

BIO REFERENCE LABORATORIES INC
Form 10-K/A
July 14, 2011
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A

AMENDMENT TO ANNUAL REPORT ON FORM 10-K
FILED PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended October 31, 2010

BIO-REFERENCE LABORATORIES, INC.

[Exact name of Registrant as specified in its charter]

Commission file number 0-15266

AMENDMENT NO. 1

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

OVERVIEW

We are a national clinical diagnostic laboratory located in northeastern New Jersey. We are a national laboratory in certain focused areas of laboratory testing and a full service laboratory in the New York super-region. We have developed a national reputation for our expertise in certain focused areas of clinical testing. GenPath, the name by which we are known for our cancer and oncology services, is recognized for the superior hematopathology services it provides throughout the country. Our Women's Health initiative, through which we provide dedicated services for obstetrics and gynecology practices, including a unique, technically advanced multiplex process for identifying sexually transmitted infections, is also offered as GenPath. Our regional footprint lays within the New York City metropolitan area and the surrounding areas of New Jersey and southern New York State as well as eastern Pennsylvania and some areas of western Connecticut; we also provide services further into New York State, Pennsylvania, Delaware and Maryland. As a regional provider, we are a full-service laboratory that primarily services physician office practices; our drivers pick up samples and deliver reports and supplies, we provide sophisticated technical support, phlebotomy services or patient service centers where appropriate, and electronic communication services in many cases. Physicians outside of our regional footprint send samples to our laboratory in order to take advantage of the expertise that we are able to provide in blood-based cancer pathology and associated diagnostics or to take advantage of the superior service, support and technologically advanced testing we offer in our Women's Health initiative. Our correctional healthcare services are used throughout the country at prisons and jails. The focused markets we serve on a national basis outside of our regional footprint do not require many of the logistical and other ancillary support services required within the region. Even within our regional footprint, we provide the same services that we provide on a national basis as well as some regional focused diagnostic services, such as histology and pathology support services, substance abuse testing, fertility testing, hemostasis testing, women's health testing, and molecular diagnostics that are unavailable from many of the smaller regional competitors; testing in some of these areas may be provided outside of physician offices.

Over the last few years, there have been fundamental changes in the laboratory services industry. In the 1990s, the industry was negatively impacted by the growth of managed care, increased government regulation, and investigations into fraud and abuse. These factors led to revenue and profit declines and industry consolidations, especially among commercial laboratories. There are currently only three US 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 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 are currently preparing to launch 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.

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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 (NIH) in 2000. Over the next six years, based on the reputation and expertise of the founders and the outstanding team they built around themselves, along with a very focused and dedicated understanding of the science of genetics, GeneDx became known as one of the premier genetic testing laboratories for the diagnosis of rare genetic diseases. The Company believed that the promise of genetic testing is in the diagnosis of the genetic variants of common diseases. It has been the Company's intention to leverage the expertise and reputation of GeneDx in order to take a leadership role in the expanding area of genetic testing. The Company is seeking cutting edge methods of testing that will be commercially viable diagnostic tools for the advancement of genetic testing. In 2007, GeneDx introduced GenomeDx, a then new test based on CGH Array technology, a high-speed, chip-based technology that has allowed GeneDx to move to the forefront of an emerging technology platform. In 2008, GeneDx became the first commercial laboratory in the world to offer next generation (NextGen) sequencing (high-speed computer-based whole genome sequencing) and has since built up a comprehensive suite of cardiac arrhythmia panels, as well as other multi-gene testing panels, that have enhanced its reputation as a technology and service leader in the area of genetic testing. The Company 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 many genetic counselors and geneticists 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 fiscal 2010.

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

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

Summary

During the quarter 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 the Income Statement and Note 2 to our consolidated financials statements). 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).

Results of Operations (In thousands, except per patient data)

Fiscal Year 2010 Compared to 2009

NET REVENUES:

Net Revenues for the year ended October 31, 2010 were \$458,024 as compared to \$362,654 for the year ended October 31, 2009; this represents a 26% increase in net revenues. This increase is due to a 21% increase in patients serviced and a 5% increase in net revenue per patient. Our laboratory operations had net revenues of \$359,625 in fiscal 2009 and \$454,308 in fiscal 2010. During the fiscal year ended October 31, 2010, we increased our sales force by approximately 22% in the specialty testing services that we market nationally. This increase occurred in two phases: one in January 2010 and one in May of the same year. We believe that this increase in sales personnel accounted for a majority of the 21% increase in our patient volume. This allowed us to expand or increase our presence in sixteen states and we expect this trend to continue. While there is always uncertainty as to the sustainability of such growth in the future, we believe that our historical performance of 20% compound annual growth rate for the past 17 years, the current demand for our services and our continued corporate focus on strategic growth, together with our expertise in the industry, will allow our present growth trends to continue in the near future. Going beyond that, however, the Company's revenues and patient counts could be adversely affected by a number of factors including, but not limited to an extended downturn in general or healthcare economic conditions, an unexpected reduction in reimbursement rates, increased market penetration by our competitors, or a substantial adverse change in federal regulatory requirements governing our industry as well as a failure to continue the sizeable annual percentage increase in base business from significantly higher levels after 17 years of sustained growth.

The number of patients serviced during the year ended October 31, 2010 was 5,607, which was 21% greater when compared to the prior fiscal year. Net revenue per patient for the year ended October 31, 2010 was \$81.03 compared to net revenue per patient for the year ended October 31, 2009 of \$77.38, an increase of \$3.65 or 5% as a result of increases in esoteric testing.

COST OF SERVICES:

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Cost of Services for the year ended October 31, 2010 was \$232,252 as compared to \$183,524 for the year ended October 31, 2009, an increase of 27% as compared to a 26% increase in net revenues. Therefore, this increase is basically in line with the increase in net revenues. The Company's reagents and laboratory supplies expense increased by 35% due to the higher cost of specialty testing reagents. Our vehicle operating expenses also increased by 20% due to the higher cost of fuel. We expect these trends to continue.

GROSS PROFIT:

Gross profit on net revenues increased to \$225,772 for the year ended October 31, 2010 from \$179,130 for the year ended October 31, 2009; an increase of \$46,642 (26%), primarily attributable to the increase in net revenues. Gross profit margins remained constant year over year at 49%

GENERAL AND ADMINISTRATIVE EXPENSES:

General and administrative expenses for the year ended October 31, 2010 were \$177,394 as compared to \$140,808 for the year ended October 31, 2009, an increase of \$36,586 or 26%. This is basically in line with the increase in net revenues. Marketing expenses increased by 33% due to increases in our sales force together with substantial investment in marketing materials and we expect this trend to continue in the near future.

INTEREST EXPENSE:

Interest expense increased from \$1,512 during the year ended October 31, 2009 to \$1,566 during the year ended October 31, 2010; an increase of \$54. This increase is due to an increase in utilization of the PNC Bank line of credit, acquisition debt and capital leases. Management believes that this trend will continue in the near term due to the increase in utilization rates.

NET INCOME:

We realized net income of \$26,381 for the twelve month period ended October 31, 2009 as compared to \$21,850 for the twelve month period ended October 31, 2009, an increase of 21%.

Pre-tax income for the period ended October 31, 2010 was \$46,963, as compared to \$38,589 for the period ended October 31, 2009, an increase of \$8,374 (22%) and was caused primarily by an increase in net revenues. The provision for income taxes increased from \$16,739 for the period ended October 31, 2009, to \$20,582 (23%) for the current twelve month period.

The most profound change would have been that our fully-diluted earnings per share (EPS) went from \$0.75 in fiscal 2009 under the pro forma basis (without taking into account the restitution agreement) to \$0.94 in fiscal 2010 under the current operating results, a difference of \$.19 per share, which is more reflective of our true operating results.

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Results of Operations (In thousands, except per patient data)

Fiscal Year 2009 Compared to 2008

NET REVENUES:

Net Revenues for the year ended October 31, 2009 were \$362,654 as compared to \$301,071 for the year ended October 31, 2008; this represents a 20% increase in net revenues. This increase is due to a 14% increase in patients serviced and a 6% increase in net revenue per patient. Our laboratory operations had net revenues of \$359,625 in fiscal 2009.

The number of patients serviced during the year ended October 31, 2009 was 4,648, which was 14% greater when compared to the prior fiscal year. Net revenue per patient for the year ended October 31, 2009 was \$77.38 compared to net revenue per patient for the year ended October 31, 2008 of \$73.09, an increase of \$4.29 or 6% as a result of increases in esoteric testing.

COST OF SERVICES:

Cost of Services for the year ended October 31, 2009 was \$183,524 as compared to \$153,831 for the year ended October 31, 2008, an increase of 19% as compared to a 20% increase in net revenues. Therefore, this increase is in line with the increase in net revenues.

GROSS PROFIT:

Gross profit on net revenues increased to \$179,130 for the year ended October 31, 2009 from \$147,240 for the year ended October 31, 2008; an increase of \$31,890 (22%), primarily attributable to the increase in net revenues. Gross profit margins remained constant year over year at 49%

GENERAL AND ADMINISTRATIVE EXPENSES:

General and administrative expenses for the year ended October 31, 2009 were \$140,808 as compared to \$118,683 for the year ended October 31, 2008, an increase of \$22,125 or 19%. This increase is 1% less than the increase in net revenues and includes moderate increases to our marketing and sales expenses.

INTEREST EXPENSE:

Interest expense decreased from \$2,135 during the year ended October 31, 2008 to \$1,512 during the year ended October 31, 2009; a decrease of \$623. This decrease is due to a decrease in utilization and in the interest rates on the PNC Bank line of credit, acquisition debt and capital leases. Management believes that this trend will continue in the near term due to the decrease in interest rates.

NET INCOME:

We realized net income of \$21,850 for the twelve month period ended October 31, 2009 as compared to \$15,617 for the twelve month period ended October 31, 2008, an increase of 40%.

Pre-tax income for the period ended October 31, 2009 was \$38,589, as compared to \$26,691 for the period ended October 31, 2008, an increase of \$11,898 (45%) and was caused primarily by an increase in net revenues. The provision for income taxes increased from \$11,074 (51%) for the period ended October 31, 2008, to \$16,739 for the current twelve month period.

The most profound change on a pro-forma basis would have been that our fully-diluted earnings per share (EPS) went from \$0.79 under then current operating results to \$0.75 on a pro-forma basis, a difference of \$.04 per share, which is more reflective of our true operating results.

Liquidity and Capital Resources (Dollars in thousands)

For the Fiscal Year Ended October 31, 2010:

Our working capital at October 31, 2010 was approximately \$89,459 as compared to approximately \$75,984 at October 31, 2009, an increase of \$13,475. Our cash position increased by approximately \$784 during the current period. We increased our short term borrowing by approximately \$13,702 and repaid approximately \$1,191 in existing debt. We had current liabilities of approximately \$83,106 at October 31, 2010. We generated approximately \$13,405 in cash from operations, a decrease of approximately \$10,961 as compared to the year ended October 31, 2009. This decrease is basically in line with an increase in our Accounts Receivable associated with an increase in revenues.

Accounts receivable, net of allowance for doubtful accounts, totaled approximately \$129,122 at October 31, 2010, an increase of approximately \$24,127 from October 31, 2009, or 23%. This increase was primarily attributable to increased revenue. Cash collected over the twelve month period ended October 31, 2010 increased 23% over the prior twelve month period.

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Net service revenues on the statements of operations are as follows:

| | Years Ended October 31 | | |
|--|-----------------------------------|--------------|--------------|
| | 2010 | 2009 | 2008 |
| Gross Revenues | \$ 1,902,573 | \$ 1,423,287 | \$ 1,039,030 |
| Contractual Adjustments and Discounts | 1,444,549 | 1,060,633 | 737,959 |
| Net Revenues | \$ 458,024 | \$ 362,654 | \$ 301,071 |
| Percent of Contractual Adjustments and Discounts To Gross Revenues | 75.9% | 74.5% | 71.0% |

The table above illustrates the relationship between contractual adjustments and gross revenues for the fiscal years 2010, 2009, and 2008. Between 2009 and 2010, contractual adjustments increased approximately 140 basis points. The average across the board collection percent for fiscal year 2006 was 29%, while the rate for fiscal year 2010 was 18%, a decrease in our collection rate of 11%, or a 38% reduction in the collection rate. In the aggregate, this has resulted in a change of our contractual rate, leading to larger contractual allowances and lower net revenues when computed as a percentage of gross revenues. Although individual collection rates may vary from period to period or payor to payor, based on the specific historical data analyzed, this is consistent with the current state of the economy as well as the ongoing trends in health care reimbursement.

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 to 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.

LABORATORY GROSS RECEIVABLES BY PAYOR GROUP

| | FY 2010 | | | | | | | | | |
|-----------|----------------|----------|----------------|----------|----------------|----------|--------------------|----------|--------------|----------|
| | 30 DAYS | % | 60 DAYS | % | 90 DAYS | % | >90 DAYS | % | TOTAL | % |
| Self Pay | \$ 5,836 | 16% | \$ 6,775 | 18% | \$ 6,093 | 16% | \$ 18,484 | 50% | \$ 37,188 | 100% |
| Medicare | 25,106 | 48% | 9,504 | 18% | 4,072 | 8% | 13,385 | 26% | 52,067 | 100% |
| Medicaid | 5,025 | 27% | 4,082 | 22% | 3,155 | 17% | 6,259 | 34% | 18,521 | 100% |
| Pro Bill | 13,683 | 56% | 4,100 | 17% | 548 | 2% | 5,903 | 24% | 24,234 | 100% |
| Comm. Ins | 106,455 | 49% | 33,057 | 15% | 21,304 | 10% | 56,757 | 26% | 217,573 | 100% |
| Total | \$ 156,105 | 45% | \$ 57,518 | 16% | \$ 35,172 | 10% | \$ 100,788 | 29% | \$ 349,583 | 100% |

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| | FY 2009 | | | | | | | | TOTAL | |
|-----------|------------|-----|-----------|-----|-----------|-----|-----------|-----|------------|------|
| | 30 DAYS | % | 60 DAYS | % | 90 DAYS | % | >90 DAYS | % | | |
| Self Pay | \$ 5,885 | 20% | \$ 5,257 | 18% | \$ 4,435 | 15% | \$ 14,271 | 48% | \$ 29,848 | 100% |
| Medicare | 21,333 | 63% | 5,992 | 18% | 1,317 | 4% | 4,994 | 15% | 33,636 | 100% |
| Medicaid | 5,098 | 24% | 3,894 | 18% | 3,964 | 19% | 8,189 | 39% | 21,145 | 100% |
| Pro Bill | 12,125 | 56% | 3,980 | 18% | 1,665 | 8% | 3,972 | 18% | 21,742 | 100% |
| Comm. Ins | 70,321 | 45% | 26,787 | 17% | 15,064 | 10% | 42,513 | 27% | 154,685 | 100% |
| Total | \$ 114,762 | 44% | \$ 45,910 | 18% | \$ 26,445 | 10% | \$ 73,939 | 28% | \$ 261,056 | 100% |

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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 fiscal years 2009 and 2010 were 95 and 94, respectively, a decrease of approximately 1%. These changes are due to constant vigilance on the part of management and internal changes to collection practices. However, when you compare our DSO lag to our collectible net revenues as reported on our financial statements for the periods in question, it varies between 98% to 102%, depending on the period.

Overall, the components of A/R as shown above for the two most recently completed fiscal years under review have not varied much year over year. The percent of A/R over 90 days has increased to 29% as of October 31, 2010 as compared to 28% as of October 31, 2009.

See Note 5 to our consolidated financial statements for information regarding outstanding loans.

See Note 18 to our consolidated financial statements describing our merger and acquisition activities.

The weighted average interest rate on short-term borrowings outstanding as of October 31, 2010 and 2009 was approximately 3.25%.

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

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Tabular Disclosure of Contractual Obligations

Payments Due By Period

(Dollars in thousands)

| | Total | FY 2011 | FY 2012 | FY 2013 | FY 2014 | FY 2015 and thereafter |
|---|-----------|-----------|-----------|-----------|-----------|------------------------------|
| Long-Term Debt | \$ 4,536 | \$ 1,217 | \$ 1,243 | \$ 437 | \$ 466 | \$ 1,173 |
| Capital Leases | \$ 7,487 | \$ 2,812 | \$ 2,144 | \$ 1,410 | \$ 880 | \$ 241 |
| Operating Leases | \$ 11,786 | \$ 4,698 | \$ 2,361 | \$ 1,671 | \$ 1,538 | \$ 1,518 |
| Purchase Obligations | \$ 73,637 | \$ 17,322 | \$ 16,188 | \$ 15,447 | \$ 13,797 | \$ 10,883 |
| Long-Term Liabilities under Employment and Consultant Contracts | \$ 14,842 | \$ 4,068 | \$ 3,037 | \$ 2,942 | \$ 2,332 | \$ 2,463 |

No one supplier who is counterparty to any particular supply agreement is contracted to provide more than one percent of our Cost of Services in any future period. Such contracts are made in the ordinary course of business. No directors, officers, promoters, voting trustees or individuals known to be Bio-Reference Laboratories, Inc (BRLI) security holders are counterparties to these agreements. Management does not believe that BRLI is substantially dependent upon these supply agreements, as the goods may be obtained from different suppliers or wholesalers, if needed. None of these agreements are leases or call for the acquisition or sale of property, plant and equipment.

Our cash balances at October 31, 2010 totaled approximately \$17,779 as compared to approximately \$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 2011.

We do not have any off-balance sheet items.

Impact of Inflation

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

New Authoritative Pronouncements

See Note 22 to our consolidated financial statement that discusses new authoritative pronouncements.

Critical Accounting Policies

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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.

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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

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

| | 2010 | October 31 2009 | 2008 |
|---|--------------|--------------------|--------------|
| Gross Revenues | \$ 1,902,573 | \$ 1,423,287 | \$ 1,039,030 |
| Contractual Adjustments and Discounts: | | | |
| Medicare/Medicaid Portion | 281,002 | 247,333 | 199,543 |
| All Other Third Party and Direct Payors* | 1,163,547 | 813,300 | 538,416 |
| Total Contractual Adjustments and Discounts | 1,444,549 | 1,060,633 | 737,959 |
| Net Service Revenues | \$ 458,024 | \$ 362,654 | \$ 301,071 |

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

When new business is received by BRLI, net service revenues are calculated by reducing gross service revenues by the estimated contractual allowance. The bad debt expense is determined by calculating the appropriate collection rate for net current service revenues and is a component of general and administrative expenses. BRLI recognized the amounts in subsequent periods for actual allowances/discounts to gross service revenue; bad debt was adjusted over the same periods of time to maintain an accurate balance between net service revenues and actual revenues. Management has reviewed the allowances/discounts recognized in subsequent periods and believes the amounts to be immaterial. A number of proposals for legislation or regulation continue to be under discussion which could have the effect of substantially reducing Medicare reimbursements for clinical laboratories or introducing cost sharing to beneficiaries. Depending upon the nature of regulatory action, if any, which is taken and the content of legislation, if any, which is adopted, the Company could experience a significant decrease in revenues from Medicare and Medicaid, which could have a material adverse effect on the Company. The Company is unable to predict, however, the extent to which such actions will be taken.

Accounting for Contractual Credits and Doubtful Accounts

It is typically the responsibility of the patient to pay for laboratory service bills. Most individuals in the United States have an agreement with a third party payor such as Medicare, Medicaid or commercial insurance to pay all or a portion of their healthcare expenses; this represents the major portion of payment for all services provided to BRLI. In certain cases, the individual has no insurance or does not provide insurance information; in the remainder of the cases, BRLI is provided the third party billing information, usually by the referring physician, and seeks payment from the third party under the terms and conditions of the third party payor for health service providers like BRLI. Each of these third party payors may differ not only with regard to rates, but also with regard to terms and conditions of payment and coverage of specific tests. BRLI routinely reviews the reimbursement policies and subsequent payments and collection rates from these different types of payors. Contractual credits are recorded as reductions to gross service revenues and are collectively referred to as the contractual allowance. BRLI has not been required to record an adjustment in a subsequent period related to revenue recorded in a prior period which was material in nature. Aging of accounts receivable is monitored by billing personnel and follow-up activities including collection efforts are conducted as necessary. Bad debt

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expense is recorded within selling, general and administrative expenses. BRLI writes off receivables against the allowance for doubtful accounts when they are deemed uncollectible. For client billing, accounts are written off when all reasonable collection efforts prove to be unsuccessful. Patient accounts, where the patient is directly responsible for all or a remainder portion of the account after partial payment or denial by a third party payor, are written off after the normal dunning cycle has occurred, although these may be subsequently transferred to a third party collection agency after being written off. Third party payor accounts are written off when they exceed the payor's timely filing limits. Accounts Receivable on the balance sheet is net of the following amounts for contractual credits and doubtful accounts:

| | | October 31 | |
|-------------------------------|----|------------|------------|
| | | 2010 | 2009 |
| Contractual Credits/Discounts | \$ | 186,372 | \$ 130,974 |
| Doubtful Accounts | | 34,904 | 26,047 |
| Total Allowance | \$ | 221,276 | \$ 157,021 |

Accounting for Employment Benefit Plan

See Note 21 to our consolidated financial statements for a discussion on Employment Benefit Plans.

Forward Looking Statements

This Annual Report on Form 10-K contains historical information as well as forward-looking statements. Statements looking forward in time are included in this Annual 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 "Risk Factors" as well as elsewhere herein including:

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

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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.

changes in federal, state, local and third party payor regulations or policies (or in the interpretation of current regulations) affecting governmental and third-party reimbursement for clinical laboratory testing (such as the decrease in Medicare reimbursement for Flow Cytometry testing at the beginning of calendar year 2005 described above under Risk Factors).

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

failure to comply with HIPAA, which could result in significant fines as well as substantial criminal penalties.

changes in payor mix.

failure to maintain our days sales outstanding levels.

increased competition, including price competition.

our ability to attract and retain experienced and qualified personnel.

adverse litigation results.

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 9A Controls and Procedures

(a) Evaluation of Disclosure 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. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Based on that evaluation, the principal executive officer and the principal financial officer of the Company have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective at a reasonable assurance level.

(b) Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that:

(i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;

(ii) provide reasonable assurance that the transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with the authorization of management and/or our Board of Directors; and

(iii) provide reasonable assurance regarding the prevention or timely detection of any unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate due to changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on its evaluation, our management concluded that our internal control over financial reporting was effective as of the end of the period covered by this Annual Report

on Form 10-K.

MSPC, Certified Public Accountants and Advisors, A Professional Corporation, an independent registered public accounting firm, has audited the Consolidated Financial Statements included in this Annual Report on Form 10-K and, as part of their audit, has issued its attestation report, included herein, on the effectiveness of our internal control over financial reporting. See Report of Independent Registered Public Accounting Firm on page 32.

(c) Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting that occurred during the fourth quarter of fiscal 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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Item 10. Directors, Executive Officers and Corporate Governance

The following table sets forth certain information with respect to each of the directors and executive officers of the Company.

| Name | Age | Position |
|-------------------------------|------------|--|
| Marc D. Grodman, M.D | 59 | Chairman of the Board, President, Chief Executive Officer and Director |
| Howard Dubinett | 59 | Executive Vice President, Chief Operating Officer and Director |
| Sam Singer | 67 | Vice President, Chief Financial Officer, Chief Accounting Officer and Director |
| Joseph Benincasa(a)(c)(e) | 61 | Director |
| Harry Elias(a)(c)(e) | 80 | Director |
| Gary Lederman, Esq. (b)(c)(e) | 76 | Director |
| John Roglieri, M.D. (a)(d)(e) | 71 | Director |

-
- (a) Member of the Audit Committee
 - (b) Chairman of the Audit Committee
 - (c) Member of the Compensation Committee
 - (d) Chairman of the Compensation Committee
 - (e) Member of Nominating Committee

The Audit Committee is comprised of the four non-employee members of the Board of Directors, Gary Lederman (Chairman), Joseph Benincasa, John Roglieri and Harry Elias. The Board of Directors deems each such individual as independent as defined by the rules of the National Association of Securities Dealers. The Audit Committee met four times during fiscal year 2010. The Audit Committee confers with the Company's auditors and reviews, evaluates and advises the Board of Directors concerning the adequacy of the Company's accounting systems, its financial reporting practices, the maintenance of its books and records and its internal controls. In addition, the Audit Committee reviews the scope of the audit of the Company's financial statements and the results thereof. The Board of Directors has determined that Gary Lederman is qualified to serve as the Company's audit committee financial expert as defined in Regulation S-K promulgated by the Securities and Exchange Commission.

The Compensation Committee is comprised of four non-employee members of the Board of Directors, John Roglieri (Chairman), Joseph Benincasa, Harry Elias and Gary Lederman. The Compensation Committee met once during fiscal year 2010. The Compensation Committee reviews salaries, cash bonuses and compensation plans for the Company's executive officers and eligible employees and makes recommendations concerning same to the Board of Directors.

The Company does not have an Executive Committee. Officers are elected by and hold office at the discretion of the Board of Directors.

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The Nominating Committee is comprised of the four non-employee members of the Board of Directors, Harry Elias, Joseph Benincasa, Gary Lederman and John Roglieri. Pursuant to its charter, the Nominating Committee's role is to establish criteria for the selection of directors; to identify individuals qualified to be directors; to evaluate director candidates proposed by stockholders; to recommend individuals to fill vacancies on the Board and to recommend nominees for director at each annual stockholder meeting. The Nominating Committee may consider nominees for director of the Company submitted in writing c/o the Committee at the Company's executive offices, whether by executive officer of the Company; current directors of the Company, search firms (if any) engaged by the Committee, and, in the circumstances provided below, shall consider nominees for director proposed by a stockholder. Information with respect to the proposed nominee must be provided in writing by the stockholder addressed to the Committee at the Company's executive offices, and received not less than 90 nor more than 120 days prior to the anniversary date of the prior year's annual meeting, provided that if the current year's annual meeting is not scheduled to be held within 30 days of the anniversary date of the prior year's annual meeting, notice from a stockholder shall be considered timely if it is received not later than the tenth day following the date on which the notice of the annual meeting was mailed or the date on which public disclosure of the date of the annual meeting was made, whichever occurs first. The information shall include the name of the nominee, and such information with respect to the nominee as would be required under the rules and regulations of the Securities and Exchange Commission to be included in the Company's Proxy Statement if the proposed nominee were to be included therein. In addition, the stockholder's notice shall also include the class and number of shares the stockholder owns, a description of all arrangements and understandings between the stockholder and the proposed nominee, a representation that the stockholder intends to appear in person or by proxy at the meeting to nominate the person named in its notice, a representation as to whether the stockholder intends to deliver a proxy statement to or solicit proxies from shareholders of the Company and information with respect to the stockholder as would be required under the rules and regulations of the Securities and Exchange Commission to be included in the Company's Proxy Statement.

The Nominating Committee generally identifies potential candidates for director by seeking referrals from the Company's management, members of the Board of Directors and their various business contacts. Candidates are evaluated based upon factors such as independence, knowledge, judgment, integrity, character, leadership, skills, education, experience, financial literacy, standing in the community and ability to foster a diversity of backgrounds and views and to complement the Board's existing strengths. There are no differences in the manner in which the Committee will evaluate nominees for director based on whether the nominee is recommended by a stockholder.

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The following is a brief account of the business experience of each director and executive officer of the Company.

Marc D. Grodman, M.D. founded the Company in December 1981 and has been its Chairman of the Board, President, Chief Executive Officer and a director since its formation. Dr. Grodman is an Assistant Professor of Clinical Medicine at Columbia University's College of Physicians and Surgeons and Assistant Attending Physician at Presbyterian Hospital, New York City. From 1980 to 1983, Dr. Grodman attended the Kennedy School of Government at Harvard University and was a Primary Care Clinical Fellow at Massachusetts General Hospital. From 1982 to 1984, he was a medical consultant to the Metal Trades Department of the AFL-CIO. Dr. Grodman received a B.A. degree from the University of Pennsylvania in 1973 and an M.D. degree from Columbia University's College of Physicians and Surgeons in 1977. Except for his part time duties as Assistant Professor of Clinical Medicine and Assistant Attending Physician at Columbia University and Presbyterian Hospital, Dr. Grodman devotes all of his working time to the business of the Company.

Since January 2005, Dr. Grodman has been a member of the board of directors, served as Chairman and currently serves as Vice Chairman of the American Clinical Laboratory Association (the ACLA), an industry organization comprised of the largest and most significant commercial clinical laboratories in the United States. Other board members include the chief executive officers of Quest Diagnostics and Laboratory Corporation of America.

Dr. Grodman's leadership capabilities and the guidance provided by him to the Company since its founding in 1981 are reflected in the growth of the Company's business. Dr. Grodman's extensive medical background, his 25 years experience on the faculty at Columbia University College of Physicians and Surgeons, his knowledge of trends in the healthcare industry as demonstrated at each board meeting and the recognition by his peers in the industry as reflected by his election as Chairman and then as Vice Chairman of the ACLA reflects his attributes and qualifications to serve as a director.

Howard Dubinett has been the Executive Vice-President and Chief Operating Officer of the Company since its formation in 1981. He became a director of the Company in April 1986. Mr. Dubinett attended Rutgers University. Mr. Dubinett devotes all of his working time to the business of the Company. Mr. Dubinett has, since 1997, been the director of and responsible for the Company and its employees' compliance with the myriad of federal and state healthcare regulations and since 2004, (when HIPAA was adopted) with the Company and its employees' compliance with HIPAA. Mr. Dubinett is responsible for and oversees the training of the Company's employees to ensure compliance. Mr. Dubinett also is in charge of negotiating all lines of the Company's insurance coverage (property, casualty, professional liability and automobile insurance) and the design of the Company's Safety Policies and Procedures and training of its employees thereunder. Under Mr. Dubinett's stewardship, the Company has never had a serious problem in regulatory compliance or insurance coverage. The effectiveness of Mr. Dubinett's activities and his knowledge of healthcare regulation (also demonstrated at each board meeting where he is actively involved in decision making) and his skill at negotiation of the Company's insurance coverage and in training the Company's employees in compliance and safety matters reflects his attributes and qualifications to serve as a director.

Sam Singer has been the Company's Chief Financial Officer since October 1987, a director since November 1989, and a Senior Vice President since 2007. He is responsible for all of the Company's financial activities. This entails the preparation of detailed financial information for the board of directors, the Audit Committee and various other departments of the Company, the supervision of the preparation of the Company's various tax returns and the financial portion of the Company's Exchange Act Reports and the coordination of the annual audit of the Company's financial statements with the Company's auditors. Mr. Singer also is responsible for negotiating the Company's borrowing arrangements with its principal lending bank (PNC Bank). Mr. Singer was instrumental in the Company obtaining a \$6.7 million sales tax refund in January 2011 from the State of New Jersey. Mr. Singer was the Controller for Sycomm Systems Corporation, a data processing and management consulting company, from 1981 to 1987, prior to joining the Company. He received a B.A. degree from Strayer University and an M.B.A. from Rutgers University. Mr. Singer devotes all of his working time to the business of the Company. Mr. Singer's skills as the Company's chief financial officer have been demonstrated time and again. He has also been a valuable purveyor of knowledge concerning financial matters at each meeting

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of the Board and the Audit Committee and in aiding in decision making reflecting his attributes and qualifications to serve as a director. He also serves on the boards of several not-for-profit institutions.

Joseph Benincasa became a director of the Company in June 2005. Mr. Benincasa currently serves as the executive director of The Actors Fund of America, a position he has held since 1989. The Actors Fund is the leading national, non-profit human services organization providing comprehensive social and health care services, employment, training and housing support to the entertainment profession. It is headquartered in New York City with regional offices in Chicago and Los Angeles. As executive director, Mr. Benincasa is responsible for the administration of an annual operating budget of approximately \$27 million and the operation of four major buildings for its members. The Actors Fund currently has approximately 52,000 members. For six years, Mr. Benincasa served as a director of St. Peter's University Medical Center, a major hospital in northern New Jersey where he was involved in many decisions concerning healthcare. He also sits on the board of directors of Broadway Cares/Equity Fights AIDS; the National Theatre Workshop of the Handicapped; Career Transition for Dancers; the Times Square Alliance; the New York Society of Association Executives and the Somerset Patriots, a minor league baseball team. Mr. Benincasa holds a B.A. degree from St. Joseph's University, an M. Ed. Degree from Rutgers University and also attended the Fordham University Graduate School of Business. Mr. Benincasa's familiarity with healthcare issues through his board service at St. Peter's University Medical Center and his large and continuing administrative responsibilities for a 52,000 member organization have proven invaluable in discussions at board meetings and reflect his attributes and qualifications to serve as a director.

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Harry Elias became a director of the Company in March 2004. Mr. Elias commenced his employment in sales and marketing with JVC Company of America (JVC) in 1967, subsequently being appointed as JVC s Senior Vice President of Sales and Marketing in 1983 and as Executive Vice President of Sales and Marketing in 1990. In 1995, Mr. Elias was named as JVC s Chief Operating Officer, a position he occupied until April 2003 when he resigned his positions upon his appointment as JVC s Honorable Chairman. JVC, a distributor of audio and video products headquartered in Wayne, New Jersey is the wholly owned United States subsidiary of Victor Company of Japan, a manufacturer of audio and video products headquartered in Japan. In January 2005, after retiring from JVC, Mr. Elias was appointed Chairman of the Board of and commenced to serve as a consultant to AKAI USA, the sole distributor in the United States of electronic products produced by AKAI, a Chinese manufacturer. Mr. Elias retired from AKAI in 2007 and currently is self-employed as a Business Consultant. As Chief Operating Officer at JVC, Mr. Elias oversaw the activities of approximately 300 people. JVC realized approximately \$1.6 billion in annual revenues in the last year of Mr. Elias stewardship and he was partly responsible for formulating a budget for JVC. Mr. Elias has been an active participant at each board of directors meeting of the Company. His experience and skills in running an operation as large as JVC have proven invaluable in board deliberations and reflect his attributes and qualifications to serve as a director.

Gary Lederman, Esq. became a director of the Company in May 1997. He received his B.A. degree from Brooklyn College in 1954 and his J.D. degree from NYU Law School in 1957. He was manager of Locals 370, 491 and 662 of the U.F.C.W. International Union from 1961 to 1985. As manager, he supervised the union operations for approximately 1,000 members from day to day, including negotiating union contracts with employers and serving as a trustee for union health and welfare funds. During the 1970s, Mr. Lederman also served as a member of the New York Attorney General s Consumer Fraud Advisory Committee. He is retired from the unions and has been a lecturer at Queensboro Community College in the field of insurance. He served on an institutional review board for RTL, a pharmaceutical drug testing laboratory until his retirement in February 2007. RTL was responsible for reviewing pharmaceutical company applications to change the qualification of prescription drugs to over-the-counter drugs. Mr. Lederman s legal expertise, his union manager experience and responsibilities, including his involvement with health and welfare funds and his familiarity with consumer regulation and the activities of pharmaceutical companies are invaluable experiences for his service as a Company director. He is the chairman of the Company s Audit Committee and an active contributor at Audit Committee and directors meetings. His experience and his participation reflect his attributes and qualifications to serve as a director.

John Roglieri, M.D. became a director of the Company in September 1995. He is an Assistant Professor of Clinical Medicine at Columbia University s College of Physicians and Surgeons and an Assistant Attending Physician at Presbyterian Hospital, New York City. Dr. Roglieri received a B.S. degree in Chemical Engineering and a B.A. degree in Applied Sciences from Lehigh University in 1960, an M.D. degree from Harvard Medical School in 1966, and a Masters degree from Columbia University s School of Business in 1978. From 1969 until 1971, he was a Senior Assistant Surgeon in the U.S. Public Health Service in Washington, D.C. From 1971 until 1973 he was a Clinical and Research Fellow at Massachusetts General Hospital. From 1973 until 1975, he was director of the Robert Wood Johnson Clinical Scholars program at Columbia University. In 1975 he was appointed Vice-President, Ambulatory Services at Presbyterian Hospital, a position which he held until 1980. Since 1980, he has maintained a private practice of internal medicine at Columbia-Presbyterian Medical Center. From 1988 until 1992, he was also director of the Employee Health Service at Presbyterian Hospital. From 1992 through 1999, Dr. Roglieri was the corporate medical director of NYLCare, a managed care subsidiary of New York Life Insurance Company (New York Life). Dr. Roglieri was chief medical officer of Physician WebLink, a national physician practice management company, from 1999 to 2000. Since 2001, he has been a medical director for New York Life in Manhattan. He is a member of advisory boards to several pharmaceutical companies, a member of the Editorial Advisory Board of the journals Managed Care and Seminars in Medical Practice, and is a subject of biographical record in Who s Who in America. Dr. Roglieri s extensive medical background, his role as director of the Employee Health service at Presbyterian Hospital, his role as corporate medical director of a managed care organization (including service on the Editorial Board of Managed Care) and his many other activities denote his experience and skills and reflect his attributes and qualifications to serve as a director. The Board regards his input at board meetings as invaluable.

There are no family relationships between or among any directors or executive officers of Bio-Reference Laboratories. The Company s Certificate of Incorporation provides for a staggered Board of Directors pursuant to which the Board is divided into three classes of directors and the members of only one class are elected each year to serve a three-year term. Mr. Singer and Mr. Elias are the Class II directors whose terms expire in fiscal 2011. Mr. Benincasa, Mr. Lederman and Dr. Roglieri are the Class III directors whose terms expire in fiscal 2012. Dr. Grodman and Mr. Dubinett are the Class I directors whose terms expire in fiscal 2013.

Code of Ethics

The Company's Code of Ethics is applicable to the Company's Senior Management, as well as its key financial and accounting personnel. It has been designed to deter wrongdoing and to promote;

Honest and ethical conduct including the ethical handling of actual or apparent conflicts of interest;

Fair, accurate, timely and understandable disclosure in the Company's public communications and reports filed with the SEC;

Compliance with applicable governmental laws, rules and regulations;

Prompt internal reporting of violations of the Code to an appropriate person or persons identified in the Code; and

Accountability to ensure adherence to the Code.

The Code requires each covered person to deal ethically and honestly with the Company and to avoid business, financial or other direct or indirect interests or relationships that conflict with those of the Company or divide the covered person's loyalty to the Company. Each covered person is required to sign an attestation of compliance with the Code at the end of each fiscal year.

In addition, it is the Company's policy that transactions involving related persons (excluding executive officer compensation which is determined by the Compensation Committee) are to be presented to and assessed by the independent members of the board of directors. Related persons include the Company's directors and executive officers, immediate family members of the directors and

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executive officers, and certain large security holders and their family members. If the determination is made that a related person has or may have a material direct or indirect interest in any Company transaction and that the amount involved equals or exceeds \$120,000, the Company's independent directors will review, approve and ratify the transaction, if appropriate, and the transaction will be disclosed if required under SEC rules. If the related party at issue is a director of the Company or a family member of a director, then that director will not participate in the relevant discussion and review.

Information considered in evaluating such transactions include the nature of the related person's interest in the transaction, the material terms of the transaction, the importance of the transaction to the Company and the related person, whether the transaction would impair the judgment of a director or an executive officer to act in the best interests of the Company, and any other matters that management or the independent directors deem appropriate. Corporate policy requires all directors and employees, including all executives, to disclose their interests (including indirect interests through family members) with individuals or entities doing business with the Company, to management and/or the Board of Directors, and to remove themselves from all decisions related to that organization. No such transactions with related parties occurred in fiscal year 2008 through 2010.

Key Personnel and Consultants

The following key personnel and consultants make significant contributions to the Company's operations.

James Weisberger, M.D. (Age 55) joined the Company in September 2003 as Vice President, Assistant Chief Medical Officer and Director of Hematopathology. He is currently employed as the Company's Chief Medical Officer. Prior to joining the Company, he was Director of Hematopathology at IMPATH, Inc. (1999-2003). He is board certified in internal medicine, anatomic and clinical pathology, and hematopathology. He has a New York State Department of Health Certificate of Qualification as a Laboratory Director. He is a Clinical Assistant Professor of Pathology at New York Medical College, Valhalla, New York. Prior to joining IMPATH, he was an Assistant Professor of Medicine and Pathology at New York Medical College (1995-1999). He has a B.S. degree from Stanford University (1977); an M.S. degree from Stanford University (1978); and an M.D. degree from the University of Pennsylvania (1983).

Charles T. Todd, Jr. (Age 59) is a Senior Vice President engaged in Sales. Mr. Todd was the founder and CEO of GenCare Biomedical Research Corporation (GenCare), a specialty oncology laboratory that was purchased by the Company in 1995. He attended Seton Hall University from where he received a B.S. degree in Finance in 1974.

Richard Faherty (Age 64) serves as the Company's Chief Information Officer and oversees the Company's two informatics operations. Mr. Faherty provided custom programming and system analysis services to GenCare from 1987 until its acquisition by the Company in 1995. He became a consultant to the Company in 1995 in the information technology area and an employee in 1999. Mr. Faherty is a graduate of the University of Notre Dame (1968) and the Fordham Law School (1975).

John Bennett, M.D., Scientific Advisory Board Chairman, is Professor Emeritus at the University of Rochester Medical Center, Rochester, New York. Dr. Bennett has long been recognized as an intellectual force in the treatment and understanding of leukemias, lymphomas and other cancer-related diseases. He established the French-American-British (FAB) Leukemia Working Group and is one of the world's leading authorities on Myelodysplasia. He is founder and Chairman of the MDS Foundation, as well as Editor of the Journal of Leukemia Research. Dr.

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Bennett is currently Professor Emeritus and former Head of the Medical Oncology Unit at the University of Rochester Medical Center and formerly was a Professor of Oncology in Medicine, Pathology and Laboratory Medicine at the University of Rochester Medical School. For nearly four decades, Dr. Bennett has been honored by the medical community as an expert in the field of oncology as evidenced by the numerous chairs he has held in prestigious societies and committees and his authorship of more than 400 publications in peer review journals, the majority of which are in the area of hematologic malignancies. Dr. Bennett earned his B.A. from Harvard University and his M.D. from Boston University. He served his residency in medicine at Beth-Israel Hospital, Boston, Massachusetts and completed a fellowship in hematology at Boston City Hospital. He headed the Morphology and Cytochemistry Section of the Clinical Center at the National Institute of Health (NIH) before joining the faculty at the University of Rochester. Dr. Bennett serves the Company in an advisory capacity as chairman of our Scientific Advisory Board.

Sherri Bale, Ph.D., FACMG joined the Company in September 2006, when BioReference Laboratories acquired the operating assets of GeneDx. She received her M.S. and Ph.D. degrees from the University of Pittsburgh, and her post-doctoral training in medical genetics at the National Institute of Health (NIH). She is an American Board of Medical Genetics-Certified Ph.D. Medical Geneticist and Founding Member of the American College of Medical Genetics. She founded GeneDx with Dr. John Compton, also a long-time NIH scientist, after 16 years at the NIH. For the past eight years, she has served as President and Clinical Director of GeneDx, which specializes in developing and providing molecular diagnostic tests for rare hereditary disorders. She has authored more than 125 peer-reviewed papers, book chapters, and books in the field. She serves on numerous Boards of patient advocacy and non-profit organizations, and is a member of the Faculty of the Metropolitan Medical Genetics Training Program of the National Human Genome Research Institute, NIH, in Bethesda, MD. She holds a second degree black belt in judo.

John Compton, Ph.D., (Age 62) serves as Scientific Director and Co-President of GeneDx Inc., the operating assets of which were acquired by BioReference Laboratories in September 2006. He has 25 years experience in the development and application of molecular biological techniques to answer questions about genetics and epidermal differentiation, and has authored more than 60 publications in the field. He holds B.S. degrees in Physics and Biology from MIT, received his Ph.D. from the University of

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California, Berkeley in Biophysics, and did his post-doctoral training in protein-DNA interactions at the Baylor College of Medicine. Following six years as an independent investigator at the Jackson Laboratory, he joined the Laboratory of Skin Biology in the National Institute of Arthritis, Musculoskeletal and Skin Diseases at the NIH in 1991 where he was Staff Scientist in the Genetic Studies Section until 2000, when he and NIH colleague Sherri Bale formed GeneDx to develop and provide molecular genetic testing in rare hereditary disorders. In 2003 they were jointly awarded the Entrepreneur of the Year award by the Technology Council of Maryland. John is also in his eighth year as Mayor of the Town of Washington Grove, MD.

Compliance with Section 16(a) of the Exchange Act

Based solely on a review of Forms 3 and 4 and any amendments thereto furnished to the Company pursuant to Rule 16a-3(e) under the Securities Exchange Act of 1934, or representations that no Forms 5 were required, we believe that with respect to fiscal 2010, our officers, directors and beneficial owners of more than 10% of our equity timely complied with all applicable Section 16(a) filing requirements.

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Item 11. Executive Compensation

The table below summarizes the total compensation paid or accrued by us with respect to the years ended October 31, 2008, 2009 and 2010 to our three executive officers and to our two other most highly compensated senior management employees during the period. All of our group life, health, hospitalization or medical reimbursement plans, if any, as well as our 401(k) plan, do not discriminate in scope, terms or operation, in favor of any of our officers, senior management members or directors, and are generally available to all salaried employees.

SUMMARY COMPENSATION TABLE

| Name and Principal Position | Fiscal Year (b) | Salary (\$)(c) | Bonus (\$)(d)(1) | Stock Awards (\$)(e) | Option Awards (\$)(f) | Non-Equity Incentive Plan Compensation (\$)(g)(2) | Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)(h) | All Other Compensation (\$)(i)(3) | Total (\$)(j) |
|---|-----------------|----------------|------------------|----------------------|-----------------------|---|---|-----------------------------------|---------------|
| Marc D. Grodman M.D. President and Chief Executive Officer | 2008 | \$ 910,877 | -0- | -0- | -0- | -0- | -0- | \$ 101,424 | \$ 1,012,301 |
| | 2009 | 965,180 | -0- | -0- | -0- | 96,518 | -0- | 111,090 | 1,172,788 |
| | 2010 | 1,013,439 | -0- | -0- | -0- | 60,806 | -0- | 113,491 | 1,187,736 |
| Howard Dubinett Executive Vice President and Chief Operating Officer | 2008 | \$ 362,935 | -0- | -0- | -0- | -0- | -0- | \$ 40,070 | \$ 403,005 |
| | 2009 | 381,425 | -0- | -0- | -0- | 38,143 | -0- | 40,070 | 459,638 |
| | 2010 | 400,496 | -0- | -0- | -0- | 24,030 | -0- | 42,014 | 466,540 |
| Sam Singer Senior Vice President and Chief Financial Officer | 2008 | \$ 362,935 | -0- | -0- | -0- | -0- | -0- | \$ 39,739 | \$ 402,674 |
| | 2009 | 381,425 | -0- | -0- | -0- | 38,143 | -0- | 40,240 | 459,808 |
| | 2010 | 400,496 | -0- | -0- | -0- | 24,030 | -0- | 40,240 | 464,766 |
| Richard Faherty Chief Information Officer | 2008 | \$ 486,540 | -0- | -0- | -0- | -0- | -0- | \$ 139,962 | \$ 626,502 |
| | 2009 | 516,091 | -0- | -0- | -0- | 51,609 | -0- | 118,120 | 685,820 |
| | 2010 | 547,528 | -0- | -0- | -0- | 32,461 | -0- | 165,067 | 745,056 |
| Charles T. Todd, Jr. Senior Vice President - Sales | 2008 | \$ 505,237 | -0- | -0- | -0- | -0- | -0- | \$ 13,116 | \$ 518,353 |
| | 2009 | 540,000 | -0- | -0- | -0- | 54,000 | -0- | 9,247 | 603,247 |
| | 2010 | 594,000 | -0- | -0- | -0- | 34,830 | -0- | 11,515 | 640,345 |

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(1) Under SEC disclosure rules, the term "bonus" does not include awards that are performance based. As a result of this definition, payments under our Incentive Bonus Plan for Senior Management are not considered "bonuses" and are reported under the column captioned "Non-Equity Incentive Plan Compensation".

(2) The Senior Management Incentive Bonus Plan adopted by the Compensation Committee provided for bonuses as a percentage of salary to be paid to designated members of Senior Management (seventeen in total) to the extent the Company's Total Operating Income equaled certain designated percentages of Total Net Revenues. The amounts in column (g) reflect the cash awards to the named officers under the Senior Management Incentive Bonus Plan. No bonuses were earned under the Plan with respect to fiscal 2008.

(3) The amounts in column (i) All Other Compensation are detailed below.

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| Name | Personal Use of Company Leased Automobile | Personal Use of Company Airplane | Life Insurance Premium (a) | Other | Total |
|-------------------------|--|-------------------------------------|-------------------------------|------------|------------|
| Fiscal Year 2008 | | | | | |
| Marc D. Grodman | \$ 23,020 | \$ 8,404 | \$ 70,000 | \$ -0- | \$ 101,424 |
| Howard Dubinett | 15,070 | -0- | 25,000 | -0- | 40,070 |
| Sam Singer | 14,739 | -0- | 25,000 | -0- | 39,739 |
| Richard Faherty | 28,021 | -0- | -0- | 111,941(b) | 139,962 |
| Charles Todd Jr. | 9,937 | 3,179 | -0- | -0- | 13,116 |

| Name | Personal Use of Company Leased Automobile | Personal Use of Company Airplane | Life Insurance Premium (a) | Other | Total |
|-------------------------|--|-------------------------------------|-------------------------------|-----------|------------|
| Fiscal Year 2009 | | | | | |
| Marc D. Grodman | \$ 23,783 | \$ 17,307 | \$ 70,000 | \$ -0- | \$ 111,090 |
| Howard Dubinett | 15,070 | -0- | 25,000 | -0- | 40,070 |
| Sam Singer | 15,240 | -0- | 25,000 | -0- | 40,240 |
| Richard Faherty | 22,570 | -0- | -0- | 95,550(b) | 118,120 |
| Charles Todd Jr. | 9,247 | -0- | -0- | -0- | 9,247 |

| Name | Personal Use of Company Leased Automobile | Personal Use of Company Airplane | Life Insurance Premium (a) | Other | Total |
|-------------------------|--|-------------------------------------|-------------------------------|------------|------------|
| Fiscal Year 2010 | | | | | |
| Marc D. Grodman | \$ 24,080 | \$ 19,411 | \$ 70,000 | \$ -0- | \$ 113,491 |
| Howard Dubinett | 17,014 | -0- | 25,000 | -0- | 42,014 |
| Sam Singer | 15,240 | -0- | 25,000 | -0- | 40,240 |
| Richard Faherty | 25,773 | 4,398 | -0- | 134,896(b) | 165,067 |
| Charles Todd Jr. | 5,584 | 5,931 | -0- | -0- | 11,515 |

(a) See Split Dollar Life Insurance herein

(b) Mr. Faherty rents an airplane to the Company (when the Company's owned airplane is unavailable) for corporate flights. Such rentals totaled \$134,896 in fiscal 2010, \$95,550 in fiscal 2009 and \$71,108 in fiscal 2008. In addition, a separate corporation of which Mr. Faherty is the majority shareholder provided networking, data reporting and programming services to the Company in fiscal 2008 for which it received \$40,833 in compensation.

Employment Agreements with Named Officers

On December 31, 2010, the Company executed an employment agreement with Dr. Grodman (the "New Contract"), employing him as President and Chief Executive Officer through October 31, 2017. The New Contract replaced Dr. Grodman's employment agreement then in effect and due to expire on October 31, 2011 (the "Old Contract"). The New Contract is automatically renewable for one additional two year period subject to the right of either party to elect not to renew at least four months prior thereto. The New Contract provides Dr. Grodman with a minimum annual Base Compensation of \$1,060,000 subject to annual percentage increases in the Consumer Price Index as well as to increases at the discretion of the Compensation Committee. The New Contract also provides Dr. Grodman with participation rights in any fringe benefit and bonus plans available to the Company's employees to the extent determined by the Compensation Committee. The New Contract contains provisions governing in the event of Dr. Grodman's partial or total disability and provides for termination for Cause or in the event of Dr. Grodman's death. In the event of Dr. Grodman's death, unless his employment has been terminated for Cause, the Company will pay his estate a death benefit equal

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to 24 times his monthly Base Compensation in effect at the date of his death. Dr. Grodman has the right to terminate the New Contract in the event, among other occurrences, of a material change in his duties and responsibilities, a material relocation of the Company's principal executive offices or a material breach by the Company of the New Contract (including a material diminution of his Base Compensation). In the event of a Change in Control of the Company, Dr. Grodman can elect to terminate the New Contract. In that event, he will be entitled to be paid a lump sum Severance Payment equal to 2.99 times the average of the annual compensation paid to him by the Company for the five calendar years preceding the earlier of the calendar year in which the Change of Control occurred or the calendar year of the Date of Termination, subject to the provisions of Section 409-A of the Internal Revenue Code. Dr. Grodman is also subject to certain non-competition restrictions (generally for one year) preventing him from competing with the Company after termination of his employment.

Pursuant to the New Contract, the Company agreed to transfer to an Insurance Trust (the 1999 Trust) established by Dr. Grodman, an insurance policy (Policy A) owned by the Company insuring the life of Dr. Grodman pursuant to an Endorsement Split-Dollar Insurance Agreement (Split-Dollar Agreement No. 1) among the Company, Dr. Grodman and the 1999 Trust, by paying a \$1,202,411 bonus (the Initial Bonus) to Dr. Grodman, equal to the amount of the premiums paid by the Company on Policy

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A through the date of the New Contract. Split-Dollar Agreement No. 1 required the Company to pay the annual premiums on Policy A and provided that in the event of Dr. Grodman's death while serving as a full time Company employee, the Company would receive that amount out of the policy death proceeds equal to its interest in the policy (i.e. the greater of the premiums it had paid on the policy or the policy cash value at the date of death) and the balance of the death proceeds would be paid to Dr. Grodman's designated beneficiaries. Pursuant to the New Contract, Split-Dollar Agreement No. 1 was terminated and in a book entry transaction, the Initial Bonus was paid to Dr. Grodman who in turn transferred the Initial Bonus amount to the 1999 Trust which in turn repaid the Initial Bonus amount back to the Company. The Company then, in accordance with Split-Dollar Agreement No. 1, transferred ownership of Policy A to the 1999 Trust. To facilitate these transactions, the parties agreed that the actual monetary funds did not need to change hands but agreed to treat the transactions appropriately for tax and accounting purposes. The Company also agreed to pay bonuses to Dr. Grodman of \$119,000 in 2011, \$70,000 in 2012 and \$70,000 in 2013 unless his employment was terminated for Cause prior to a payment. These three bonuses were equal in amount to the remaining premiums payable on Policy A. The Company will expense the Initial Bonus ratably over the term of the New Contract. If Dr. Grodman's employment is terminated for Cause, he is obligated to pay back the unexpended portion of the Initial Bonus back to the Company.

The Company also agreed to obtain a second insurance policy, a second-to-die policy (Policy B) insuring the lives of Dr. Grodman and his wife. Policy B will be owned by the Company pursuant to a second Endorsement Split-Dollar Insurance Agreement (Split-Dollar Agreement No. 2) to be executed in 2011 among the Company, Dr. Grodman and an Insurance Trust (the 2011 Trust) to be established by Dr. Grodman. Policy B will provide for seven years of annual premiums of approximately \$200,000 each, to be paid by the Company unless Dr. Grodman's employment is terminated for Cause. At Dr. Grodman's death, if his wife survives him, or in the event his employment is terminated for Cause, Dr. Grodman's estate or Dr. Grodman, as the case may be, will cause the premiums paid by the Company under Policy B up to said date, to be paid back to the Company and the Company will transfer ownership of Policy B to Dr. Grodman's estate, or to Dr. Grodman, as the case may be. If Dr. Grodman survives his wife, and assuming his employment has not been terminated for Cause, at his death, the Company will be paid the greater of the premiums it paid on Policy B or the Policy B cash value out of the death proceeds and Dr. Grodman's estate will be paid the balance of the death proceeds, provided, however, that if Dr. Grodman survives his wife and assuming his employment has not been terminated for Cause, at his wife's death, Dr. Grodman or his designee shall have the option, exercisable within 90 days of her death, to purchase Policy B from the Company for the greater of the premiums paid or the cash value at the date of her death.

Mr. Dubinett serves as Executive Vice President and Chief Operating Officer pursuant to an employment agreement which has been extended through October 31, 2011. Mr. Dubinett's minimum annual compensation under the extended agreement is equal to his annual compensation in fiscal 2002 and is subject to increases based on increases in the Consumer Price Index as well as to increases at the discretion of the Compensation Committee. Mr. Dubinett's minimum annual base compensation for fiscal 2010 as determined by the Compensation Committee is \$400,496. The agreement provides for (i) the leasing of an automobile for his use; (ii) participation in fringe benefit, bonus, pension, profit sharing, and similar plans maintained for the Company's employees; (iii) disability benefits; (iv) certain termination benefits; and (v) in the event of termination due to a Change in Control of the Company, a Severance Payment equal to 2.99 times Mr. Dubinett's average annual compensation during the preceding five years, subject to the provisions of Section 409-A of the Internal Revenue Code. See Split Dollar Life Insurance herein as to the Endorsement Split Dollar Life Insurance Agreement between the Company and Mr. Dubinett.

Mr. Singer serves as Senior Vice President and Chief Financial Officer pursuant to an employment agreement which has been extended through January 31, 2012. Mr. Singer's minimum annual compensation under the extended agreement is equal to his annual compensation in fiscal 2002 and is subject to increases based on increases in the Consumer Price Index as well as to increases at the discretion of the Compensation Committee. Mr. Singer's minimum annual base compensation for fiscal 2010 as determined by the Compensation Committee is \$400,496. The agreement provides for (i) the leasing of an automobile for his use; (ii) participation in fringe benefit, bonus, pension, profit sharing, and similar plans maintained for the Company's employees; (iii) disability benefits; (iv) certain termination benefits; and (v) in the event of termination due to a Change in Control of the Company, a Severance Payment equal to 2.99 times Mr. Singer's average annual compensation during the preceding five years, subject to the provisions of Section 409-A of the Internal Revenue Code. See Split-Dollar Life Insurance herein as to the Endorsement Split-Dollar Life Insurance Agreement between the Company and Mr. Singer.

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Mr. Faherty serves as Chief Information Officer and Director of Information Services pursuant to an employment agreement currently due to expire on October 31, 2014. Mr. Faherty's initial Base Compensation of \$400,000 in fiscal 2005 is subject to increases based upon management's evaluation of his and the Company's performance and is also subject to increases based on increases in the Consumer Price Index. The agreement provides for (i) the leasing of an automobile for Mr. Faherty's use; (ii) participation in fringe benefit and bonus plans available to the Company's employees; (iii) disability benefits; (iv) certain termination benefits; and (v) in the event of termination due to a Change in Control of the Company, a Severance Payment equal to 2.99 times Mr. Faherty's average annual compensation during the preceding five years, subject to the provisions of Section 409-A of the Internal Revenue Code.

Mr. Todd serves as a Senior Vice President in Sales pursuant to an Employment Agreement currently due to expire on October 31, 2014. Mr. Todd's initial Base Compensation of \$350,000 in fiscal 2005 is subject to increases based upon management's evaluation of his and the Company's performance and is also subject to increases based on increases in the Consumer Price Index. The agreement provides for (i) the leasing of an automobile for Mr. Todd's use; (ii) participation in fringe benefits and bonus plans available to the Company's employees; (iii) disability benefits; (iv) certain termination benefits; and (v) in the event of termination due to a Change in Control of the Company, a Severance Payment equal to 2.99 times Mr. Todd's average annual compensation during the preceding five years, subject to the provisions of Section 409-A of the Internal Revenue Code.

Table of ContentsPotential Payments Upon Termination or Change in Control as of October 31, 2010.

The following table sets out the payments that could be paid to each of our three executive officers and to our two other most highly compensated senior management employees upon termination of employment due to death, disability, for Good Reason or a Change in Control, in each case occurring as of October 31, 2010.

Fiscal Year 2010

| Employee | Disability (a) | Good Reason (b) | Death (c) | Change in Control (d) |
|----------------------|----------------|-----------------|--------------|-----------------------|
| Marc D. Grodman M.D. | \$ 1,520,159 | \$ 1,013,439 | \$ 7,473,000 | \$ 2,890,957 |
| Howard Dubinett | 400,496 | 400,496 | 1,379,250 | 1,096,415 |
| Sam Singer | 400,496 | 500,620 | 805,250 | 1,106,539 |
| Richard Faherty | 547,528 | 2,190,112 | 273,764 | 1,451,651 |
| Charles Todd, Jr. | 594,000 | 2,376,000 | 297,000 | 1,350,861 |

(a) Dr. Grodman's employment agreement entitles him to monthly compensation at his then current Base Compensation for 18 months in the event of his Total Disability. The employment agreement of each of the other employees listed in the table entitles the employee to monthly compensation at his then current Base Compensation for twelve months in the event of his Total Disability.

(b) Good Reason entitling the employee to voluntarily terminate his employment agreement includes assignment of duties inconsistent with his current duties, reduction of his Base Compensation, relocation of the Company's principal executive offices to a location more than 50 miles from the current location and other breaches by the Company of the employment agreement. In the event of his voluntary termination for Good Reason, each of the employees listed in the table is entitled to be paid his monthly Base Compensation until completion of his current Employment Period which is as follows: Dr. Grodman until October 31, 2012; Mr. Dubinett until October 31, 2011; Mr. Singer until January 31, 2012; and Messrs. Faherty and Todd until October 31, 2014.

(c) Under Dr. Grodman's employment agreement, his employment terminates in the event of his death and his beneficiaries would be entitled to the death proceeds of the insurance policy owned by the Company on his life after deducting the Company's Interest in the Policy. In the event of Mr. Dubinett's death or Mr. Singer's death while employed by the Company, the decedent's beneficiaries would be entitled to the death proceeds of the insurance policy owned by the Company on his life after deducting the Company's Interest in the Policy plus additional payments equal to six months of his Base Compensation in effect at the time of his death. See Split-Dollar Life Insurance herein. In the event of Mr. Faherty's death or Mr. Todd's death while employed by the Company, the decedent's beneficiaries would be entitled to additional payments equal to six months of his Base Compensation at the time of his death.

(d) In the event of a termination of employment after a Change in Control of the Company, the employee is entitled to receive a lump sum Severance Payment equal to 2.99 times the average of his annual compensation paid or payable by the Company in connection with his employment and included in his gross income as compensation income for the five calendar years preceding the calendar year in which the Change in Control occurred, subject to the provisions of Section 409-A of the Internal Revenue Code.

See Employment Agreements with Named Officers as to an employment agreement between the Company and Dr. Grodman executed on December 31, 2010, superseding the employment agreement then in effect and extending Dr. Grodman's employment until October 31, 2017.

Split-Dollar Life Insurance

Pursuant to the terms of their 1997 employment agreements, the Company had established split-dollar life insurance programs for each of its three Executive Officers. As a result of the passage of the Sarbanes Oxley Act of 2002 (signed into law on July 30, 2002), these three programs were modified. Pursuant to the modification, each of the three Executive Officers assigned ownership of his policies to the Company and new policies were issued to replace the prior policies with annual premiums under the new policies (\$70,000 under Dr. Grodman's policy and \$25,000 each under Messrs. Dubinett's and Singer's policies) being equal to the premiums paid under the replaced policies. The Company has now executed new Endorsement Split-Dollar Life Insurance Agreements with each of its three Executive Officers. Pursuant to the new agreements, the Company has agreed to continue to pay the annual premium on the policy on each officer's life during the period of his full-time employment by the Company. The Company is the sole owner of the policy and of its net cash surrender value, and in the event of the officer's death while serving as a full-time employee of the Company, the Company will be entitled to receive that amount of the death proceeds equal to its interest in the policy (the aggregate amount of premiums paid by the Company with respect to the policy less the amount of any loans, if any, from the Insurer to the Company against the cash value or policy proceeds, and less the aggregate amount of any premiums paid by the officer to the Company in reimbursement of premiums paid by the Company) and the balance of the death proceeds will be paid to the officer's designated beneficiaries. The premiums paid by the Company on the current policies and the prior policies aggregated approximately \$1,782,000 and \$1,662,000 at October 31, 2010 and October 31, 2009, respectively. At those dates, the net cash surrender value of the three current policies aggregated approximately \$1,523,000 and \$1,373,000, respectively and is recorded on the books of the Company at these values.

See Employment Agreements with Named Officers as to the transfer of the split-dollar insurance policy on Dr. Grodman's life, owned by the Company, to Dr Grodman's insurance trust and as to the purchase by the Company of a new split-dollar second-to-die insurance policy on the lives of Dr. Grodman and his wife.

Stock Options

See Note 11 of Notes to the Consolidated Financial Statements for information on the company's stock option plans.

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Option Grants to Our Three Named Executive Officers (and the Two Other Named Most Highly Compensated Senior Management Employees) in Last Fiscal Year

No options to purchase shares of our Common Stock were granted to any of our three Named Executive Officers or the two other named most highly compensated senior management employees in fiscal 2010.

Option Exercises and Stock Vested

At October 31, 2009 and at October 31, 2010, there were no outstanding options held by our three executive officers, the two other named most highly compensated senior management employees or any of our directors.

During Fiscal 2010 no options were exercised by any member of the Board of Directors.

Director Compensation

During fiscal 2010, each director who was not a Company employee was compensated for his services as a director with a quarterly fee of \$16,250. In addition, Gary Lederman as chairman of the Audit Committee and John Roglieri M.D. as chairman of the Compensation Committee were each compensated for serving as a Committee Chairman with an additional quarterly fee of \$3,750. No director's fees were paid to our employee directors.

The following table sets forth the compensation paid to our directors in fiscal 2010.

Fiscal Year 2009

| Director Name: | Fees | Chairman Fees | Other | Total |
|-----------------------|-----------|---------------|-------|-----------|
| Joseph Benincasa | \$ 65,000 | | | \$ 65,000 |
| Harry Elias | \$ 65,000 | | | \$ 65,000 |
| Gary Lederman (a) | \$ 65,000 | \$ 15,000(a) | | \$ 80,000 |
| John Roglieri M.D (b) | \$ 65,000 | \$ 15,000(b) | | \$ 80,000 |

(a) Chairman of the Audit Committee

(b) Chairman of the Compensation Committee

Compensation Discussion and Analysis

Executive Compensation Philosophy and Rationale for Current Employment Agreements with the Three Executive Officers

Background

Through fiscal 2001, the Board of Directors, including the Company's three executive officers, were responsible for reviewing the compensation paid to the Company's executive officers, provided that none of the Company's executive officers could vote with respect to his own compensation package. In fiscal 2002, the Company established a Compensation Committee consisting of three non-employee directors, Morton L. Topfer (Chairman), Gary Lederman and John Roglieri. Mr. Topfer resigned as a director and as a member of the Compensation Committee in February 2004. In March 2004, Dr. Roglieri became the Chairman of the Compensation Committee and Mr. Elias was elected as a member of the Committee. Mr. Benincasa was elected as a member of the Committee in June 2005.

In May 1997, the Company executed an employment agreement with Dr. Grodman which expired on October 31, 2004. Effective November 1, 2004, the Company executed a new seven year employment agreement with Dr. Grodman. On December 31, 2010, the Company executed a new employment agreement with Dr. Grodman expiring on October 31, 2017 and superseding the contract then in effect. The terms of the new employment agreement are described above. See Employment Agreements with Named Officers.

In May 1997, the Company also executed employment agreements with Messrs. Dubinett and Singer (each expiring on October 31, 2002). During fiscal 2002, the Compensation Committee authorized extensions of both Messrs. Dubinett and Singer's contracts for two additional years, with the Company having the option to extend each agreement for two consecutive one-year periods in addition. In consideration for Messrs. Dubinett and Singer executing the extension agreements, the Company agreed that the base compensation during each extension year would not be less than the total cash compensation paid to such individual in fiscal 2002. The Company's option to extend Mr. Dubinett and Mr. Singer's employment agreements was further extended through fiscal 2011 for Mr. Dubinett and through January 31, 2012 for Mr. Singer.

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Executive Compensation Philosophy

The objective of the Company's compensation program for its three executive officers is to reward them for their leadership and efficiency in their areas of responsibility and for their overall contribution to the Company's performance (Dr. Grodman as chief executive officer, Mr. Dubinett as chief operating officer responsible for healthcare regulatory compliance and insurance matters, and Mr. Singer as chief financial officer responsible for all financial matters). Except for the Senior Management Incentive Bonus Plan, there are no specific performance objectives or targets required to be achieved.

The elements of compensation for each of the executive officers are the following cash amounts.

- (i) Annual Base Compensation

- (ii) Participation in the Senior Management Incentive Bonus Plan

In view of the fact that our three named executive officers own substantial equity interests in the Company, our compensation program for them focuses primarily on base salary, subject to annual increase based upon a review of the executive's and the Company's performance. In addition, to further incentivize our executive officers as well as certain other members of senior management, in 2005, we established a Senior Management Incentive Bonus Plan designed to assist in the Company's profitability. The Plan is designed to encourage a team effort as all of the senior management participants are rewarded under the Plan if the Targets are achieved and none of them are rewarded under the Plan if the Targets are not achieved. Bonuses under the Plan are earned and paid only to the extent the Company's Total Operating Income equaled certain designated percentages of Total Net Revenues. Plan criteria were met with respect to fiscal 2007, 2009 and 2010 so that bonuses were earned and paid, but no bonuses were earned or paid under the Plan with respect to fiscal 2008 as the Plan's targeted performances were not achieved. See "Senior Management Incentive Bonus Plan" herein.

Process for Determining Executive Compensation

Dr. Grodman's 2004 seven year employment agreement was due to expire in October 2011. Dr. Grodman negotiated the terms of his new employment agreement directly with the Compensation Committee which did not have specific performance objectives for the Company to achieve in the future but believed that the steady increase in each of the past four years in the Company's net revenues and profits were to a significant degree attributable to Dr. Grodman's leadership as president and chief executive officer. The Committee believed it was important for the Company and its stockholders to secure Dr. Grodman's services for another seven years. In addition, the Compensation Committee relied in part on executive compensation studies furnished by Compensation Resources, Inc. See "Rationale for Current Agreements with Three Executive Officers" .

Mr. Dubinett and Mr. Singer have employment contracts which periodically are extended for relatively short periods. They each negotiate the terms of their contracts including their Base Compensation with Dr. Grodman who then recommends the terms to the Compensation Committee

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for approval. Since fiscal 2008, the Base Compensation and the increase in Base Compensation in each year for Mr. Dubinett and for Mr. Singer have been identical. This is because in the opinion of Dr. Grodman and the Compensation Committee, each of such executive officers has performed his duties flawlessly and to distinguish between them in compensation could cause the Company to lose the services of one of them. The relative short term of each of their employment agreements could allow for early termination if Dr. Grodman or the Compensation Committee is not satisfied with either officer's performance. Furthermore, the increases in their Base Compensation in each of the past three fiscal years have been as follows and such increases include automatic increases in fiscal years 2008 and 2010 based upon increases in the Consumer Price Index.

Increases in Base Compensation for Each of Mr. Dubinett and Mr. Singer Over the Prior Three Fiscal Years

| | Amount | Percentage Increase* |
|-------------|---------------|-----------------------------|
| Fiscal 2008 | \$ 39,585 | 12% |
| Fiscal 2009 | 18,490 | 5% |
| Fiscal 2010 | 19,075 | 5% |

* Includes increases in fiscal 2008 and fiscal 2010 due to increases in the Consumer Price Index.

In addition to their Base Compensation, Dr. Grodman, Mr. Dubinett and Mr. Singer have been and are participants in the Company's Senior Management Incentive Compensation Plans.

Rationale for Current Employment Agreements with the Three Executive Officers

In December 2010, the Compensation Committee approved a new employment agreement (the "New Contract") with Dr. Grodman ensuring that he would continue to serve as president of the Company through October 31, 2017. The New Contract superseded the employment agreement then in effect and due to expire on October 31, 2011 (the "Old Contract"). In negotiating Dr. Grodman's New Contract, the Compensation Committee relied in part on executive compensation studies furnished by Compensation Resources, Inc., an independent executive compensation consulting firm ("CRI"). After taking into account the compensation paid to the chief executive officers of a peer group of nine publicly owned clinical testing laboratories (including the two major national laboratories, Quest Diagnostics, Inc. and Laboratory CP of America Holdings) CRI concluded that Dr. Grodman's compensation

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package under the Old Contract was below (by over 20%) the comparable value delivered to the chief executive officers in the peer group and that Dr. Grodman's compensation in its totality under the New Contract was within a reasonable comparable range. The nine peer group publicly owned clinical testing laboratories used as a benchmark by CRI were;

Bioclinica Inc.

Genoptix Inc

Laboratory CP of Amer Hldgs

Medtox Scientific Inc.

Neogenomics Inc.

Orchid Cellmark Inc.

Psychemedics Corp.

Quest Diagnostics Inc.

Response Genetics Inc.

The Compensation Committee also determined that the Base Compensation paid with respect to fiscal 2010, and the terms of the extension agreements with Messrs. Dubinett and Singer, were reasonable in relationship to the services performed, the responsibilities assumed and the results obtained, and were in the best interests of the Company. In connection with Dr. Grodman's compensation, the Compensation Committee considered the Company's increase in net revenues, patients serviced, working capital and shareholders' equity in fiscal 2010 compared with the corresponding period in fiscal 2009. Furthermore, after a review of the base compensation paid to the named executive officers of the following companies, namely Alliance Healthcare Services, Inc., Bioclinica Inc., Genoptix Inc., Insight Health Svcs Hldg Corp, Laboratory Cp of America Hldgs, Medtox Scientific Inc., Quest Diagnostics Inc. and Radnet Inc., the Compensation Committee concluded that the base compensation to be paid to Messrs. Grodman, Dubinett and Singer for fiscal 2010 was well within the range of the base compensation levels of the named executive officers at such other companies and was appropriate.

Benefits

Our policy is to provide health benefits as well as access to our 401(k) Plan to which we contribute a maximum of \$500 per employee each year, to all of our employees including our three executive officers.

We lease automobiles for their use but amounts reflecting their personal use are reported as income to them subject to tax. Similarly, personal use of the Company airplane by any of our executive officers is reported as income to them, subject to tax. See Footnote (3) to the Summary Compensation Table .

Change in Control Benefits

Our employment agreements with our three executive officers provide for substantial Severance Payments to them in the event of a change in control of the Company. This provision provides an additional level of financial security for our three executive officers. These executives could well be asked to evaluate a transaction purportedly expected to maximize shareholder value while resulting in the elimination of their jobs. The Severance Payment provision (2.99 times the annual average of the preceding five years of compensation) could help to minimize the distraction caused by concerns over personal financial security in the context of a proposed change in control.

Stock Option Grant Practices

The Company grants stock options at an exercise price at least equal to the fair market value on the date of the grant. Due to the substantial stock ownership position of our three executive officers, no stock options have been granted to them (or restricted stock awarded to them) in the last three years.

Policy Regarding the One Million Dollar Deduction Limitation

Section 162(m) of the Internal Revenue Code generally disallows a tax deduction to public corporations for compensation in excess of \$1,000,000 paid for any fiscal year to a corporation's chief executive officer and to the four other most highly compensated executive officers in office as of the end of the fiscal year. The statute exempts qualifying performance-based compensation from the deduction limit if certain requirements are met. However, shareholder interests may at times be best served by not restricting the Compensation Committee's discretion and flexibility in developing compensation programs, even though the programs may result in non-deductible compensation expenses. Accordingly, the Compensation Committee may from time to time approve elements of compensation for certain officers that are not fully deductible.

Disclosure of performance based targets for the Company's Senior Management Incentive Bonus Plans for fiscal years 2008, 2009 and 2010.

In each of the last three fiscal years (2008, 2009 and 2010), the Compensation Committee adopted a Senior Management Incentive Plan for that year which it believed would incentivize Senior Management to push to achieve operating results which the Committee believed would inure to the benefit of stockholders as well as management. Each Plan provided goals which the Committee believed could only be achieved through extraordinary team efforts by Senior Management and was designed to incentivize Senior Management to operate the Company in the most efficient manner possible. While not specifically emulating any specific company or companies, the Compensation Committee took into consideration the economy in general and the goals of the Company that it wished to reward, namely to improve Company margins within attainable goals for management. The national economic climate changed in 2008 after the 2008 Plan had been implemented and in the subsequent years the Committee felt a more

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conservative reward was consistent with the national economic conditions and reduced the maximum bonus accordingly. In 2009, the Committee felt that the incentive would be more competitive if it broke it into separate parts while not changing the overall goals and rewards of the plan. The Committee has at all times sought to provide a mechanism to reward outstanding efforts that enhance shareholder value without impacting the finances of the Company. The following is a description of each Plan. The Compensation Committee has adopted a similar plan for fiscal 2011. Any bonuses required to be paid under the provision of any of the Senior Management Incentive Bonus Plans were required to be paid to each participant on the pro-rata formula established upon the adoption of the Plan and not at the discretion of the Compensation Committee.

The 2008 Senior Management Incentive Bonus Plan (the 2008 Plan) included 13 members of Senior Management, including the Company's three executive officers, as participants. The 2008 Plan provided for bonuses only in the event the Company's Total Operating Income for the 2008 fiscal year exceeded 10.49% of Net Revenues. Under the 2008 Plan, the bonus varied from 10% to 50% of the participant's gross wages to the extent Total Operating Income as a percentage of Net Revenues varied from not less than 10.50% to 14.50% or more, provided that the maximum bonus to be paid to a participant could not exceed 50% of the participant's annual wages in fiscal 2008.

The 2009 Senior Management Incentive Bonus Plan (the 2009 Plan) was structured similar to the 2008 Plan and included 14 members of Senior Management, including the Company's three executive officers, as participants. The 2009 Plan provided for bonuses only in the event the Company's Total Operating Income for the 2009 fiscal year exceeded 10.49% of Net Revenues. Under the 2009 Plan, the bonus varied from 10% to 25% of the participant's gross wages to the extent Total Operating Income as a percentage of Net Revenues varied from not less than 10.50% to 12.00% or more, provided the maximum bonus to be paid to a participant could not exceed 25% of the participant's annual wages in fiscal 2009.

The 2010 Senior Management Incentive Bonus Plan (the 2010 Plan) included 17 members of Senior Management, including the Company's three executive officers, as participants. The 2010 Plan was based on two separate financial formula calculations. The first formula (Formula One) provided for bonuses only in the event the Company's Total Operating Income for the 2010 fiscal year equaled or exceeded 10.75% of Net Revenues. Under Formula One, the bonus varied from 4% to 10% of the participant's gross wages as Total Operating Income as a percentage of Net Revenue varied from not less than 10.74% to 12.76%, provided that the maximum bonus to be paid under Formula One to a participant could not exceed 10% of the participant's annual wages in fiscal 2010.

The second formula (Formula Two) provided for bonuses based on the percentage increase in the Company's Operating Income from fiscal 2009 (the Base Year) to fiscal 2010. A bonus to each participant with respect to Formula Two would only be payable if the Company's Operating Income in fiscal 2010 exceeded by at least 24.99%, the Company's Operating Income in fiscal 2009.

Under Formula Two, the bonus varied from 6% to 15 % of the participant's gross wages as the percentage increase in the Company's Operating Income in fiscal 2010 compared to fiscal 2009 varied from not less than 24.99% to in excess of 39.99% provided that the maximum bonus to be paid under Formula Two to a participant could not exceed 15% of the participant's annual wages in fiscal 2010.

See Item 11 the Summary Compensation Table , column (g) Non-Equity Incentive Plan Compensation as to the bonuses paid under the Senior Management Incentive Compensation Plan with respect to fiscal 2010 and 2009. No bonuses were earned under the Senior Management Incentive Compensation Plan with respect to fiscal 2008.

Compensation Committee Interlocks and Insider Participation

During fiscal 2010, the members of the Company's Compensation Committee were:

John Roglieri M.D. Chairman

Joseph Benincasa

Harry Elias

Gary Lederman

No member of the Compensation Committee was an officer or employee of the Company in fiscal 2010 or was formerly an officer of the Company.

Compensation Committee Report

The members of the Company's Compensation Committee hereby state;

(A) We have reviewed and discussed the Compensation Discussion and Analysis contained in this Annual Report on Form 10-K for the year ended October 31, 2010 with the Company's Management, and

(B) Based on such review and discussions, we have recommended to the Company's Board of Directors that the Compensation Discussion and Analysis be included in the Company's Annual Report on Form 10-K for the year ended October 31, 2010.

COMPENSATION COMMITTEE

By John Roglieri M.D., Chairman
Joseph Benincasa
Harry Elias
Gary Lederman

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Item 13. Certain Relationships and Related Transactions, and Director Independence

No material transactions occurred between the Company and related parties during fiscal 2010. See item 11 herein and footnote 7 to the consolidated financial statements.

It is the Company's policy that transactions involving related persons (excluding executive officer compensation which is determined by the Compensation Committee) are to be presented to and assessed by the independent members of the board of directors. Related persons include the Company's directors and executive officers, immediate family members of the directors and executive officers, and certain large security holders and their family members. If the determination is made that a related person has or may have a material direct or indirect interest in any Company transaction and that the amount involved equals or exceeds \$120,000, the Company's independent directors will review, approve and ratify the transaction, if appropriate, and the transaction will be disclosed if required under SEC rules. If the related party at issue is a director of the Company or a family member of a director, then that director will not participate in the relevant discussion and review.

Information considered in evaluating such transactions include the nature of the related person's interest in the transaction, the material terms of the transaction, the importance of the transaction to the Company and the related person, whether the transaction would impair the judgment of a director or an executive officer to act in the best interests of the Company, and any other matters that management or the independent directors deem appropriate. Corporate policy requires all directors and employees, including all executives, to disclose their interests (including indirect interests through family members) with individuals or entities doing business with the Company, to management and/or the Board of Directors, and to remove themselves from all decisions related to that organization. No such transactions with related parties occurred in fiscal year 2008 through 2010.

Director Independence

The Company's independent directors as independence is defined by Rule 4200(a)(15) of The NASDAQ Stock Market Rules are as follows:

Joseph Benincasa

Harry Elias

Gary Lederman

John Roglieri M.D.

They also comprise all of the members of the Audit Committee, the Compensation Committee and the Nominating Committee.

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Item 8. Financial Statements and Supplementary Data

[2] Summary of Significant Accounting Policies

Principles of Consolidation - The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Cash and Cash Equivalents - Cash equivalents are comprised of certain highly liquid investments with a maturity of three months or less when purchased. The Company had \$17,779 and \$16,995 in cash and cash equivalents at October 31, 2010 and 2009, respectively.

Inventory - Inventory is stated at the lower of cost [on a first-in, first-out basis] or market. Inventory consists primarily of purchased laboratory supplies, which is used in our various testing laboratories.

Property and Equipment - Property and equipment are carried at cost. Depreciation is computed by the straight-line method over the estimated useful lives of the respective assets which range from 2 to 15 years. Leasehold improvements are amortized over the life of the lease, which is approximately five years.

The statements of operations reflect depreciation expense related to property and equipment of \$10,520, \$8,644 and \$7,249 for the years ended October 31, 2010, 2009 and 2008, respectively.

On sale or retirement, the asset cost and related accumulated depreciation or amortization are removed from the accounts, and any related gain or loss is reflected in general and administrative expenses. Repairs and maintenance are charged to expense when incurred.

Goodwill - Effective November 1, 2001, the Company evaluates the recoverability and measures the possible impairment of its 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 the market capitalization of the Company as well as (i) publicly available information regarding comparable publicly-traded companies in the laboratory testing industry, (ii) the financial projections and future prospects of the Company's 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 for the Company to the book value of the Company's consolidated net assets. If the book value of the consolidated net assets is greater than the estimate of fair value, the Company would 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. No impairment loss was recognized in the years ended October 31, 2010, 2009 and 2008.

The balance sheet reflects prior Goodwill accumulated amortization of \$2,401 as of October 31, 2010 and 2009, respectively.

Other Intangible Assets - Intangible assets are amortized using the straight-line method. The estimated useful life of costs capitalized is evaluated for each specific project when completed, at which time such costs begin to be amortized. The statements of operations reflect amortization expense related to intangible assets of \$1,301, \$1,127, and \$1,137 for the years ended October 31, 2010, 2009 and 2008, respectively. The balance sheet reflects accumulated amortization of \$5,948, and \$4,647 as of October 31, 2010, and 2009, respectively. During the 2010 fiscal year, the Company did not write off any intangible assets. During the 2009 fiscal year, the Company wrote off approximately \$300 of capitalized costs related to customer lists which were fully amortized. During the 2008 fiscal year, the Company wrote off approximately \$2,333 of capitalized costs related to covenants not to compete and employment agreements which were fully amortized.

On November 1, 2008, the Company adopted **Fair Value Measurements** for its financial assets discussed under topic number 820 **Fair Value Measurements and Disclosures** of FASB codification. This topic provides a single definition of fair value, establishes a framework for measuring fair value in U.S. generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This topic creates 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.

| | 10/31/2010 | 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 (a component of Other Assets) | \$ 1,523 | | \$ 1,523 | |

The adoption of **Fair Value Measurements** under topic 820 did not have a material impact on our fair value measurements.

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Accounting for Revenue

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

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

| | 2010 | October 31 2009 | 2008 |
|---|--------------|--------------------|--------------|
| Gross Revenues | \$ 1,902,573 | \$ 1,423,287 | \$ 1,039,030 |
| Contractual Adjustments and Discounts: | | | |
| Medicare/Medicaid Portion | 281,002 | 247,333 | 199,543 |
| All Other Third Party and Direct Payors* | 1,163,547 | 813,300 | 538,416 |
| Total Contractual Adjustments and Discounts | 1,444,549 | 1,060,633 | 737,959 |
| Net Service Revenues | \$ 458,024 | \$ 362,654 | \$ 301,071 |

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

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

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

Accounting for Contractual Credits and Doubtful Accounts

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

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these may be subsequently transferred to a third party collection agency after being written off. Third party payor accounts are written off when they exceed the payor's timely filing limits. Accounts Receivable on the balance sheet is net of the following amounts for contractual credits and doubtful accounts:

| | October 31 | |
|-------------------------------|------------|------------|
| | 2010 | 2009 |
| Contractual Credits/Discounts | \$ 186,372 | \$ 130,974 |
| Doubtful Accounts | 34,904 | 26,047 |
| Total Allowance | \$ 221,276 | \$ 157,021 |

Current Income Taxes - The Company recognizes interest and penalties on settlement of tax liabilities in its income from operations. For the fiscal years 2008 through 2010, no material amounts for interest and penalties have been recorded.

Deferred Income Taxes - Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income.

Earnings Per Share - Basic earnings per share [EPS] reflects the amount of income [loss] attributable to each share of common stock based on average common shares outstanding during the period. Diluted EPS reflects Basic EPS while giving effect to all potential dilutive common shares that were outstanding during the period, such as common shares that could result from the exercise or conversion of securities into common stock. The computation of Diluted EPS is calculated by using the treasury stock method, which assumes that any proceeds obtained from the exercise of such dilutive securities would be used to purchase common stock at the average market price of the common stock during the period. This reduces the gross number of dilutive shares by the number of shares purchasable from the proceeds of the securities assumed to be exercised. Securities whose conversion would have an anti-dilutive effect on EPS are not assumed converted. Securities that could potentially dilute earnings in the future are disclosed in Note 10.

Use of Estimates - The preparation of financial statements in conformity with 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 reporting period. Actual results could differ from those estimates.

Recoverability and Impairment of Intangible Assets and Other Long-Lived Assets - The Company evaluates the possible impairment of its long-lived assets under the provisions of FASB codification 350-30-35 and 360-10-35. The Company reviews the recoverability of its long-lived assets on an annual basis. Evaluation of possible impairment is based on the Company's 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 carrying amount of the asset. No impairment loss was recognized in the fiscal years ended October 31, 2010, 2009 and 2008.

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Advertising Costs - Advertising costs are expensed when incurred. Advertising costs amounted to approximately \$2,065, \$1,387 and \$1,092 for the years ended October 31, 2010, 2009 and 2008, respectively.

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

Other Income - During the quarter 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 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. This restitution payment is included in the Category Other Income on the Consolidated Statements of Operations.

Subsequent Events - The management considered subsequent events through the date the financial statements are issued as defined in FASB Codification 855-10-50.