BIO REFERENCE LABORATORIES INC
Form 10-K
January 13, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

[Mark One]

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

For the fiscal year ended October 31, 2011

OR

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

For the transition period from to

Commission file number 0-15266

BIO-REFERENCE LABORATORIES, INC.

New Jersey	**22-2405059**
(State of incorporation)	(I.R.S. Employer Identification No.)

481 Edward H. Ross Drive, Elmwood Park, New Jersey 07407

(Address of principal executive offices)

Registrant s telephone number **201-791-2600**

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act:	**Name of Exchange on Which Registered**
Common Stock, $.01 par value	NASDAQ Global Market

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x.

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes o No x.

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o. [not required]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or in any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer. accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

The aggregate market value of the voting stock of Bio-Reference Laboratories, Inc. (consisting of Common Stock, $.01 par value) held by non-affiliates of the registrant was approximately $704,188,409 based upon the last sale price for the Common Stock on April 30, 2011, the last trading date of the registrant s most recently completed second quarter, as reported on the NASDAQ Global Market System.

On January 9, 2012, there were 27,949,900 shares of Common Stock issued and outstanding

PART I

Special Note

Throughout this Annual Report on form 10-K, the number of shares and the price per share have been adjusted to reflect the Company s 2-for-1 stock split effective on April 22, 2010.

Forward Looking Statements

Statements included in this Annual Report on Form 10-K (Annual Report) that are not historical in nature, are intended to be, and are hereby identified as forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, many of which are beyond our ability to control or predict. Forward-looking statements may be identified by words such as expects, anticipates, intends, plans, believes, seeks, estimates, will or words of similar meaning and include, but are not limited to, statements about the expected future business and financial performance of Bio-Reference Laboratories, Inc. and its subsidiaries. Statements looking forward in time are included in this report pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements involve known and unknown risks and uncertainties that may cause the Company s 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. 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:

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

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

FDA regulation of Laboratory Developed Tests and clinical laboratories;

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

Failure to maintain the security of patient-related information;

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

Failure to comply with federal and state laws and regulations related to submission of claims for our services;

Changes in regulation and policies, including increasing downward pressure on health care reimbursement;

Efforts by third-party payors to reduce utilization and reimbursement for clinical testing services;

Failure to timely or accurately bill for our services;

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

Increased competition, including price competition;

Our ability to attract and retain experienced and qualified personnel;

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

Adverse litigation results; and

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

Item. 1. - Business

Overview

We are a clinical testing laboratory offering testing, information and related services to physician offices, clinics, hospitals, employers and governmental units. We believe that we are the fourth largest full-service laboratory in the United States and the largest independent regional laboratory in the Northeastern market. We offer a comprehensive list of laboratory testing services utilized by healthcare providers in the detection, diagnosis, evaluation, monitoring and treatment of diseases. We primarily focus on esoteric testing, molecular diagnostics, anatomical pathology, genetics, women s health and correctional health care.

We currently process approximately 6.7 million laboratory test requisitions each year. A requisition form accompanies a patient specimen, indicating the tests to be performed and the party to be invoiced for the tests. We have a network of 98 patient service centers located in the Northeast (primarily in New York metropolitan super-regional area) for collection of patient specimens. We currently conduct business in most New York State counties, as well as in most of New Jersey and Maryland as well as some parts of Pennsylvania, Delaware and Connecticut. We primarily offer laboratory services to physician offices in these areas with an infrastructure that includes a comprehensive logistical department, extensive phlebotomy services and phlebotomy draw stations scattered around our geographic area.

In addition to our clinical testing operations, we operate a clinical knowledge management service through our PSIMedica business unit. This system uses customer data from laboratory results, pharmaceutical data, claims data and other data sources to provide administrative and clinical decision support systems that enable our customers to provide quality and efficient healthcare to their populations.

We also operate a web-based connectivity portal solution for laboratories and physicians through our CareEvolve subsidiary. We use this portal ourselves to provide laboratory ordering and results as well as connectivity to our physician customers. We also market and license this connectivity solution to other laboratories throughout the country.

We are a New Jersey corporation. We are the successor to Med-Mobile, Inc., a New Jersey corporation that was organized in 1981. Our executive offices are located at 481 Edward H. Ross Drive, Elmwood Park, NJ 07407, and our telephone number is 201-791-2600. In this Form 10-K, we may at times refer to ourselves and our subsidiaries as we, us or the Company.

The Clinical Laboratory Testing Market in the United States

We believe that the U.S. market for clinical laboratory testing generated approximately $61 billion in annual revenue in 2011. Nearly all laboratory tests are performed by one of three types of laboratories: hospital laboratories, physician office laboratories or independent clinical laboratories. We believe approximately 60% of the clinical laboratory tests done in the United States are currently performed in a hospital laboratory, approximately 35% performed by an independent clinical laboratory and the balance in a physician office or other laboratory.

Commencing with the advent of managed care cost containment in the 1990s, the industry has been impacted by the rapid growth of managed care arrangements, increasingly stringent government regulation and escalating numbers of investigations into fraud and abuse. Among other things, these factors have led to revenue and profit declines for many smaller and mid-sized clinical laboratories, and industry consolidations. As a result, fewer but larger commercial clinical laboratories have emerged with greater economies of scale, more effective compliance with government billing regulation and other laws and a better approach to pricing their services, and these changes have resulted in improved profitability for these larger commercial laboratories. In addition, new and emerging technologies continue to provide greater testing opportunities for clinical laboratories.

We believe that the clinical laboratory testing industry will continue to experience growth in testing volume due to the following factors:

the aging of the population of the United States;

patient awareness of the value of laboratory tests;

a decrease in the cost of tests;

the development of sophisticated and specialized tests for early detection of disease and disease management;

the diagnosis and monitoring of infectious diseases, such as AIDS and Hepatitis C;

increased recognition of early detection and prevention as a means of reducing healthcare costs;

the emergence of employer-sponsored wellness programs; and

additional research and development in genomics.

In addition, new and emerging technologies continue to provide greater testing opportunities for clinical laboratories.

Business Strengths and Focus

We operate as a national oncology laboratory through our GenPath business unit. Our expertise in cancer pathology and diagnostics as well as molecular diagnostics has enabled GenPath to grow as a national provider.

Our innovative technology platform for sexually transmitted infections has enabled us to expand from a regional service offering to a national offering with specimens coming from throughout the contiguous 48 states in the area of Women s Health, through our GenPath business unit.

GeneDx, our wholly owned subsidiary, is our genetics laboratory and is typically recognized as the leading national laboratory for testing of rare and ultra-rare genetic diseases.

We have one of the largest regional marketing staffs of any laboratory in the country, with about 250 managers and sales and service representatives working for us. We have groups dedicated to the Metropolitan regional market, the Oncology market, the Women s Health market, the Genetic testing market and the Correctional Health market. We are currently building a new marketing group that will cross over into the genetics and Women s Health groups to market to physicians who offer pre-natal testing.

We believe that our large marketing staff and strong infrastructure within our designated area can be leveraged to bring new technologies to physicians and healthcare providers. Over the past year, our volume of testing in the area of molecular diagnostics has increased by approximately 35%.

We believe that laboratory data has great value in managing the healthcare of a population, but can only be properly utilized when combined with medical claims and pharmacy data. Our medical information unit, PSIMedica, seeks to combine laboratory data with these other data elements in order to provide actionable analytics designed to help to improve the quality and efficiency of healthcare.

Strategy

We seek to continue our strong growth not only through our marketing organization, new technologies and superior service, but also by providing value-added analytics in conjunction with laboratory results. Our mission is to be recognized by our clients as the best provider of clinical laboratory testing, information and related services. The principal components of our strategy to achieve our mission are as follows:

capitalize on our position within the clinical market;

lead in providing medical information;

provide the highest quality service; and

pursue strategic growth opportunities, both through development of new testing services and through acquisitions.

Our Testing Services

Our laboratory testing business consists of routine testing and esoteric testing. Routine testing generates approximately 40% and esoteric testing generates approximately 60% of our net revenues.

Routine Testing

Routine tests measure various health parameters, such as the functions of the heart, kidney, liver, thyroid and other organs. Below is an abbreviated list of some commonly ordered routine tests:

Blood cell counts

Cholesterol levels

HIV-related tests

Pregnancy

Substance abuse

Urinalysis

We perform these tests at our main processing facility in Elmwood Park, New Jersey. We operate 24 hours a day, 365 days a year. We perform and report most routine tests within 24 hours. Tests results are delivered via driver or electronically.

Esoteric Tests

We also perform esoteric tests that require sophisticated equipment and materials, highly skilled personnel and professional attention. These tests are ordered less frequently than routine tests. They are also generally priced higher than routine tests. Esoteric tests are typically related to the following medical fields:

Endocrinology (the study of glands and their hormone secretions)

Genetics (the study of chromosomes, genes and their protein products)

Immunology (the study of the immune system)

Microbiology (the study of microscopic forms of life)

Molecular diagnostics (the study of genetic content for disease information)

Oncology (the study of abnormal cell growth)

Serology (the study of body fluids)

Toxicology (the study of chemicals and drugs and their effects on the body)

We perform cancer cytogenetic testing at our leased facilities in at our main processing facility in Elmwood Park, Smithtown, NY, Clarksburg, MD and Milford, MA and genetic testing at our GeneDx leased facility in Gaithersburg, MD, as well as at our Elmwood Park facility. We perform cytology testing in Frederick, MD, Milford, MA, Columbus, OH, Houston, TX and at our Elmwood Park facility.

PSIMedica Medical Information

Our PSIMedica business unit is based on a clinical knowledge management, or CKM, system that uses data derived from various disparate sources to provide both administrative and clinical analysis of a population. The source data consists of enrollment (demographic) data, claims data, pharmacy data, laboratory results data and any other data that may be available. The system uses sophisticated algorithms to cleanse and configure the data to facilitate comprehensive and meaningful analysis. The data is maintained on multiple levels enabling review of data from the global level to the granular transactional detail. The system includes a base set of queries that provide basic functionality and also provides on-line real-time ad hoc query capability enabling the user to customize analysis to the needs of the user s organization. In addition to the basic queries provided by the system, PSIMedica Quality Indicators, or PQI, provide comprehensive, disease-state-oriented queries that disclose the quality and efficiency of the care and service. These indicators have been designed to provide the user with standards and outcome predictors on a medical standards basis. We are using PSIMedica to market value-added clinical laboratory services to bulk purchasers of clinical laboratory solutions, as well as marketing our PSIMedica programs to businesses such as health plans, integrated delivery networks, disease management companies, insurers, clinical trial companies and other healthcare providers that benefit from the ability of the system to combine both clinical and administrative analysis.

CareEvolve Connectivity Solutions

Through our CareEvolve subsidiary, we offer a physician-based connectivity solution. This system provides a complex, sophisticated portal for ordering laboratory services and delivering laboratory results, along with ancillary connectivity services. The system is designed to be physician-centric and to provide a highly flexible, scalable, comprehensive desktop solution for physicians to manage their day-to-day practice needs, as well as to handle their clinical laboratory ordering and reporting. This product has been designed to work as a platform with plug and play capability that can easily be used by other laboratories that also need a web-based solution for their physician customers.

Payors and Clients

We provide laboratory services to a range of healthcare providers. A payor is the party who pays for the tests while the client is the party that refers the tests to us. An organization that has a contract with us, such as a clinic or governmental agency, may be both a payor and a client. Some states, such as New York and New Jersey, prohibit us from billing physician clients. During fiscal year 2011, no single client accounted for more than 10% of our net revenues.

The following table reflects our estimate of the breakdown of net revenue by type of payor for the fiscal years ended October 31, 2009, 2010, and 2011.

	Fiscal Year Ended October 31,		
	2011	**2010**	**2009**
Direct Patient Billing	2%	3%	4%
Commercial Insurance	61%	53%	49%
Professional Billing	17%	20%	22%
Medicare	19%	22%	23%
Medicaid	1%	2%	2%
	100%	100%	100%

Physicians who order clinical tests for their patients represent one of the primary sources of our testing volume. Fees invoiced to patients and third parties are based on our fee schedule, which may be subject to limitations imposed by third-party payors. Medicare and Medicaid, or CMS, reimbursements are based on fee schedules set by governmental authorities.

We provide laboratory services to governmental agencies and large employer groups. We believe that we are the largest regional laboratory providing laboratory testing services to correctional facilities in the United States. All of these clients are charged on a contractual basis.

Billing

Billing for laboratory services is extremely complicated. We must bill various payors, such as patients, Medicare, Medicaid, insurance companies and employer groups, all of which have different billing requirements. Compliance with applicable laws and regulations as well as internal compliance procedures adds complexity to this process.

Our bad debt expense is not the result of credit-related issues, as is the case in most industries. Our bad debt expense is due primarily to missing or incorrect demographic and billing information on our requisitions. We depend on the healthcare provider to supply us with this information. We perform the tests and report the test results as requested on the requisition regardless of whether the demographic and billing information is correct or even missing altogether. We then attempt to obtain missing and to correct incorrect information. This adds to the complexity, slows the invoicing process and generally increases the aging of our accounts receivable. When all issues are not resolved in a timely manner, the item is written-off to bad debt expense through the allowance for doubtful accounts. Other items such as pricing differences and payor disputes also complicate billing. Adjustments to receivables as a result of these types of matters are accounted for as revenue adjustments and are not written-off to bad debt expense.

Sales and Marketing

We employ full and part-time sales and marketing representatives. With about 250 managers and sales and service representatives working for us, we have groups dedicated to the New York metropolitan regional market, the oncology market, the women s health market, the genetic testing market and the correctional health market. We are currently building a new marketing group that will cross over into the genetics and women s health groups to market to physicians who offer pre-natal testing.

All of our sales and marketing personnel operate in a dual capacity, as both marketing and client support representatives. This ensures that all of our salespersons are intimately involved with the client. We believe that this is extremely helpful in client retention, since it provides a strong connection between our physician clients and us.

Client Service Coordinators

We utilize the services of full and part-time client service coordinators at our Elmwood Park, Clarksburg and Gaithersburg facilities, all of whom are trained in medical and laboratory terminology. This staff is used as an interface with physicians and nurses and supplements the client support provided by our sales force. They also report highly abnormal and life threatening results to the ordering physician immediately via telephone in order to assist speedy medical resolution of patient problems.

Logistical Support

We employ full and part-time couriers. Our couriers pick up patient specimens from and deliver printed reports to physician offices, nursing homes, clinics and correctional facilities.

Acquisitions

In 2006, we acquired GeneDx, a diagnostic genetic testing laboratory providing services to national and international customers. GeneDx specializes in testing for rare, ultra-rare and complex genetic conditions through the use of DNA sequencing. In 2007, we introduced the first commercially available genome-wide oligonucleotide microarray analysis testing useful for the diagnosis of, among other conditions,

developmental disorders. In 2008, we were the first commercial laboratory in the world to offer NextGen (high speed computerized sequencing) to analyze multi-gene conditions. These innovations have significantly grown GeneDx s business. The success and growth of GeneDx can be attributed to both the unique nature of our testing and the highly experienced clinicians and researchers who run the business.

On March 2, 2010, we completed the acquisition of Lenetix Medical Screening Laboratory, Inc., a clinical testing laboratory located in Mineola, New York. The laboratory performs both clinical laboratory diagnostic testing and genetic testing.

On August 5, 2011, we acquired The Genetics Center, Inc., a New York corporation engaged in the clinical laboratory business with its principal place of business in Smithtown, New York

We retained the staffs of these laboratories and continue to operate at the same locations.

Competition

We compete with three types of providers in a highly fragmented and competitive industry: hospital laboratories, physician-office laboratories and other independent clinical laboratories. Our major competitors in the New York metropolitan area are two of the largest national laboratories, Quest Diagnostics (DGX) and Laboratory Corporation of America (LH). Although we are much smaller than these national laboratories, we believe that we compete successfully with them in our region due to our innovative testing services and our level of service. .We believe our responses to medical consultation are faster and more personalized than those of the national laboratories. Our client service staff deals only with basic technical questions and those that have medical or scientific significance are referred directly to our senior scientists and medical staff.

Quality Assurance

In order to provide accurate and precise clinical information to the physician, it is essential that we maintain a well structured and vigorous quality assurance program. We hold the required Federal and state licenses necessary for the operation of a clinical laboratory at our facilities in New Jersey, New York, Maryland, Massachusetts, Texas and Ohio. We submit to vigorous proficiency tests (or surveys) for all tests that we perform. We are also subject to unannounced inspections from the various state and federal licensing agencies.

Our laboratories are accredited by the College of American Pathologists, or CAP. This accreditation includes on-site inspections and participation in the CAP (or equivalent) proficiency testing program. CAP is an independent organization of board certified pathologists approved by the Center for Medicare and Medicaid Services (CMS), to inspect clinical laboratories in order to determine compliance with the standards required by the Clinical Laboratory Improvement Amendments of 1988, or CLIA.

We have a Quality Assurance Committee, headed by a Quality Assurance Coordinator and composed of supervisors from all of our departments. The Committee meets each day to assess and evaluate our laboratory quality. Based on the information received from the Committee, recommendations are made to correct conditions that have led to errors. Management, department supervisors and members of the Committee continually monitor laboratory quality. Depending on the test, two or three levels of quality control materials are run in each analytical assay to enhance precision and accuracy. Patient population statistics are evaluated each day. Testing of highly abnormal samples is repeated to maximize accuracy.

We believe that all of these procedures are necessary, not only in maintaining Federal and state licensing, but also in assuring a quality product. We believe that our high standards of quality are an important factor in client retention.

Regulation of Our Clinical Laboratory Operations

The clinical laboratory industry is highly regulated and subjected to significant and changing Federal and state laws and regulations. These laws and regulations affect key aspects of our business, including licensure and operations, billing and payment for laboratory services, sales and marketing interactions with ordering physicians, security and confidentiality of health information, and environmental and occupational safety. Oversight

by government officials includes regular inspections and audits. Failure to comply with applicable requirements, which are sometimes vague or indefinite, may result in substantial fines, criminal penalties, or other enforcement actions, such as suspension or revocation of a clinical laboratory s license. Changes in regulations often increase the cost of testing or processing claims. Also, these laws may be interpreted or applied by a prosecutorial, regulatory or judicial authority in a manner that could require us to make changes in our operations, including in our pricing, billing and/or marketing practices in a manner that could adversely affect operations. We seek to and believe that we do conduct our business in compliance with all applicable laws and regulations. Set forth below are highlights of the key regulatory areas applicable to our business.

Reimbursement for Laboratory Services

We typically bill third party payors such as Medicare, Medicaid, Governmental programs and private insurers for our services. Billing for clinical testing services is very complicated, and our payers often have different coverage, billing and reimbursement requirements, and change those requirements on an ongoing basis. Also, submissions of our claims are particularly complex because we provide both anatomic pathology services and clinical laboratory tests, which generally are paid using different reimbursement principals. The clinical laboratory tests are often paid under a clinical laboratory fee schedule, and the anatomic pathology services are often paid under a physician fee schedule. If ordering physician requisitions contain incorrect or incomplete information, we may also be unable to collect reimbursement from payers. The increased use of electronic ordering reduces, but does not eliminate, the incidence of missing or incorrect information.

In addition, both government and private sector payers have engaged in ongoing efforts in recent years to contain or reduce health care costs, including reimbursement for clinical laboratory services. The combination of complex billing requirements and ongoing pressure with respect to reimbursement levels, presents substantial challenges to the clinical laboratory business. Through the March 2010 adoption of the Patient Protection and Affordable Care Act and the companion Healthcare and Education Reconciliation Act in the United States, which is referred to as the healthcare reform law, substantial changes are being made to the current system for paying for healthcare in the United States, including programs to extend medical benefits to millions of individuals who currently lack insurance coverage, coupled with measures to cut Medicare spending for most health care services, including clinical laboratories. The changes contemplated by the healthcare reform law are subject to rule-making and implementation timelines that extend for several years, and this uncertainty limits our ability to forecast changes that may occur in the future.

The U.S. Congress has considered, at least yearly in conjunction with budgetary legislation, changes to one or both of the Medicare fee schedules under which we receive reimbursement, which include the physician fee schedule for anatomical pathology services, and the clinical laboratory fee schedule for our clinical laboratory services. For example, currently there is no copayment or coinsurance required for clinical laboratory services, although there is for our physician services. However, Congress has periodically considered imposing a 20 percent coinsurance on laboratory services. If enacted, this would require us to attempt to collect this amount from patients, although in many cases the costs of collection would exceed the amount actually received.

For most of the tests performed for Medicare beneficiaries or Medicaid recipients, laboratories are required to bill Medicare or Medicaid directly, and to accept Medicare or Medicaid reimbursement as payment in full. Part B of the Medicare program contains fee schedule payment methodologies for clinical laboratory services, and the Medicare approach and reimbursement levels often serve as a benchmark for commercial payers. Payment under Medicare is generally the lesser of billed charges, the local fee for a geographic area, and a national limitation amount that is set at a percent of the median of all local fee schedule amounts for each laboratory test code. Each year, subject to federal legislation, fees may be updated for inflation based on the percentage change in the Consumer Price Index, or CPI. From 2004 through 2008 the clinical laboratory fee schedule remained frozen, with no CPI increases. Then, for the first time in five years, as of January 1, 2009 laboratories received a 4.5% across the board increase in reimbursements. For 2010, the clinical laboratory fee schedule was decreased by 1.9 percent. For 2011, under the healthcare reform law, it was decreased by 1.75 percent, the first of a series of such annual reductions effective from 2011 to 2015.

Under the Medicare framework, the national limitation amount for clinical laboratory services had been reduced in a number of instances over the past several years to a present level equal to 74% of the national median of laboratory charges, and a number of proposals for legislation or regulation are under discussion which could have the effect of substantially reducing Medicare reimbursements to clinical laboratories through reduction of the present allowable percentage or through other means. We are unable to predict the outcome of these discussions. Depending upon the nature of congressional and/or regulatory action, if any, which is taken and the content of legislation, if any, which is adopted, we could experience a significant decrease in revenues from Medicare, which could have a material adverse effect on us.

Also, Medicare and other payers have expressed some concern regarding billed charges reporting by large clinical laboratories, in light of the common practice, among major clinical laboratories, of providing discounted pricing to certain clients that order testing services on a bulk basis, such as certain physicians, hospitals, and other institutions, resulting in economies of scale and relatively low administrative costs, as compared with the higher fees charged to individual patients and third party payors, including Medicare, who generally require separate bills or claims for each patient encounter and which involve relatively high administrative costs). If this issue were decided in a manner that required the downward adjustment of billed charges reporting, it could adversely affect the Company.

Clinical Laboratory Improvement Amendments of 1988 (*CLIA*)

CLIA extends Federal licensing requirements to all clinical laboratories (regardless of the location, size or type of laboratory), including those operated by physicians in their offices, based on the complexity of the tests they perform. CLIA also establishes a stringent proficiency testing program for laboratories and includes substantial sanctions, such as suspension, revocation or limitation of a laboratory s CLIA certificate (which is necessary to conduct business), cancellation or suspension of the laboratory s approval to receive Medicare and Medicaid reimbursement, and significant fines and/or criminal penalties.

CLIA, and its implementing regulations, includes quality standards (establishing Federal quality standards for all clinical laboratories); application and user fee requirements; and enforcement procedures. The quality standard regulations establish varying levels of regulatory scrutiny depending upon the complexity of testing performed. Under these regulations, a laboratory that performs only one or more of routine waived tests may apply for a waiver from most requirements of CLIA. We believe that most tests performed by physician office laboratories will fall into either the waived or the moderately complex category. The latter category applies to simple or automated tests and generally permits existing personnel in physicians offices to continue to perform testing under the implementation of systems that insure the integrity and accurate reporting of results, establishment of quality control systems, proficiency testing by approved agencies, and biannual inspection.

Under CLIA, the company remains subject to state and local laboratory regulations. CLIA provides that a state may adopt laboratory regulations that are more stringent than those under federal law, and some states require additional personnel qualifications, quality control, record maintenance and other requirements.

Our laboratory completed its first CLIA inspection under CLIA guidelines and received its certificate of compliance effective February 7, 1996. It has been reinspected since on a bi-annual basis and found to be in compliance. We believe the Company is in compliance with all applicable federal and state laboratory requirements.

Compliance Program

The Office of Inspector General has published a Model Compliance Program for the clinical laboratory industry. This is a voluntary program for laboratories to demonstrate to the Federal government that they are responsible providers. We have implemented a comprehensive voluntary compliance program adhering to the standards set forth in the Model Compliance Program. In addition, under the healthcare reform law, the U.S.

Department of Health and Human Services, or HHS, will require suppliers, such as the Company, to adopt, as a condition of Medicare participation,

compliance programs that meet a core set of requirements. This mandate has not yet been implemented with respect to clinical laboratories, and HHS has not yet provided a time frame for implementation.

Health Insurance Portability and Accountability Act of 1996, as amended (HIPAA)

Both as a health care provider of clinical laboratory services, and in connection with the services we furnish to health plans and others as a business associate though medical information services, we are required to comply with federal and state laws that protect the privacy and security of certain healthcare and personal information. These include HIPAA, which establishes comprehensive standards with respect to the privacy and security of medical information, including requirements for safeguarding electronic protected health information, and comprehensive standards regarding uses and disclosures of protected health information. The HIPAA standards create a complex regulatory framework, including penalties for non-compliance, requirements to respond to patient requests to review and amend their medical records, certain limitations regarding the use of patient information, and notification obligations in the event of certain breaches of patient information. In addition to HIPAA, we are required to abide by various state laws protecting healthcare information, that impose standards that are stricter than those of HIPAA, such as state laws governing sensitive health information regarding HIV status and genetic testing.

HIPAA provides for significant fines as well as substantial criminal penalties for violations of the Act. The federal Health Information Technology for Economic and Clinical Health, or HITCH, Act, strengthened and expanded HIPAA, including with respect to breach notification obligations, the extension of a number of HIPAA requirements directly to business associates, heightened penalties and enforcement provisions (including requiring HHS to conduct periodic audits to confirm compliance), and the extension of enforcement authority over HIPAA to state attorney generals.

In addition, HIPAA requires health care providers, such as clinical laboratories, and other covered entities, to use certain transaction and code set rules for specified electronic transactions, such as transactions involving claims submissions. The Company believes it is in compliance in all material respects with the current rules. With respect to these rules, January 1, 2012 is a compliance date for all HIPAA-covered entities, such as the Company, to conduct electronic claim submissions and related electronic transactions under a new HIPAA transaction standard, called Version 5010. CMS is requiring this upgrade in connection with another new requirement applicable to the industry, the implementation of new diagnostic code sets to be used in claims submission. The new diagnostic code sets are called the ICD-10-CM, and are to be implemented on October 1, 2013. The Company has been aware of these changes for some time, and believes it is prepared to timely adopt the new standards. However, it is expected that these changes, in particular the adoption of new diagnostic codes which must be provided to us accurately by referring physicians in order for us to receive payment from payors, such as Medicare will result in a degree of disruption and confusion, which may adversely affect Company operations, including reimbursement rates.

Laboratory Developed Tests (LDTs)

The federal Food and Drug Administration, or FDA, has regulatory responsibility over, among other areas, instruments, test kits reagents and other medical devices used by clinical laboratories to perform diagnostic testing. High complexity and CLIA-certified laboratories, such as ours, frequently develop internal testing procedures to provide diagnostic results to customers. These tests are referred to as laboratory developed tests, or LDTs. The FDA has claimed regulatory authority over all LDTs, but has exercised enforcement discretion with regard to most LDTs offered by high complexity CLIA-certified laboratories, and has not subjected these tests to the panoply of FDA rules and regulations governing medical devices. However, the FDA has been considering changes in the way laboratories are allowed to offer these LDTs, and during 2010 publicly announced that it will be exercising regulatory authority over LDTS, using a risk-based approach that will direct more resources to tests with the highest risk of injury. The FDA has not announced a framework or timetable for implementing its announced approach. Depending upon the manner in which this new regulatory framework is implemented, there may be an adverse affect on Company operations.

Fraud and Abuse Regulations

Since we supply services that are reimbursed by U.S. federally funded programs such as Medicare and Medicaid, therefore our activities are also subject to regulation by CMS and enforcement by the Office of Inspector General, or OIG, within the HHS. A provision of the U.S. Social Security Act known as the Anti-Kickback Law prohibits providers and others from directly or indirectly soliciting, receiving, offering or paying any remuneration with the intent of generating referrals or orders for services or items covered by a government health care program. Many states have similar laws. Courts have interpreted this law very broadly, including holding that a violation has occurred if even one purpose of the remuneration is to generate referrals, even if there are other lawful purposes. There are statutory and regulatory exceptions (known as safe harbors) that outline arrangements that are deemed lawful. However, the fact that an arrangement does not fall within a safe harbor does not necessarily render the conduct illegal under the Anti-Kickback Law. In sum, even legitimate business arrangements between the Company and referral sources, such as physicians, could lead to scrutiny by government enforcement agencies, and require extensive company resources to respond to government investigations. Violations of the Anti-Kickback Law may be punished by civil and criminal penalties and/or exclusion from participation in federal health care programs, including Medicare and Medicaid. The healthcare reform law strengthened provisions of the Anti-Kickback Law.

The federal Stark Law or self-referral prohibition, subject to certain exceptions, prohibits payment under Medicare or Medicaid for certain designated health services, including, among others, clinical laboratory services, where the referring physician has a financial relationships with the entity that furnishes the clinical laboratory service. The applicable exceptions permitting federal reimbursement generally require written agreements and fair market value payments that do not vary based upon the volume or value of referrals. Many states have similar self-referral laws that regulate the financial relationships between referring physicians and clinical laboratories, which extend to all referrals, not only referrals for services reimbursed by Medicare or Medicaid. Another federal law, known as the Anti-Markup Rule, and similar state laws, address the practice of an independent clinical laboratory performing and then billing to the ordering physician a component of a diagnostic test, such as diagnostic pathology services, where the ordering physician bills the test to Medicare. In this circumstance, penalties may apply to the physician if Medicare or other payor is billed at a rate that exceeds the laboratory s charges to the physician, and the laboratory could be at risk under false claims laws, described below, for causing the submission of a false claim, if it advised the physician to submit claims to payers in violation of these provisions.

The federal False Claims Act, or FCA, is violated by any entity that presents or causes to be presented knowingly false claims for payment to the federal government and many states have similar laws that apply to governmental and private payors. In addition, the healthcare reform law amended the FCA to create a cause of action against any person who knowingly makes a false statement material to an obligation to pay money to the government, or knowingly conceals or improperly decreases an obligation to pay or transmit money or property to the government. For the purposes of these recent amendments, an obligation includes an overpayment, which is defined broadly to include any funds that a person receives or retains under Medicare and Medicaid to which the person, after applicable reconciliation, is not entitled . . . .

The FCA is commonly used to sue those who submit allegedly false Medicare or Medicaid claims, as well as those who induce or assist others to submit a false claim. Courts and government officials have found that false claims can result not only from noncompliance with the express requirements of applicable governmental reimbursement programs, such as Medicare and Medicaid, but also from noncompliance with other laws, such as provisions of the Food, Drug and Cosmetic Act, or laws that require quality care in service delivery. In addition, the healthcare reform law amended the Anti-Kickback Law to specify that a claim to federal health care programs that includes items or services resulting from a violation of the Anti-Kickback Law constitute a false claim under the FCA. The qui tam or whistleblower provisions of the FCA allow private individuals to bring actions on behalf of the government alleging that the government was defrauded, with tremendous potential financial gain to private citizens in the event they prevail. When a private party brings a whistleblower action under the FCA, the defendant is not made aware of the lawsuit until the government starts its own investigation or makes a decision on whether it will intervene. Many states have enacted similar laws that also apply to claims submitted to commercial insurance companies. The bringing of any FCA action could require us to devote resources to investigate and defend the action. Violations of the FCA could result in enormous economic liability. The law provides that all damages are trebled, and each false claim submitted is subject to a penalty of up to $11,000.

Historically, the clinical laboratory industry has been the focus of major governmental enforcement initiatives, and within the past few years federal and state governments continue to strengthen their enforcement efforts, such as through new laws that increase funding, powers and remedies to pursue suspected cases of fraud and abuse. We believe we operate lawfully within these statutes; however, we cannot predict if some of our practices may be interpreted as violating these statutes and regulations.

Waste Management, Health and Safety

We are subject to federal and state laws and regulations regarding the protection of the environment, the health and safety of employees, and the handling, transportation and disposal of medical specimens, and infectious and hazardous wastes. For example, federal regulations require licensure of interstate transporters of medical waste. In New Jersey, we are subject to the Comprehensive Medical Waste Management Act, or CMWMA, which requires us to register as a generator of special medical waste. All of our medical waste is disposed of by a licensed interstate hauler. The hauler provides a manifest of the disposition of the waste products as well as a certificate of incineration which is retained by us. These records are audited by the State of New Jersey on a yearly basis. We are also subject to the Federal Hazardous Materials Transportation Law, 49 U.S.C. 5101 et seq., and the Hazardous Materials Regulations, or HMR, 49 CFR parts 171-180. In addition, the federal Occupational Safety and Health Administration, or OSHA, has established extensive requirements relating specifically to workplace programs to protect workers from exposure to blood-borne pathogens, such as HIV and the hepatitis B virus, including work practice controls, protective clothing and equipment, training, vaccinations and other measures designed to minimize hazardous exposures.

Intellectual Property Rights

The Company relies on a combination of patents, trademarks, copyrights, trade secrets and nondisclosure and non-competition agreements to establish and protect its proprietary technology. The Company has filed and obtained numerous patents and regularly files patent applications, when appropriate, to establish and protect its proprietary technology. The Company believes, however, that no single patent, technology, trademark, intellectual property asset or license is material to its business as a whole.

Insurance

We maintain professional liability insurance. We believe that our present insurance coverage is sufficient to cover currently estimated exposures, but we cannot assure that we will not incur liabilities in excess of the policy limits. In addition, although we believe that we will be able to continue to obtain adequate insurance coverage, we cannot assure that we will be able to do so at acceptable cost.

Employees

At October 31, 2011, we had 2,438 full-time and 717 part-time employees serving in executive positions, as technicians and technologists (including physicians, pathologists and PhDs), in marketing, in logistics and in bookkeeping, clerical and administrative positions. None of our employees are represented by a labor union. We regard relations with our employees as satisfactory.

Available Information

Our Internet website address is www.bioreference.com. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to section 13(a) or 15(d) of the Exchange Act are available free of charge through our website as soon as reasonably practicable after we electronically file with or furnish them to the Securities and Exchange Commission, or SEC, and are available in print to any stockholder who requests a copy. Additionally, the charters of the standing committees of our board of directors are available on our website under Board Committee Charters . Information on our website shall not be deemed incorporated into, or to be a part of, this Annual Report on Form 10-K.

The public may also read and copy any materials that we file with the SEC at the SEC s Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Additionally, the SEC maintains a website that contains reports, proxy statements, information statements and other information regarding issuers, including us, that file electronically with the SEC at www.sec.gov.

Item 1A. Risk Factors

You should carefully consider each of the following risk factors and all other information set forth in this report. Any of the following risks could materially and adversely affect our business, financial condition or results of operations. They are not, however, the only risks we face. Additional risks and uncertainties not presently known to us or that we currently believe not to be material may also adversely affect our business, financial condition or results of operations. This report also includes forward-looking statements that involve risks or uncertainties. Our results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks we face described below and elsewhere. See Special Note Regarding Forward Looking Statements .

Our business could be harmed from the loss or suspension of a license or imposition of a fine or penalties under, or future changes in, or interpretations of CLIA or state laboratory licensing laws to which we are subject.

The clinical laboratory testing industry is subject to extensive federal and state regulation, and many of these statutes and regulations have not been interpreted by the courts. CLIA extends federal licensing requirements to virtually all clinical laboratories (regardless of the location, size or type of laboratory), including those operated by physicians in their offices, by requiring that they be certified by the federal government or by a federally approved accreditation agency. The sanction for failure to comply with CLIA requirements may be suspension, revocation or limitation of a laboratory s CLIA certificate, which is necessary to conduct business, as well as significant fines and/or criminal penalties. In addition, we are subject to regulation under state law. State laws may require that laboratories and/or laboratory personnel meet certain qualifications, specify certain quality controls or require maintenance of certain records.

We cannot assure you that applicable statutes and regulations will not be interpreted or applied by a prosecutorial, regulatory or judicial authority in a manner that would adversely affect our business. Potential sanctions for violation of these statutes and regulations include significant fines and the suspension or loss of various licenses, certificates and authorizations, which could have a material adverse effect on our business. In addition, compliance with future legislation could impose additional requirements on us, which may be costly.

Failure to comply with HIPAA, including regarding the use of new standard transactions, may negatively impact our profitability and cash flows.

Pursuant to HIPAA, we must comply with comprehensive privacy and security standards with respect to the use and disclosure of protected health information, as well as standards for electronic transactions, including specified transaction and code set rules. Under recent HITECH amendments to HIPAA, the law was expanded, including to require certain data breach notification, direct patient access to laboratory records, the extension of certain HIPAA privacy and security standards directly to business associates, and to heighten penalties for noncompliance, and enforcement efforts. While the Company maintains policies and procedures to comply with HIPAA, HHS has not yet issued final regulations to implement all HITECH requirements, and while the Company believes compliance will increase Company costs, it is difficult to predict precisely the costs involved.

In addition, the HIPAA transaction standards are complex, and subject to differences in interpretation by payors. For instance, some payors may interpret the standards to require us to provide certain types of information, including demographic information not usually provided to us by physicians. As a result of inconsistent application of transaction standards by payors or the our inability to obtain certain billing information not usually

provided to us by physicians, we could face increased costs and complexity, a temporary disruption in receipts and ongoing reductions in reimbursements and net revenues. In addition, new requirements for additional standard transactions, such as claims attachments, Version 5010 of the HIPAA Transaction Standards and the ICD-10-CM Code Set, could prove technically difficult, time-consuming or expensive to implement. We are working closely with our payors to establish acceptable protocols for claim submission and with our trade association and an industry coalition to present issues and problems as they arise to the appropriate regulators and standards setting organizations.

FDA regulation of Laboratory Developed Tests (LDTsand clinical laboratories may result in significant change, and our business could be adversely impacted if we fail to adapt.

High complexity, CLIA-certified laboratories, such as ours, frequently develop testing procedures to provide diagnostic results to customers. These tests have been traditionally offered by nearly all complex laboratories for the last few decades. The FDA, which regulates the development and use of medical devices, has claimed regulatory authority over LDTs, but has exercised enforcement discretion with respect to most LDTSs offered by high complexity laboratories, and not required these laboratories to comply with FDA regulations regarding medical devices. During 2010, the FDA publicly announced that it has decided to exercise regulatory authority over these LDTs, and that it plans to issue guidance to the industry regarding its regulatory approach. The FDA has indicated that it will use a risk-based approach to regulation and will direct more resources to tests with wider distribution and with the highest risk of injury, but that it will be sensitive to the need to not adversely impact patient care or innovation. The FDA has not announced a framework or timetable for implementing its new regulatory approach. The regulatory approach adopted by the FDA may lead to an increased regulatory burden, including additional costs and delays in introducing new tests. While the ultimate impact of the FDA s approach is unknown, it may be extensive and may result in significant change. Our failure to adapt to these changes could have a material adverse effect on our business.

Some of our activities may subject us to risks under federal and state laws prohibiting kickbacks and other laws designed to prohibit payments for referrals.

Federal and state anti-kickback laws prohibit payment, or offers of payment, in exchange for referrals of products and services for which reimbursement may be made by Medicare or other federal and state healthcare programs. Some state laws contain similar prohibitions that apply without regard to the payor of reimbursement for the services. Federal and state anti-referral laws, including the Stark Law, prohibit physicians from referring their Medicare or other federally funded healthcare program patients or specimens to healthcare providers with which the physicians or their immediate family members have a financial relationship involving some types of health services. The financial relationships covered by these prohibitions include clinical laboratory services such as those provided by us. Some state laws also contain similar prohibitions that apply without regard to the payor of reimbursement for the services. Violations of federal anti-kickback and Stark laws may be punished by civil and criminal penalties, and/or exclusion from participation in federal health care programs, including Medicare and Medicaid. States may impose similar penalties. In addition, submitting claims to Medicare and Medicaid, or other federal or state payers The U.S. healthcare reform law significantly strengthened provisions of the Federal False Claims Act, Medicare and Medicaid Anti-Kickback provisions, and other health care fraud provisions, leading to the possibility of greatly increased qui tam suits by relators for perceived violations. There can be no assurance that our activities will not come under the scrutiny of regulators and other government authorities or that our practices will not be found to violate applicable laws, rules and regulations or prompt lawsuits by private citizen relators under federal or state false claims laws.

Federal officials responsible for administering and enforcing the healthcare laws and regulations have made a priority of eliminating healthcare fraud, and through a number of legislative measures, including the recent healthcare reform law, federal funding available for combating health care fraud and abuse has increased. While we seek to conduct our business in compliance with all applicable laws and regulations, many of the laws and regulations applicable to our business, particularly those relating to billing and reimbursement of tests and those relating to relationships with physicians, hospitals and patients, contain language that has not been interpreted by courts. We must rely on our interpretation of these laws and regulations based on the advice of our counsel and regulatory or law enforcement authorities may not agree with our interpretation of these laws and regulations and may seek to enforce legal remedies or penalties against us for violations. From time to time we may need to change our operations, particularly pricing or billing practices, in response to changing interpretations of these laws and regulations

or regulatory or judicial determinations with respect to these laws and regulations. These occurrences, regardless of their outcome, could damage our reputation and harm important business relationships that we have with healthcare providers, payors and others. Furthermore, if a regulatory or judicial authority finds that we have not complied with applicable laws and regulations, we would be required to refund amounts that were billed and collected in violation of such laws and regulations. In addition, we may voluntarily refund amounts that were alleged to have been billed and collected in violation of applicable laws and regulations. In either case, we could suffer civil and criminal damages, fines and penalties, exclusion from participation in governmental healthcare programs and the loss of licenses, certificates and authorizations necessary to operate our business, as well as incur liabilities from third-party claims, all of which could harm our operating results and financial condition. Moreover, regardless of the outcome, if we or physicians or other third parties with whom we do business are investigated by a regulatory or law enforcement authority we could incur substantial costs, including legal fees, and our management may be required to divert a substantial amount of time to an investigation.

To enhance compliance with applicable health care laws, and mitigate potential liability in the event of noncompliance, regulatory authorities, such as the United States Health and Human Services Department Office of Inspector General (OIG), have recommended the adoption and implementation of a comprehensive health care compliance program that generally contains the elements of an effective compliance and ethics program described in Section 8B2.1 of the United States Sentencing Commission Guidelines Manual, and for many years the OIG has made available a model compliance program targeted to the clinical laboratory industry. While we have adopted U.S. healthcare compliance and ethics programs that generally incorporate the OIG s recommendations, and train our applicable employees in such compliance, having such a program can be no assurance that we will avoid any compliance issues.

Failure to maintain the security of patient-related information or compliance with security requirements could damage our reputation with customers, cause it to incur substantial additional costs and become subject to litigation.

We receive certain personal and financial information about our clients and their patients. In addition, we depend upon the secure transmission of confidential information over public networks. A compromise in our security systems that results in client or patient personal information being obtained by unauthorized persons or our failure to comply with security requirements for financial transactions could adversely affect our reputation with our clients and others, as well as our results of operations, financial condition and liquidity. It could also result in litigation against us or the imposition of penalties.

Failure to comply with environmental, health and safety laws and regulations, including the federal Occupational Safety and Health Administration Act, the Needlestick Safety and Prevention Act and the Comprehensive Medical Waste Management Act, could result in fines and penalties and loss of licensure, and have a material adverse effect upon our business.

The clinical laboratory industry is highly regulated and subjected to significant federal and state regulation. This includes inspections and audits by governmental agencies. These agencies may impose fines, criminal penalties, or other enforcement actions to enforce laws and regulations. These penalties can include revocation of a clinical laboratory s license. Changes in regulations may increase the cost of testing or processing claims.

We are subject to licensing and regulation under federal, state and local laws and regulations relating to the protection of the environment and human health and safety, including laws and regulations relating to the handling, transportation and disposal of medical specimens, infectious and hazardous waste and radioactive materials, as well as regulations relating to the safety and health of laboratory employees. The federal Occupational Safety and Health Administration has established extensive requirements relating to workplace safety for health care employers, including clinical laboratories, whose workers may be exposed to blood-borne pathogens such as HIV and the hepatitis B virus. These requirements, among other things, require work practice controls, protective clothing and equipment, training, medical follow-up, vaccinations and other measures designed to minimize exposure to, and transmission of, blood-borne pathogens. In addition, the Needlestick Safety and Prevention Act requires, among other things, that we include in our safety programs the evaluation and use of engineering controls such as safety needles if found to be effective at reducing the risk of needlestick injuries in the workplace.

Waste management is subject to federal and state regulations governing the transportation and disposal of medical waste including bodily fluids. Federal regulations require licensure of interstate transporters of medical waste. In New Jersey, we are subject to the Comprehensive Medical Waste Management Act (CMWMA), which requires us to register as a generator of special medical waste. All of our medical waste is disposed of by a licensed interstate hauler. The hauler provides a manifest of the disposition of the waste products as well as a certificate of incineration, which is retained by us. These records are audited by the State of New Jersey on a yearly basis. We are also subject to the Federal Hazardous materials transportation law, 49 U.S.C. 5101 et seq., and the Hazardous Materials Regulations (HMR), 49 CFR parts 171-180. The federal government has classified hazardous medical waste as hazardous materials for the purpose of regulation. These regulations preempt state regulation, which must be substantively the same, the non-federal requirement must conform in every significant respect to the federal requirement. Editorial and other similar de minimis changes are permitted, 49 CFR 107.202(d).

Failure to comply with federal, state and local laws and regulations could subject us to denial of the right to conduct business, fines, criminal penalties and/or other enforcement actions, any of which would have a material adverse effect on our business. In addition, compliance with future legislation could impose additional requirements us, which may be costly.

We conduct our clinical laboratory testing business in a heavily regulated industry and changes in regulations or violations of regulations could, directly or indirectly, harm our operating results and financial condition.

The clinical laboratory testing industry is highly regulated and there can be no assurance that the regulatory environment in which we operate will not change significantly and adversely in the future. Areas of the regulatory environment that may affect our ability to conduct business include, without limitation:

federal and state laws applicable to billing and claims payment;

federal and state laboratory anti-mark-up laws;

federal and state anti-kickback laws;

federal and state false claims laws;

federal and state self-referral and financial inducement laws, including the federal physician anti-self-referral law, or the Stark Law;

coverage and reimbursement levels by Medicare and other governmental payors and private insurers;

federal and state laws governing laboratory licensing and testing, including CLIA;

federal and state laws governing the development, use and distribution of diagnostic medical tests known as laboratory developed tests or LDTs ;

HIPAA, along with the revisions to HIPPA as a result of the HITECH Act, and analogous state laws;

federal, state and foreign regulation of privacy, security, electronic transactions and identity theft;

federal, state and local laws governing the handling, transportation and disposal of medical and hazardous waste;

Occupational Safety and Health Administration rules and regulations;

changes to laws, regulations and rules as a result of the healthcare reform law; and

changes to other federal, state and local laws, regulations and rules, including tax laws.

These laws and regulations are extremely complex and in many instances, there are no significant regulatory or judicial interpretations of these laws and regulations. Any determination that we have violated these laws or regulations, or the public announcement that we are being investigated for possible violations of these laws or regulations, could harm our operating results and financial condition. In addition, a significant change in any of these laws or regulations may require us to change our business model in order to maintain compliance with these laws or regulations, which could harm our operating results and financial condition.

Failure to comply with complex federal and state laws and regulations related to submission of claims for our services could result in significant monetary damages and penalties and exclusion from the Medicare and Medicaid programs.

We are subject to extensive federal and state laws and regulations relating to the submission of claims for payment for our services, including those that relate to coverage of our services under Medicare, Medicaid and other governmental health care programs, the amounts that may be billed for our services and to whom claims for services may be submitted. Submission of our claims is particularly complex because we provide both anatomic pathology services and clinical laboratory tests, which generally are paid using different reimbursement principles. The clinical laboratory tests are often paid under a clinical laboratory fee schedule, and the anatomic pathology services are often paid under a physician fee schedule. In November 2010, CMS announced that it would require a physician signature on all requisitions for laboratory services reimbursed under the Clinical Laboratory Fee Schedule, a requirement that could be very difficult for all laboratories, including ours, to implement. However, due to concerns raised by the laboratory industry, CMS announced that it intended to reverse this policy and return to the prior rule, under which no physician signature was required on requisitions for tests paid under the clinical laboratory fee schedule. If CMS were to implement the physician signature policy at some point in the future, it could further complicate our billing and documentation process.

Our failure to comply with applicable laws and regulations could result in our inability to receive payment for our services or result in attempts by third-party payors, such as Medicare and Medicaid, to recover payments from us that have already been made. Submission of claims in violation of certain statutory or regulatory requirements can result in penalties, including substantial civil money penalties for each item or service billed to Medicare in violation of the legal requirement, and exclusion from participation in Medicare and Medicaid. Government authorities may also assert that violations of laws and regulations related to submission of claims violate the federal False Claims Act or other

laws related to fraud and abuse, including submission of claims for services that were not medically necessary. Violations of the FCA could result in enormous economic liability. The FCA provides that all damages are trebled, and each false claim submitted is subject to a penalty of up to $11,000. We could be adversely affected if it was determined that the services we provided were not medically necessary and not reimbursable, particularly if it were asserted that we contributed to the physician s referrals of unnecessary services to us. It is also possible that the government could attempt to hold us liable under fraud and abuse laws for improper claims submitted by an entity for services that we performed if we were found to have knowingly participated in the arrangement that resulted in submission of the improper claims.

Changes in regulation and policies, including increasing downward pressure on health care reimbursement, may adversely affect reimbursement for diagnostic services and could have a material adverse impact on our business.

Reimbursement levels for health care services are subject to continuous and often unexpected changes in policies, and we face a variety of efforts by government payors to reduce utilization and reimbursement for diagnostic testing services. Changes in governmental reimbursement may result from statutory and regulatory changes, retroactive rate adjustments, administrative rulings, competitive bidding initiatives, and other policy changes.

In 2010, the U.S. Congress passed legislation relating to health care reform, including the Patient Protection and Affordable Care Act, and the Health Care and Education Affordability Reconciliation Act of 2010, referred to as the healthcare reform law. The healthcare reform law included two separate reductions in the reimbursement rates for our clinical laboratory services under the clinical laboratory fee schedule. First, it included a productive adjustment (which was 1.2 percent for 2011). Second, it included an additional 1.75 percent reduction, the first of a series of such annual reductions effective from 2011 to 2015, which would reduce the annual Consumer Price Index-based update that would otherwise determine our reimbursement for clinical laboratory services. These reimbursement cuts could adversely affect our business.

The U.S. Congress has considered, at least yearly in conjunction with budgetary legislation, changes to one or both of the Medicare fee schedules under which we receive reimbursement, which include the physician fee schedule for anatomical pathology services, and the clinical laboratory fee schedule for our clinical laboratory services. For example, currently there is no copayment or coinsurance required for clinical laboratory services, although there is for our physician services. However, Congress has periodically considered imposing a 20 percent coinsurance on laboratory services. If enacted, this would require us to attempt to collect this amount from patients, although in many cases the costs of collection would exceed the amount actually received.

Our reimbursement for our anatomic pathology services is governed by a complex formula, referred to as the Sustainable Growth Rate, or SGR. As the use of this formula often results in a significant reduction in reimbursement for all physician services, Congress usually acts each year

to prevent the full amount of such reductions from taking effect. In 2010, Congress acted to prevent reductions in reimbursement through December 31, 2011, and Congress acted again in 2011 to prevent significant reductions for 2012. If Congress fails to take such action, it could adversely affect our business. A substantial portion of our anatomic pathology services are billed under a single code (CPT 88305) and our revenue and business may be adversely affected if the reimbursement rate associated with that code is reduced. Even when reimbursement rates are not reduced, policy changes add to our costs by increasing the complexity and volume of administrative requirements. Medicaid reimbursement, which varies by state, is also subject to administrative and billing requirements and budget pressures. Recently, state budget pressures have caused states to consider several policy changes that may impact our financial condition and results of operations, such as delaying payments, reducing reimbursement, restricting coverage eligibility and service coverage, and imposing taxes on our services.

Other legislative changes have been proposed since the passage of the healthcare reform law that could also affect reimbursement for our services. For example, the Budget Control Act of 2011 creates a Joint Select Committee on Deficit Reduction, which is tasked with recommending proposals to reduce spending. In the event that the Joint Committee is unable to achieve a targeted deficit reduction of at least $1.2 trillion for the years 2013 through 2021, or Congress does not pass the Committee s recommendations without amendment by 16 December 23, 2011, an automatic reduction is triggered. These automatic cuts would also be made to Medicare, and would result in aggregate reductions to Medicare payments to providers of up to 2 percent per fiscal year, starting in 2013.

Healthcare plans have taken steps to control the utilization and reimbursement of healthcare services, including clinical test services.

We also face efforts by non-governmental third-party payors, including healthcare plans, to reduce utilization and reimbursement for clinical testing services.

The healthcare industry has experienced a trend of consolidation among healthcare insurance plans, resulting in fewer but larger insurance plans with significant bargaining power to negotiate fee arrangements with healthcare providers, including clinical testing providers. These healthcare plans, and independent physician associations, may demand that clinical testing providers accept discounted fee structures or assume all or a portion of the financial risk associated with providing testing services to their members through capped payment arrangements. In addition, some healthcare plans have been willing to limit the PPO or POS laboratory network to only a single national laboratory to obtain improved fee-for-service pricing. There are also an increasing number of patients enrolling in consumer driven products and high deductible plans that involve greater patient cost-sharing.

The increased consolidation among healthcare plans also has increased the potential adverse impact of ceasing to be a contracted provider with any such insurer. The healthcare reform law includes provisions, including ones regarding the creation of healthcare exchanges, which may encourage healthcare insurance plans to increase exclusive contracting.

We expect continuing efforts to reduce reimbursements, to impose more stringent cost controls and to reduce utilization of clinical test services. These efforts, including future changes in third-party payor rules, practices and policies, or ceasing to be a contracted provider to a healthcare plan, may have a material adverse effect on our business.

Failure to timely or accurately bill for our services could have a material adverse effect on our business

Billing for clinical testing services is extremely complicated and is subject to extensive and non-uniform rules and administrative requirements. Depending on the billing arrangement and applicable law, we bill various payors, such as patients, insurance companies, Medicare, Medicaid, physicians, hospitals and employer groups. Changes in laws and regulations could increase the complexity and cost of our billing process. Additionally, auditing for compliance with applicable laws and regulations as well as internal compliance policies and procedures adds further cost and complexity to the billing process. Further, our billing systems require significant technology investment and, as a result of marketplace demands, we need to continually invest in our billing systems.

Missing or incorrect information on requisitions adds complexity to and slows the billing process, creates backlogs of unbilled requisitions, and generally increases the aging of accounts receivable and bad debt expense. We believe that much of our bad debt expense in recent years is attributable to the lack of, or inaccurate, billing information. Failure to timely or correctly bill may lead to our not being reimbursed for our services or an increase in the aging of our accounts receivable, which could adversely affect our results of operations and cash flows. Failure to comply with applicable laws relating to billing government healthcare programs could lead to various penalties, including: (1) exclusion from participation in Medicare/Medicaid programs; (2) asset forfeitures; (3) civil and criminal fines and penalties; and (4) the loss of various licenses, certificates and authorizations necessary to operate our business, any of which could have a material adverse effect on our results of operations or cash flows.

There have been times when our accounts receivable have increased at a greater rate than revenue growth and, therefore, have adversely affected our cash flows from operations. We have taken steps to implement systems and processing changes intended to improve billing procedures and related collection results. We believe that we have made progress by reorganizing our accounts receivable and billing functions and that our allowance for doubtful accounts is adequate. However, we cannot assure that our ongoing assessment of accounts receivable will not result in the need for additional provisions. Such additional provisions, if implemented, could have a material adverse effect on our operating results.

Failure of us, third-party payors or physicians to comply with Version 5010 Transactions or the ICD-10-CM Code Set could adversely impact our reimbursement.

We are within the assessment and inventory phase to adopt Version 5010 Transactions and to adopt the ICD-10-CM Code Set issued by HHS on January 16, 2009. The compliance date for Version 5010 is January 1, 2012; the compliance date for ICD-10-CM Code Set is October 1, 2013. We will continue its assessment of information systems, applications and processes for compliance with these requirements. Clinical laboratories are typically required to submit health care claims with diagnosis codes to third party payors. The diagnosis codes must be obtained from the ordering physician. The failure of us, third party payors or physicians to transition within the required timeframe could have an adverse impact on reimbursement, days sales outstanding and cash collections.

We may be unable to obtain, maintain or enforce our intellectual property rights and may be subject to intellectual property litigation that could adversely impact our business

We may be unable to obtain or maintain adequate patent or other proprietary rights for our products and services or to successfully enforce our proprietary rights. In addition, we may be subject to intellectual property litigation and we may be found to infringe on the proprietary rights of others, which could force us to do one or more of the following:

cease developing, performing or selling products or services that incorporate the challenged intellectual property;

obtain and pay for licenses from the holder of the infringed intellectual property right;

redesign or reengineer our tests;

change our business processes; or

pay substantial damages, court costs and attorneys fees, including potentially increased damages for any infringement held to be willful.

Discontinuation or recalls of existing testing products; failure to develop, or acquire, licenses for new or improved testing technologies; or our clients using new technologies to perform their own tests could adversely affect our business.

From time to time, manufacturers discontinue or recall reagents, test kits or instruments used by us to perform laboratory testing. Such discontinuations or recalls could adversely affect our costs, testing volume and revenue.

The clinical laboratory industry is subject to changing technology and new product introductions. Our success in maintaining a leadership position in genomic and other advanced testing technologies will depend, in part, on its ability to develop, acquire or license new and improved technologies on favorable terms and to obtain appropriate coverage and reimbursement for these technologies. We may not be able to negotiate acceptable licensing arrangements and it cannot be certain that such arrangements will yield commercially successful diagnostic tests. If we are unable to license these testing methods at competitive rates, our research and development costs may increase as a result. In addition, if we are unable to license new or improved technologies to expand our esoteric testing operations, our testing methods may become outdated when compared with our competition and testing volume and revenue may be materially and adversely affected.

In addition, advances in technology may lead to the development of more cost-effective technologies such as point-of-care testing equipment that can be operated by physicians or other healthcare providers in their offices or by patients themselves without requiring the services of freestanding clinical laboratories. Development of such technology and its use by our clients could reduce the demand for its laboratory testing services and negatively impact its revenues.

Currently, most clinical laboratory testing is categorized as high or moderate complexity, and thereby is subject to extensive and costly regulation under CLIA. The cost of compliance with CLIA makes it impractical for most physicians to operate clinical laboratories in their offices, and other laws limit the ability of physicians to have ownership in a laboratory and to refer tests to such a laboratory. Manufacturers of laboratory equipment and test kits could seek to increase their sales by marketing point-of-care laboratory equipment to physicians and by selling test kits approved for home or physician office use to both physicians and patients. Diagnostic tests approved for home use are

automatically deemed to be waived tests under CLIA and may be performed in physician office laboratories as well as by patients in their homes with minimal regulatory oversight. Other tests meeting certain FDA criteria also may be classified as waived for CLIA purposes. The FDA has regulatory responsibility over instruments, test kits, reagents and other devices used by clinical laboratories and has taken responsibility from the Centers for Disease Control for classifying the complexity of tests for CLIA purposes. Increased approval of waived test kits could lead to increased testing by physicians in their offices or by patients at home, which could affect our market for laboratory testing services and negatively impact our revenues.

Clinicians or patients using our services may sue us, and our insurance may not sufficiently cover all claims brought against us, which will increase our expenses.

The development, marketing, sale and performance of healthcare services expose us to the risk of litigation, including professional negligence. Damages assessed in connection with, and the costs of defending, any legal action could be substantial. We may be faced with litigation claims that exceed our insurance coverage or are not covered under any of our insurance policies. In addition, litigation could have a material adverse effect on our business if it impacts our existing and potential customer relationships, creates adverse public relations, diverts management resources from the operation of the business, or hampers our ability to otherwise conduct our business.

A failure to integrate newly acquired businesses and the costs related to such integration could have a material adverse impact on our net revenues and profitability.

The successful integration of any business that we may acquire entails numerous risks, including, among others:

issues related to revenue recognition and/or cash collections;

loss of key customers or employees;

difficulty in consolidating redundant facilities and infrastructure and in standardizing information and other systems;

failure to maintain quality of services that we and any such acquired companies have historically provided;

coordination of geographically separated facilities and workforces; and

diversion of management s attention from our day-to-day business.

We cannot assure you that current or future acquisitions, if any, or any related integration efforts will be successful, or that our business will not be adversely affected by any future acquisitions. Even if we are able to successfully integrate the operations of companies or businesses that we may acquire in the future, we may not be able to realize the benefits that we expect to result from such integration, including projected cost savings.

Our operations may be adversely impacted by the effects of extreme weather conditions, natural disasters such as hurricanes and earthquakes, health pandemics, hostilities or acts of terrorism and other criminal activities.

Our operations may be adversely impacted by the effects of extreme weather conditions, natural disasters such as hurricanes and earthquakes, health pandemics, hostilities or acts of terrorism or other criminal activities. Such events may result in a temporary decline in the number of patients who seek clinical testing services or in our employees ability to perform their job duties. In addition, such events may temporarily interrupt our ability to transport specimens, to receive materials from our suppliers or otherwise to provide our services.

Increased competition, including price competition, could have a material adverse impact on our net revenues and profitability.

We operate in a business that is characterized by intense competition. Our major competitors in the New York metropolitan area, Quest Diagnostics and Laboratory Corporation of America, are large national laboratories that possess greater name recognition, larger customer bases, significantly greater financial resources and employ substantially more personnel than we do. Many of our competitors have long established relationships. We cannot assurance you that we will be able to compete successfully with such entities in the future.

The clinical laboratory business is intensely competitive both in terms of price and service. Pricing of laboratory testing services is often one of the most significant factors used by health care providers and third-party payors in selecting a laboratory. As a result of the clinical laboratory industry undergoing significant consolidation, larger clinical laboratory providers are able to increase cost efficiencies afforded by large-scale automated testing.

This consolidation results in greater price competition. We may be unable to increase cost efficiencies sufficiently, if at all, and as a result, our net earnings and cash flows could be negatively impacted by such price competition. We may also face increased competition from companies that do not comply with existing laws or regulations or otherwise disregard compliance standards in the industry. Additionally, we may also face changes in fee schedules, competitive bidding for laboratory services or other actions or pressures reducing payment schedules as a result of increased or additional competition.

Additional competition, including price competition, could have a material adverse impact on our net revenues and profitability.

An inability to attract and retain experienced and qualified personnel could adversely affect our business.

The loss of key management personnel or the inability to attract and retain experienced and qualified employees at our clinical laboratories and research centers could adversely affect our business. Our success is dependent in part on the efforts of key members of our management team, including Marc D. Grodman, M.D., our founder, president and chief executive officer. Success in maintaining our leadership position in genomic and other advanced testing technologies will depend in part on our ability to attract and retain skilled research professionals. In addition, the success of our clinical laboratories also depends on employing and retaining qualified and experienced laboratory professionals, including specialists, who perform clinical laboratory testing services. In the future, if competition for the services of these professionals increases, we may not be able to continue to attract and retain individuals in its markets. Our net revenues and earnings could be adversely affected if a significant number of professionals terminate their relationship with us or become unable or unwilling to continue their employment.

Our outstanding debt may impair our financial and operating flexibility.

As of October 31, 2011, we had approximately $24,529 million of debt outstanding. Our debt agreements contain various restrictive covenants. These restrictions could limit our ability to use operating cash flow in other areas of our business because we must use a portion of these funds to make principal and interest payments on our debt.

We or our subsidiaries may incur additional indebtedness in the future. Our ability to make principal and interest payments will depend on our ability to generate cash in the future. If we incur additional debt, a greater portion of our cash flows may be needed to satisfy our debt service obligations and if we do not generate sufficient cash to meet our debt service requirements, we may need to seek additional financing. In that case, it may be more difficult, or we may be unable, to obtain financing on terms that are acceptable to us. As a result, we would be more vulnerable to general adverse economic, industry and capital markets conditions as well as the other risks associated with indebtedness

Possible volatility in our stock price could negatively affect us and our stockholders.

The trading price of our common stock on the NASDAQ Global Market has fluctuated significantly in the past. During the period from November 1, 2008 through October 31, 2011, the trading price of our common stock fluctuated from a high of $25.99 per share to a low of $9.78 per share. In the past, we have experienced a drop in stock price following an announcement of disappointing earnings or earnings guidance. Any such announcement in the future could lead to a similar drop in stock price. The price of our common stock could also be subject to wide fluctuations in the future as a result of a number of other factors, including the following:

changes in expectations as to future financial performance or buy/sell recommendations of securities analysts;

our, or a competitor s, announcement of new products or services, or significant acquisitions, strategic partnerships, joint ventures or capital commitments;

the operating and stock price performance of other comparable companies; and adverse publicity.

In addition, the U.S. securities markets have experienced significant price and volume fluctuations. These fluctuations often have been unrelated to the operating performance of companies in these markets. Broad market and industry factors may lead to volatility in the price of our common stock, regardless of our operating performance. Moreover, our stock has limited trading volume, and this illiquidity may increase the volatility of our stock price.

In the past, following periods of volatility in the market price of an individual company s securities, securities class action litigation often has been instituted against that company. The institution of similar litigation against us could result in substantial costs and a diversion of management s attention and resources, which could negatively affect our business, results of operations or financial condition.

Certain provisions of our charter, by-laws and New Jersey law may delay or prevent a change of control of our company.

Our certificate of incorporation, as amended, requires the approval of 80% of our outstanding shares for any merger or consolidation unless the business combination has been approved or authorized by our board of directors. As a New Jersey corporation with a class of securities registered with the SEC, we are governed by certain provisions of the New Jersey Business Corporation Act that also restrict business combinations with shareholders owning 10% or more of our outstanding shares (or other interested stockholders as the term is defined by the New Jersey Shareholders Protection Act) for a period of five years after such interested shareholder achieves such status unless the business combination is approved by our board of directors prior to the shareholder becoming an interested shareholder. The New Jersey Shareholders Protection Act also

restricts business combinations with an interested shareholder after the five-year period unless the transaction receives the approval of two-thirds of the shares outstanding, exclusive of the shares held by the interested shareholder or the transaction satisfies certain fair price requirements. In addition, with certain limited exceptions, federal regulations prohibit a person or company or a group of persons deemed to be acting in concert from, directly or indirectly, acquiring more than 10% (5% if the acquirer is a bank holding company) of any class of our voting stock or obtaining the ability to control in any manner the election of a majority of our directors or otherwise direct the management or policies of our company without prior notice or application to and the approval of the Federal Reserve.

A failure to obtain and retain new clients and business partners, a loss of existing clients or material contracts, or a reduction in tests ordered or specimens submitted by existing clients, could impact our ability to successfully grow our business.

To offset efforts by payors to reduce the cost and utilization of clinical laboratory services, we need to obtain and retain new clients and business partners. In addition, a reduction in tests ordered or specimens submitted by existing clients, without offsetting growth in our client base, could impact our ability to successfully grow our business and could have a material adverse impact on our net revenues and profitability. We compete primarily on the basis of the quality of testing, reporting and information systems, reputation in the medical community, the pricing of services and ability to employ qualified personnel. Our failure to successfully compete on any of these factors could result in the loss of clients and a reduction in our ability to expand our customer base.

Adverse results in material litigation matters could have a material adverse effect upon our business.

We may become subject in the ordinary course of business to material legal action related to, among other things, intellectual property disputes, professional liability and employee-related matters, as well as inquiries from governmental agencies and Medicare or Medicaid carriers requesting comment on allegations of billing irregularities that are brought to their attention through billing audits or third parties. Legal actions could result in substantial monetary damages as well as damage to our reputation with clients, which could have a material adverse effect upon our business.

Failure in our information technology systems could significantly increase testing turn-around time or billing processes and otherwise disrupt our operations.

Our laboratory operations depend, in part, on the continued performance of our information technology systems. Our information technology systems are potentially vulnerable to physical or electronic break-ins, computer viruses and similar disruptions. In addition, we are in the process of integrating the information technology systems of our recently acquired subsidiaries, and we may experience system failures or interruptions as a result of this process. Sustained system failures or interruption of our systems in one or more of our laboratory operations could disrupt our ability to process laboratory requisitions, perform testing, provide test results in a timely manner and/or bill the appropriate party. Failure of our information technology systems could adversely affect our business, profitability and financial condition.

A significant deterioration in the economy could negatively impact testing volumes, cash collections and the availability of credit.

Our operations are dependent upon ongoing demand for diagnostic testing services by patients, physicians, hospitals and others. A significant downturn in the economy could negatively impact the demand for diagnostic testing as well as the ability of patients and other payors to pay for services ordered. In addition, uncertainty in the credit markets could reduce the availability of credit and impact our ability to meet our financing needs in the future.

Failure to establish, and perform to, appropriate quality standards to assure that the highest level of quality is observed in the performance of our testing services and in the design, manufacture and marketing of our products could adversely affect the results of our operations and adversely impact our reputation.

The provision of clinical testing services, including anatomic pathology services, and related services, and the design, manufacture and marketing of diagnostic products involve certain inherent risks. The services that we provide and the products that we design, manufacture and market are intended to provide information for healthcare providers in providing patient care. Therefore, users of our services and products may have a greater sensitivity to errors than the users of services or products that are intended for other purposes.

Manufacturing or design defects, unanticipated use of our products, or inadequate disclosure of risks relating to the use of the products can lead to injury or other adverse events. These events could lead to recalls or safety alerts relating to our products (either voluntary or required by governmental authorities) and could result, in certain cases, in the removal of a product from the market. Any recall could result in significant costs as well as negative publicity that could reduce demand for our products. Personal injuries relating to the use of our products can also result in product liability claims being brought against us. In some circumstances, such adverse events could also cause delays in new product approvals.

Similarly, negligence in performing our services can lead to injury or other adverse events. We may be sued under physician liability or other liability law for acts or omissions by our pathologists, laboratory personnel and hospital employees who are under the supervision of our hospital-based pathologists. We are subject to the attendant risk of substantial damages awards and risk to our reputation.

The failure of our IT systems to keep pace with technological advances may significantly reduce our revenues or increase our expenses.

Public and private initiatives to create healthcare information technology (HCIT) standards and to mandate standardized clinical coding systems for the electronic exchange of clinical information, including test orders and test results, could require costly modifications to our existing HCIT systems. While we do not expect HCIT standards to be adopted or implemented without adequate time to comply, if we fail to adopt or delay in implementing HCIT standards, we could lose customers and business opportunities.

Item 1B. Unresolved Staff Comments

None.

Item 2. - Properties

We operate through a regional network of laboratories. The table below summarizes certain information as to our principal facilities as of October 31, 2011.

Location	Purpose	Type of Occupancy
Clarksburg, MD	Pathology Laboratory	Leased
Elmwood Park, NJ	Main Laboratory	Leased
Elmwood Park, NJ	Corporate Headquarters	Leased
Gaithersburg, MD	Genetics Laboratory	Leased
Houston, TX	Pathology Laboratory	Leased
Milford, MA	Oncology Laboratory	Leased
Poughkeepsie, NY	Pathology Laboratory	Leased

We believe that each of these facilities as presently equipped has the production capacity for its currently foreseeable level of operations. We also lease additional space for patient service centers throughout the New York metropolitan area to collect specimens from physician-referred patients for testing at our processing facilities.

Item 3. - Legal Proceedings

At October 31, 2011 and at the date of this Report, we were not involved in any material legal proceedings.

Item 4. Removed and Reserved

PART II

Item 5. - Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our Common Stock is listed for trading on The NASDAQ Global Market System under the symbol BRLI.

The following table sets forth the range of high and low closing prices on the NASDAQ Stock Market for our Common Stock for the periods indicated.

Fiscal Year	**Prices**	
2011	**High**	**Low**
First Quarter (11/1/2010-1/31/2011)	24.02	20.53
Second Quarter (2/1/2011-4/30/2011)	25.21	20.82
Third Quarter (5/1/2011-7/31/2011)	25.24	19.65
Fourth Quarter (8/1/2011-10/31/2011)	20.77	16.97
2010	**High**	**Low**
First Quarter (11/1/2009-1/31/2010)	20.20	15.77
Second Quarter (2/1/2010-4/30/2010)	24.63	18.81
Third Quarter (5/1/2010-7/31/2010)	24.26	20.69
Fourth Quarter (8/1/2010-10/31/2010)	22.79	18.51

On January 4, 2012 the last sale price for the Common Stock on NASDAQ was $16.27 per share.

Stockholders

At January 4, 2012, the number of record owners of the Common Stock was 275. Such number of record owners was determined from our shareholder records and does not include beneficial owners whose shares are held in nominee accounts with brokers, dealers, banks and clearing agencies.

Dividends

We have not paid any dividends on our Common Stock since our inception and, do not contemplate or anticipate paying any dividends in the foreseeable future. Furthermore, our loan agreement with PNC Bank prohibits us from paying any cash dividends or making any cash

distributions with respect to shares of our Common Stock.

Recent Sales of Unregistered Securities

On September 26, 2006 we issued 461,894 shares of our Common Stock in connection with the acquisition of the operating assets of GeneDx. These shares were valued for the purpose of this acquisition at $10.825 per share, the average closing price for the Common Stock on NASDAQ on the ten trading days immediately preceding the August 29, 2006 signing of the purchase agreement. In each of December 2010, December 2009, December 2008 and December 2007, an additional 23,096 shares of our Common Stock were issued to the prior owners of GeneDx, as a result of GeneDx achieving certain operating results during the four annual measuring periods following the closing of the acquisition. A restrictive legend was placed on the certificates for the 461,894 shares and each of the share installments and stop transfer instructions were issued against the shares. The sellers represented that they were acquiring the stock for investment and not with a view to distribution. The shares were issued in reliance upon the exemption from the registration requirements of the Securities Act of 1933 in accordance with Section 4(2) of the Securities Act of 1933 on the basis that the transaction did not involve a public offering.

Issuer Purchases of Equity Securities

On November 11, 2011 (effective October 31, 2011) the Board of Directors authorized a repurchase of up to 1,000,000 shares of the Company s Common Stock over the period ending October 31, 2012. As of January 9, 2012, 105,450 shares had been repurchased under this authorization.

Performance Graph

We have presented below the cumulative total return to our stockholders during the period from November 1, 2006, through October 31, 2011 in comparison to the cumulative return on the S&P 500 Index and a customized peer group of nine companies during that same period. Our peer group consisted of nine companies which are: Bioclinica, Inc., Genoptix, Inc. (included through October 31, 2010 as it was acquired by Novartis AG on March 8, 2011), Laboratory Corporation of America Holdings, MEDTOX Scientific, Inc., NeoGenomics, Inc., Orchid Cellmark Inc., Psychemedics Corporation, Quest Diagnostics Incorporated and Response Genetics, Inc. The results assume that $100 (with reinvestment of all dividends) was invested in our common stock, in the peer group, and in the index on October 31, 2006 and its relative performance tracked through October 31, 2011. The comparisons are based on historical data and are not indicative of, nor intended to forecast, the future performance of our common stock. The performance graph set forth below shall not be deemed incorporated by reference into any filing by us under the Securities Act of 1933 or the Securities Exchange Act of 1934 except to the extent that we specifically incorporate such information by reference, and shall not otherwise be deemed filed under such Acts.

Item 6. - Selected Financial Data

The following is a summary of our historical consolidated financial data for the periods ended and at the dates indicated below. You are encouraged to read this information together with our audited consolidated financial statements and the related footnotes and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Annual Report.

The historical consolidated financial data for the years ended October 31, 2011, 2010, and 2009 and as of October 31, 2011 and 2010 has been derived from our audited consolidated financial statements, which are included elsewhere in this Annual Report. The historical consolidated financial data for the years ended October 31, 2008 and 2007 and as of October 31, 2009, 2008, and 2007 has been derived from our audited consolidated financial statements, which are not included in this Annual Report.

We believe that the comparability of our financial results between the periods presented in the table below is significantly impacted factors which are more fully described in Management s Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and the notes thereto included elsewhere in this Annual Report.

	Fiscal Years Ended October 31,				
	2011	2010	2009	2008	2007
	[In Thousands Except Per Share Data]				
Operating Data:					
Net Revenues	$ 558,642	$ 458,024	$ 362,654	$ 301,071	$ 250,431
Cost of Services	287,853	232,252	183,524	153,831	124,029
Gross Profit	270,789	225,772	179,130	147,240	126,402
General and Administrative Expenses	211,015	177,394	140,808	118,683	101,345
Income From Operations	59,774	48,378	38,322	28,557	25,057
Other Expenses [Income] - Net	(5,072)	1,415	(267)	1,866	2,150
Provision for Income Tax Expense	28,487	20,582	16,739	11,074	8,950
Net Income	$ 36,359	$ 26,381	$ 21,850	$ 15,617	$ 13,957
Net Income Per Share - Basic	$ 1.30	$ 0.95	$ 0.79	$ 0.57	$ 0.51
Net Income Per Share - Diluted	$ 1.29	$ 0.94	$ 0.78	$ 0.56	$ 0.51
Other Data:					
Net Cash - Operating Activities	$ 30,946	$ 14,305	$ 24,366	$ 18,876	$ 5,897
Net Cash - Investing Activities	(15,542)	$ (18,411)	$ (10,807)	$ (9,901)	$ (7,774)
Net Cash - Financing Activities	(11,170)	$ (5,790)	$ (9,260)	$ (8,176)	$ 4,820

	As of October 31,				
	2011	2010	2009	2008	2007
Balance Sheet Data:					
Total Assets	$ 283,259	$ 244,131	$ 197,390	$ 171,311	$ 154,574
Total Long-Term Liabilities	$ 10,978	$ 8,405	$ 8,378	$ 8,781	$ 9,557
Total Liabilities	$ 93,492	$ 91,743	$ 72,867	$ 69,771	$ 69,307
Working Capital	$ 124,266	$ 89,459	$ 75,984	$ 58,561	$ 48,747
Shareholder s Equity	$ 189,767	$ 152,388	$ 124,523	$ 101,540	$ 85,267

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

You are encouraged to read the following discussion and analysis of our financial condition and results of operations together with our audited consolidated financial statements and related footnotes included at the end of this Annual Report. This discussion and analysis contains forward-looking statements that involve risks and uncertainties. See Risk Factors included elsewhere in this Annual Report for a discussion of some of the important factors that could cause actual results to differ materially from those described or implied by the forward-looking statements contained in the following discussion and analysis. See Special Note Regarding Forward-Looking Statements included elsewhere in this Annual Report.

All amounts are presented in thousands, except share and per share amounts and per patient data.

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 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 Bio-Reference Laboratories are the only remaining publicly traded full service commercial laboratories, there are numerous hospital outreach programs and smaller reference laboratories that compete for the commercial clinical laboratory business scattered throughout the country. Clinical laboratories have had to improve efficiency, leverage economies of scale, comply with government regulations and other laws and develop more profitable approaches to pricing. Moreover, there has been a proliferation of technology advancements in clinical diagnostics over the last decade that has created significant opportunities for new testing and growth.

As a full service clinical laboratory, we are constantly looking for new technologies and new methodologies that will help us to grow. Since the turn of the century, our size alone has made us attractive to companies that are driving the advances in technology. We represent a significant opportunity for these companies to market their products with a nationally recognized specialty provider in our focused areas of specialty or in one of the major population centers of the world the New York Metropolitan area. We have had several successful strategic relationships with such technology opportunities. In addition to new technology opportunities, we have an extremely seasoned and talented management staff that has been able to identify emerging laboratory markets that are under-served or under-utilized. We have recently developed programs for cardiology, histology and women s health to go along with our existing hemostasis, hematopathology and correctional healthcare initiatives 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.

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 13 genetic counselors and 129 geneticists to help patients and referring physicians and geneticists understand the meaning of the test results.

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

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

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.

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

Results of Operations

Fiscal Year 2011 Compared to Fiscal Year 2010

NET REVENUES:

Net revenues for the year ended October 31, 2011 were $558,642 as compared to $458,024 for the year ended October 31, 2010; this represents a 22% increase in net revenues. This increase is due to a 20% increase in patients serviced and a 2% increase in net revenue per patient. Our laboratory operations had net revenues of $454,308 in fiscal 2010 and $554,281 in fiscal 2011.

The number of patients serviced during the year ended October 31, 2011 was 6,739, which was 20% greater when compared to the prior fiscal year. Net revenue per patient for the year ended October 31, 2011 was $82.25 compared to net revenue per patient for the year ended October 31, 2010 of $81.03, an increase of $1.22 or 2% as a result of increases in esoteric testing.

During the fiscal year ended October 31, 2011, we increased our sales force by approximately 19% in the specialty testing services that we market nationally. This increase occurred in two phases: one in January 2011 and one in July of the same year. We believe that this increase in sales personnel accounted for a majority of the 20% 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, should enable us to sustain continued strong growth in the near term. 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.

COST OF SERVICES:

Cost of Services for the year ended October 31, 2011 was $287,853 as compared to $232, 252 for the year ended October 31, 2010, an increase of 24% as compared to a 22% increase in net revenues. The Company s reagents and laboratory supplies expense increased by 29% due to the higher cost of specialty testing reagents. Our vehicle operating expenses also increased by 25% due to the higher cost of fuel. Our medical equipment repair costs increased by 44% year over year due to higher equipment utilization rate. We expect these trends to continue.

GROSS PROFIT:

Gross profit on net revenues increased to $270,789 for the year ended October 31, 2011 from $225,772 for the year ended October 31, 2010; an increase of $45,017 (20%), primarily attributable to the increase in net revenues. Gross profit margins decreased to 48% for fiscal 2011 from fiscal 2010 rate of 49%.

GENERAL AND ADMINISTRATIVE EXPENSES:

General and administrative expenses for the year ended October 31, 2011 were $211,015 as compared to $177,394 for the year ended October 31, 2010, an increase of $33,621 or 19%. This is basically in line with the increase in net revenues. Marketing expenses increased by 25% 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 $1,566 during the year ended October 31, 2010 to $1,747 during the year ended October 31, 2011; an increase of $181 or 12%. 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 $36,359 for the twelve month period ended October 31, 2011 as compared to $26,381 for the twelve month period ended October 31, 2010, an increase of 38%.

Pre-tax income for the period ended October 31, 2011 was $64,846, as compared to $46,963 for the period ended October 31, 2010, an increase of $17,883 (38%) and was caused primarily by an increase in net revenues. The provision for income taxes increased from $20,582 for the period ended October 31, 2010, to $28,487 (38%) for the current twelve month period.

Our diluted net income per share went from $0.94 in fiscal 2010 to $1.29 in fiscal 2011, or $1.16 on a pro-forma basis (without taking into account the following non-recurring items: the New Jersey sales tax refund, the loss on sale of corporate aircraft and the New York excess laboratory fee refund)

Fiscal Year 2010 Compared to Fiscal Year 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:

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.

Our diluted net income per share went from $0.78 in fiscal 2009, or $0.75 on a pro-forma basis (without taking into account the following non-recurring item: the restitution agreement) to $0.94 in fiscal 2010.

Liquidity and Capital Resources

Our working capital at October 31, 2011 was approximately $124,266 as compared to approximately $89,459 at October 31, 2010, an increase of $34,807 (39%). Our cash position increased by approximately $4,234 during the current period. We decreased our short term borrowing by approximately $7,522 and borrowed approximately $1,361 in long term debt. We had current liabilities of approximately $82,514 at October 31, 2011. We generated approximately $30,946 in cash from operations, an increase of approximately $17,541 as compared to the year ended October 31, 2010.

Accounts receivable, net of allowance for doubtful accounts, totaled approximately $148,060 at October 31, 2011, an increase of approximately $18,938 from October 31, 2010, or 15%. This increase was primarily attributable to increased revenue. Cash collected over the twelve month period ended October 31, 2011 increased 25% over the prior twelve month period.

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

	October, 31		
	2011	**2010**	**2009**
Gross Revenues	$ 2,482,349	$ 1,902,573	$ 1,423,287