reasonably likely to materially affect, the registrant s internal control over financial reporting.

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BIO-REFERENCE LABORATORIES, INC.

PART II OTHER INFORMATION

Item 1 Legal Proceedings

BioReference Laboratories, Inc. v. Horizon Healthcare Services, Inc. d/b/a Horizon Blue Cross Blue Shield of New Jersey

On December 18, 2013, the Company filed an action in the Superior Court of New Jersey against Horizon Blue Cross Blue Shield of New Jersey (Horizon), captioned *BioReference Laboratories, Inc. v. Horizon Healthcare Services, Inc. d/b/a Horizon Blue Cross Blue Shield of New Jersey*, Docket No. BER L-009748-13 (N.J. Super. Ct. Bergen Cnty.). The Company has been an in-network provider to Horizon s preferred provider organization (PPO) members for more than 20 years and filed the lawsuit after attempts to resolve its dispute with Horizon were unsuccessful.

The Company currently provides services to Horizon pursuant to an Ancillary Services Provider Agreement entered into in 2003 and amended in 2007. The central claims in the lawsuit arise from the Company s performance of laboratory services since at least 2008 for members of Horizon s NJ DIRECT plan, who receive benefits under a program that Horizon has bid, promoted, and represented to be a PPO product for New Jersey state, county, and municipal workers and teachers. The lawsuit alleges that, despite these representations, Horizon has been improperly treating NJ DIRECT as a Managed Care program in its dealings with the Company, thereby costing the Company more than $20,000,000 in unreimbursed services and depriving state beneficiaries of valuable rights and benefits to which they are entitled. The lawsuit alleges that Horizon furthered its fraud against the Company by means of a sham Request for Proposal issued in 2011 and through false and incorrect communications to the Company and other providers. The Company asserts claims for breach of contract, breach of the implied covenant of good faith and fair dealing, and fraud against Horizon. In addition to compensatory damages, the Company seeks to recover punitive damages from Horizon due to Horizon s intentional and malicious misconduct. The Company also seeks declaratory and injunctive relief.

On February 5, 2014, Horizon filed a motion to dismiss the complaint, which the Company opposed. On March 28, 2014, the Honorable Robert C. Wilson of the Superior Court of New Jersey issued an oral ruling denying Horizon s motion to dismiss without prejudice pending the completion of discovery. The Company and Horizon are conducting discovery, which is currently scheduled to close on July 30, 2015. The Company intends to vigorously prosecute its claims against Horizon.

University of Utah Research Foundation, et al. v. GeneDx, Inc., Civil Action No. 2:13cv00954 (D. Utah)

On October 16, 2013, Myriad Genetics, Inc., Endorecherche, Inc., HSC Research and Development Limited Partnership, Trustees of the University of Pennsylvania, and University of Utah Research Foundation (Plaintiffs) filed a complaint for patent infringement against GeneDx, Inc., a wholly-owned subsidiary of Bio-Reference Laboratories, Inc., in the United States District Court for the District of Utah, Central Division in Salt Lake City, Utah (District of Utah litigation). The complaint alleged that GeneDx offers laboratory services, including testing and analysis of BRCA1, BRCA2, and MUTYH genes, that infringe sixteen (16) U.S. Patents owned or controlled by Plaintiffs.

Following several months of discovery, the Court of Appeals for the Federal Circuit held several asserted claims invalid under 35 U.S.C. § 101 on December 17, 2014. The parties then filed the stipulation of dismissal after reaching agreement to settle the patent dispute. District Court Judge Robert J. Shelby granted Plaintiffs and GeneDx s Joint Stipulated Motion to Dismiss the District of Utah litigation on February 13, 2015. The District Court also had previously granted several similar joint motions to dismiss other cases involving several of the patents and claims asserted against GeneDx. The adverse parties involved in those cases were: Ambry Genetics Corp.; Gene by Gene, Ltd.; Counsyl, Inc.; Quest Diagnostics Inc.; Invitae Corp.; Laboratory Corporation of America Holdings; and Pathway Genomics Corp..

As part of the settlement, GeneDx and Plaintiffs moved to terminate thirteen petitions for *Inter Partes* Review (IPR) filed by GeneDx with the U.S. Patent and Trademark Office (USPTO), challenging the validity of certain claims of 13 of the patents asserted against it in the District of Utah litigation. The Patent Trial and Appeal Board at the USPTO granted GeneDx and Plaintiffs motions to terminate on February 19, 2015, without instituting trial on the IPR petitions.

Under the settlement, Plaintiffs have given GeneDx a covenant not to sue over all the patents asserted in the litigation. GeneDx will thus continue offering its services for cancer diagnostics which, individually or part of more comprehensive panels, all include testing for mutations in the BRCA1 and BRCA2 genes. GeneDx will also continue offering its services for cancer diagnostics related to testing for mutations in the MUTYH gene.

Item 5 Other Information

None.

Item 6 EXHIBITS

Exhibit No.	Description
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

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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: March 9, 2015