BIO REFERENCE LABORATORIES INC
Form 10-K
January 14, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended October 31, 2004

Commission file number 0-15266

BIO-REFERENCE LABORATORIES, INC.

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

201-791-2600

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

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

Securities registered pursuant to Section 12(g) of the Act: **Common Stock, $.01 par value**

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 ý No o.

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 an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ý No o

As of the last day of the quarter ended April 30, 2004, the aggregate market value of the voting stock of Bio-Reference Laboratories, Inc. (consisting of Common Stock, $.01 par value and Series A Preferred Stock, $.10 par value) held by non-affiliates of the registrant was approximately $114,400,000 based upon the last sale price for the Common Stock on said date as reported on the NASDAQ National Market System. On January 7, 2005, there were 12,668,439 shares of Common Stock and no shares of Series A Preferred Stock issued and outstanding

PART I

Item. 1.Business

Overview

We believe that we are the largest independent regional clinical laboratory servicing the greater New York metropolitan area. We offer a comprehensive list of laboratory testing services utilized by healthcare providers in the detection, diagnosis, evaluation, monitoring and treatment of diseases.

We currently process over 2.5 million requisitions each year. A requisition form accompanies a patient specimen. It indicates the tests to be performed and the party to be invoiced for the tests. Our clients include doctors, employers, clinics and governmental units. We have a network of over 50 patient service centers for collection of patient specimens.

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 which 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. This wholly owned subsidiary is operated in conjunction with Roche Diagnostics (Roche). We use this portal ourselves to provide laboratory ordering and results to our physician customers. Together with Roche, we are marketing this connectivity solution to other laboratories throughout the country.

We are a New Jersey corporation. We may at times refer to ourselves and our subsidiaries as the Company. 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, telephone number: 201-791-2600.

The Clinical Laboratory Testing Market in the United States

We believe that the U.S. market for clinical laboratory testing generates approximately $40 billion in annual revenue. 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 54% of the clinical laboratory tests done in the United States were performed in a hospital laboratory, approximately 32% performed by an independent clinical laboratory and the balance in a physician office or other laboratory.

During the last few years, the fundamentals of the industry have been improving. In the cost containment era of the 1990s, the industry was negatively impacted by the rapid growth of managed care, stringent government regulation and investigations into fraud and abuse. These factors led to revenue and profit declines and industry consolidations, especially among commercial clinical laboratories. As a result, fewer but larger 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. These changes resulted in improved profitability. In addition, new and emerging technologies continue to provide greater testing opportunities for clinical laboratories.

We believe the industry will continue to experience growth in testing volume due to the following:

Aging of the population of the United States;

Awareness by patients of the value of laboratory tests;

Decrease in the cost of tests;

Decrease in the influence of managed care organizations on the ordering patterns of their physicians.

Development of sophisticated and specialized tests for early detection of disease and disease management;

Diagnosis and monitoring of infectious diseases such as AIDS and Hepatitis C;

Early detection and prevention as a means of reducing healthcare costs;

Employer sponsored wellness programs;

Research and development in genomics.

Business Strategy

We are a regional clinical laboratory with subspecialty testing capabilities. As a regional laboratory, we service the New York metropolitan area, and currently conduct business in most New York State counties, as well as in most of New Jersey and some parts of Pennsylvania 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. We have also developed expertise in certain testing areas with specific emphasis in cancer pathology and diagnostics as well as molecular diagnostics. These services are marketed as a business unit, called GenPath, which services customers outside of routine physician office testing. We have developed certain specialized markets, such as in the areas of correctional health, substance abuse testing, fertility testing and molecular diagnostics. Testing in these areas also may be supported outside of physician offices.

We have one of the largest regional marketing staffs of any laboratory in the country, some of whom are trained specifically in Oncology and call on Oncology practices and hospitals.

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. 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 information analytics that will help to improve the quality and efficiency of healthcare. We seek to continue our strong growth not only through our marketing organization, new technologies and superior service, but 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 the providing of medical information:

Provide the highest quality service:

Pursue strategic growth opportunities.

Services

The clinical laboratory testing business consists of routine testing and esoteric testing. Routine testing generates approximately 65% and esoteric testing generates approximately 35% of our net revenues. The net revenue generated by our PSIMedica business unit and our CareEvolve subsidiary has been minimal to date.

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 tests:

Blood Cell Counts;

Cholesterol levels;

HIV-related tests;

Pap Smears;

Pregnancy;

Substance Abuse

Urinalysis;

We perform these tests at our two processing facilities (Elmwood Park, New Jersey and Valley Cottage, New York).

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, professional attention and are ordered less frequently than routine tests. These tests are generally priced higher than routine tests. Esoteric tests are usually in these 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)

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)

Medical Information

Our PSIMedica business unit is based on a Clinical Knowledge Management (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 so that analysis can be comprehensive and meaningful. The data is maintained on multiple levels of analysis 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 allows on-line real-time ad hoc query capability enabling the user to customize analysis to the best needs of the organization using the system. In addition to the basic queries provided by the system, PSIMedica Quality Indicators (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 customer with standards and outcome predictors based 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 most benefit from the ability of the system to combine both clinical and administrative analysis.

Other Products

CareEvolve, our wholly owned subsidiary, is a physician-based connectivity portal. This system provides a complex, sophisticated system for ordering laboratory services and delivering laboratory results. 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 and personal 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. We executed a Strategic Marketing Agreement (the SMA) in December 2001 with Roche Diagnostics (Roche) to operate a Joint Venture for the sale and distribution of the CareEvolve Services to laboratories throughout the country. Under the terms of the SMA, Roche provided funding to pay certain of the costs and expenses of operating CareEvolve and agreed to cause its sales personnel to exercise reasonable efforts to market and sell the CareEvolve Services. In return, Roche was entitled to a 50% share in any net after-tax

income generated by CareEvolve, and was granted an option to purchase up to a 50% equity interest in CareEvolve and certain other rights. In December 2004, we executed an Addendum to the SMA with Roche. Pursuant to the Addendum, Roche s rights to share in CareEvolve s net after-tax income and to purchase up to a 50% equity interest in CareEvolve were canceled. Roche did retain a right of first refusal to purchase CareEvolve in the event we were willing to accept such a purchase offer from a third party. Although we retain the rights to market the CareEvolve Services in all markets including the laboratory market, Roche is the sole Diagnostic Company (manufacturer of diagnostic equipment and supplies) granted the right to market the CareEvolve Services to laboratories. As a result of the execution of the Addendum, we took a one-time charge to fiscal 2004 earnings of approximately $400,000 to reflect the revised change in terms of our relationship with Roche. The charge is associated with one-time technology development expenses which had been assessed to CareEvolve and are now our responsibility. CareEvolve s monthly revenues now exceed its expenses.

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. We may consider an organization that has a contract with us, such as a clinic or governmental agency, both a payor and a client. Some states, such as New York and New Jersey, prohibit us from billing physician clients. During fiscal year 2004, no single client accounted for more than 10% of our net revenues.

The following table reflects the current estimates of the breakdown of net revenue by payor for the twelve months ended October 31, 2002, 2003, and 2004.

	Years Ended October 31,		
	2002	**2003**	**2004**
Direct Patient Billing	9%	7%	7%
Commercial Insurance	37%	43%	48%
Professional Billing	26%	20%	17%
Medicare	25%	27%	25%
Medicaid	3%	3%	3%
	100%	100%	100%

Clients

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 on fees imposed by third-party payors. Medicare and Medicaid reimbursements are based on fee schedules set by governmental authorities.

Employers, Governmental Agencies

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

Sales and Marketing

We employ full and part-time sales and marketing representatives. 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 unique in the industry and is extremely helpful in client retention, since it provides a strong connection between the physician and our staff.

Client Service Coordinators

We utilize the services of full and part-time client service coordinators at our Elmwood Park facility, all of whom are trained in medical and laboratory terminology. This staff is used as an interface with physicians and nurses and augments 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 provide speedy medical resolution to any patient problem.

Logistical Support

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

Strategic Growth Opportunities

In addition to increasing our core business through internal growth and pursuing our strategy of seeking opportunities with bulk purchasers of laboratory services through our PSIMedica business unit, we intend to target growth opportunities both inside and outside of our core laboratory business.

Selective Acquisitions: The clinical laboratory industry is still highly fragmented. Historically, acquisition has been one method that has fueled our growth. In February 2004, we acquired certain assets of a Long Island City, New York testing laboratory for $495,000 plus certain additional payments and transferred the operations to our Elmwood Park, New Jersey facility. In July 2004, we acquired certain assets of a cancer cytogenetics testing laboratory in Milford, Massachusetts for a purchase price of $2,485,000 plus certain additional payments. We retained the supervisory staff at this laboratory and continue to operate the laboratory at its leased premises in Milford, Massachusetts. We intend to continue to look for acquisitions that can be integrated into our existing processing facilities without maintaining duplicate facilities or which will provide us with entry into new product or geographic areas. This strategy, if successfully implemented, will enable us to reduce costs and gain economies of scale from the elimination of redundant facilities and equipment and the reduction of personnel.

Specialty Testing: We also intend to continue to increase our penetration into the specialty testing market, especially genomics. The current annual value of gene-based testing in the United States is approximately one billion dollars. We believe that we have positioned ourselves to take advantage of this market.

Medical Information: Our medical information unit, PSIMedica, seeks to combine laboratory data with these other data elements so as to improve the quality and efficiency of healthcare.

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 the result of issues that are not credit-related as is the case in most industries. It is due in most part to missing or incorrect billing information on our requisitions; this occurs because we depend on the healthcare provider to supply us with the information. We perform the tests and report the test results as requested on the requisition regardless of whether the demographic information is correct or even missing altogether. We then attempt to obtain any missing information and correct the billing information received from the healthcare provider. 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. 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.

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 Quest Diagnostics and Laboratory Corporation of America. Although we are much smaller than these national laboratories, we believe that we compete successfully with them in our region because of the following factors:

- Fewer layers of staff
- A more responsive business atmosphere
- Customized service

We believe our responses to medical consultation are faster and more personalized than those of the national laboratories. Our client service staff only deals with basic technical questions and those that have medical or scientific significance are referred directly to other senior scientists and medical staff.

Quality Assurance

Medical testing is essentially a process of communication and data transfer. In order to provide accurate and precise information to the physician, it is essential that we maintain a well structured and vigorous quality assurance program. Our goal is to continually improve this process. We hold the required Federal and State licenses necessary to permit our operation of a clinical laboratory at our facilities in New Jersey, New York and Massachussetts. We submit to vigorous proficiency tests (or surveys) in all tests that we perform. We are also subject to unannounced inspections from the various state licensing agencies.

Our laboratories are accredited by the College of American Pathologists (CAP). This accreditation includes on-site inspections and participation in the CAP proficiency testing program or an equivalent. 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 (CLIA-88)

Our Quality Assurance Committee, headed by a Quality Assurance Coordinator and composed of supervisors from all departments, meets daily to assess and evaluate the laboratory s quality. Based on the information received from the Committee, recommendations are made to correct conditions which have led to errors. Management, department supervisors and members of the Committee continually monitor the laboratory s quality. Depending on the test, two or three levels of Quality Control materials are run in each analytical assay to assure precision and accuracy. Patient population statistics are evaluated each day. Highly abnormal samples are repeated to assure their accuracy.

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

Regulation of Clinical Laboratory Operations

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.

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. CMWMA mandates the sterilization of certain medical waste and a tracking system to insure disposal at an approved facility. 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.

Regulation of Reimbursement for Laboratory Services

Containment of health-care costs, including reimbursement for clinical laboratory services, has been a focus of ongoing governmental activity. Omnibus budget reconciliation legislation, designed to reconcile existing laws with reductions and reimbursements required by enactment of a Congressional budget can adversely affect clinical laboratories by reducing Medicare reimbursement for laboratory services. 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.

The current administration, Congress and various Federal agencies have examined the rapid growth of Federal expenditures for clinical laboratory services, and the use by the major clinical laboratories of dual fee schedules (client fees charged to physicians, hospitals, institutions and companies with whom a laboratory deals on a bulk basis and which involve relatively low administrative costs, and patient 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). The permitted Medicare reimbursement rate for clinical laboratory services has been reduced by the Federal government in a number of instances over the past several years to a present level equal to 74% of the national median of laboratory charges. Next year marks the second year of a five-year freeze (through 2008) on Laboratory fee updates, as required by the Medicare Modernization Act of 2003. 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. In addition, the structure and nature of Medicare reimbursement for laboratory services is also under discussion and 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 and Medicaid, which could have a material adverse effect on us.

See Cautionary Statements Potential Healthcare Reform Including Decreasing Reimbursement Rates as to the potential negative effect on our business of the decrease in Medicare reimbursement rates for Flow Cytometry testing which went into effect on January 1, 2005.

CLIA-88

CLIA-88 extended 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. The legislation also substantially increased regulation of cytology screening, most notably by requiring the Secretary of Health and Human Services, (HHS,) to implement regulations placing a limit on the number of slides that a cytotechnologist may review in a twenty-four hour period. CLIA-88 also established a more stringent proficiency testing program for laboratories and increased the range and severity of sanctions for violating Federal licensing requirements. A number of these provisions, including those that imposed stricter cytology standards and increased proficiency testing, have been implemented by regulations applicable only to laboratories subject to Medicare certification. On February 28, 1992, HHS published three sets of regulations implementing CLIA-88, including quality standard regulations establishing Federal quality standards for all clinical laboratories; application and user fee regulations applicable to most laboratories in the United States which became effective on March 30 1993; and enforcement procedure regulations applicable to

laboratories that are found not to meet CLIA-88 requirements. 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 seventy eight routine waived tests may apply for a waiver from most requirements of CLIA-88. 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. Our testing is often much more complex and as a result, we are subject to full compliance with CLIA-88. The quality standard and enforcement procedure regulations became effective on September 1, 1992, most personnel, quality control and proficiency testing requirements have been implemented; the remainder will be phased in over a number of years. Our laboratory completed its first CLIA inspection under CLIA-88 guidelines and received its certificate of compliance effective February 7, 1996.

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 voluntary compliance program adhering to the standards set forth in the Model Compliance Program.

Confidentiality of Health Information

Pursuant to the Health Insurance Portability and Accountability Act of 1996 (HIPAA), on December 28, 2000, the Secretary of HHS issued final regulations that would establish comprehensive federal standards with respect to the use and disclosure of protected health information by a health plan, healthcare provider or healthcare data clearinghouse. The regulations establish a regulatory framework on various subject matter, including:

The circumstances under which disclosures and uses of protected health information require the patient s consent, authorization or no patient consent or authorization.

The content of notices of privacy practices for protected health data.

Patients rights to access, amend and receive an accounting of the disclosures and uses of protected health information.

Administrative, technical and physical safeguards required for that use or for disclosure of protected health data.

These regulations establish a minimum and would default to more stringent state laws. Therefore, we are required to comply with both sets of standards. Laboratories were required to submit a compliance plan to HHS by October 16, 2003. We filed our application for a one year extension for compliance with the Transaction Data Set Regulations and filed our compliance plan during the extension period in accordance with the model form provided by HHS. HIPAA provides for significant fines as well as substantial criminal penalties for violations of the Act.

Fraud and Abuse Regulations

Medicare and Medicaid anti-kickback laws prohibit clinical laboratories from making payments or furnishing other benefits to influence the referral of tests billed to federal programs. Federal enforcement agencies (including both the Federal Bureau of Investigation and the Office of the Inspector General) liberally interpret and aggressively enforce statutory fraud and abuse provisions of these anti-kickback statutes. According to public statements made by the Department of Justice, healthcare fraud has become one of its highest priorities. Many of the anti-fraud statutes are vague or indefinite and have not been interpreted in the courts. 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.

Insurance

We maintain professional liability insurance of $1,000,000 per occurrence, $3,000,000 in the aggregate. In addition, we maintain excess commercial insurance of $5,000,000 per occurrence and $5,000,000 in the aggregate. 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 costs.

Employees

At October 31, 2004, we had 819 full-time and 337 part-time employees serving in executive positions, as technicians and technologists (including physicians, pathologists and PhDs), in marketing and as drivers 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.

Special Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical fact included in this Report, including without limitation, statements regarding our financial position, business strategy, products, products under development, markets, budgets and plans and objectives of management for future operations, are forward-looking statements. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to have been correct. Important factors that could cause actual results to differ materially from our expectations are disclosed in statements set forth under Cautionary Statements herein and elsewhere in this Report, including, without limitation, in conjunction with the forward-looking statements included in this Report. All subsequent written and oral forward-looking statements attributable to us, or persons on our behalf, are expressly qualified in their entirety by the Cautionary Statements and such other statements.

Cautionary Statements

In addition to the other information in this Annual Report on Form 10-K, the following factors should be considered carefully in evaluating us. See also Special Note Regarding Forward-Looking Statements.

Risks Associated with Growth:

Over the last several years, we have experienced substantial growth and have expanded our operational capabilities. In February 2004, we acquired certain assets of a Long Island City, New York testing laboratory for $495,000 plus certain additional payments and transferred the operations to our Elmwood Park, New Jersey facility. In July 2004, we acquired certain assets of a cancer cytogenetics testing laboratory in Milford, Massachusetts for a purchase price of $2,485,000 plus certain additional payments. We retained the supervisory staff at this laboratory

and continue to operate the laboratory at its leased premises in Milford, Massachusetts. We intend to develop further and expand both our core laboratory business and other products. This growth and expansion has placed, and will continue to place, a significant strain on our resources. We cannot assure that we will be able to successfully manage a continuation of the rate of growth similar to that which we have experienced in the past, should it occur.

Fluctuations in Operating Results:

Our quarterly and annual operating results can be affected by a wide variety of factors, many of which are outside of our control and which have in the past and could in the future materially and adversely affect our operating results. These factors include the quantities and timing of specimens received, pricing pressures, reimbursement changes, availability and cost of diagnostic supplies,

cost of logistic and delivery systems, changes in product mix, retention and expansion of our marketing staff, timing of payments from governmental agencies and third-party payors and the effect of adverse weather conditions. We rely principally upon our internal logistic group for pick-up and delivery of specimens. However, as we shift our product mix we have begun to rely on Federal Express, UPS and other such providers for this service. Any disruption in this service, as occurred on September 11, 2001 when the National Airspace System (NAS) was shut down for a week, could have a material adverse effect on our operating results. As a result of these factors, our operating results may continue to fluctuate in the future.

Uncertainties Related to Government Regulation and Enforcement

We are a provider of healthcare services. As such, we are subject to extensive and rapidly changing federal, state and local laws and regulations governing licensure, billing practices, financial relationships, referrals, conduct of operations, purchase of existing businesses and other aspects of our business. We cannot predict the timing or impact of any changes in these laws and regulations or their interpretations by regulatory bodies, and we cannot assure that these changes will not have a material adverse effect on us.

Current federal laws governing federal healthcare programs, as well as some state laws, regulate certain aspects of the relationship between healthcare providers, including us, and their referral sources. The Federal Anti-Kickback Law and the Stark Law generally prohibit providers and others from soliciting, offering, receiving or paying, directly or indirectly, any monies in return for either making a referral for a service or item or purchasing, ordering or leasing a service or item, and prohibits physicians from making such referrals to entities in which they have an investment interest or with which they have a compensation arrangement. Exceptions to these laws are limited. Violations are punishable by disallowance of claims, civil monetary or criminal penalties and or exclusion from Medicare. Government authorities (both federal and state) have become more aggressive in examining laboratory billing practices, and in seeking repayments and even penalties based on how the services were billed, regardless of whether the carriers had furnished clear guidance.

In addition, our laboratory operations are required to be licensed or certified under CLIA-88, CMS and various State and local laws. We are also subject to federal and state laws relating to the handling and disposal of medical waste and radioactive materials, as well as the safety and health of laboratory employees. Although we seek to structure our practices to comply with these laws and regulations, no assurances can be given regarding compliance in any given situation. The possible sanctions for failure to comply with these laws and regulations may include the denial to conduct business, significant fines and criminal penalties. Any significant fine or criminal penalty could have a material adverse effect on our financial condition. Any exclusion or suspension from participation in a CMS program, any loss of licensure or accreditation or the inability to obtain the required license would have a material adverse effect on our business.

Uncertainties Related to Third-Party Payors

We typically bill third party payors such as Medicare, Medicaid, Governmental programs and private insurers for our services. Such third party payors are constantly negotiating prices with the goal of lowering their costs, which may result in lower profit margins for us. Reimbursement rates have been established for most, but not every service. We cannot collect from third party payors for services that these payors have not approved for reimbursement. As is common with all laboratories, there is a certain amount of variability with respect to reimbursement among third party payors. Furthermore, third party payors have, on occasion ceased reimbursements when certain tests are ordered for patients with certain diagnoses while maintaining reimbursement when those tests are ordered for other diagnoses deemed appropriate by the carrier. In addition, Medicare or Medicaid may retroactively audit its payments to us and may determine that certain payments must be returned.

Potential Healthcare Reform Including Decreasing Reimbursement Rates

The public and the federal government continue to focus attention on reforming the healthcare system in the United States. Several legislative proposals have been introduced in Congress and state legislatures in recent years that would effect major reforms of the healthcare systems. In addition, CMS has made a number of proposals regarding the payment and coverage of laboratory services including the development of national coverage policies. Because of the uncertainties in regard to the nature, timing and extent of any such reimbursement changes, audits and reform initiatives, we are unable to predict the effect of these changes on us.

Effective January 1, 2005, there were changes made to Medicare reimbursements for some of the pathology or esoteric, billing codes. Although some of the changes represented increases in reimbursement, some represented decreases, particularly in the area of Flow Cytometry, a critical test utilized in the diagnosis and monitoring of lymphoma and leukemias. While Flow Cytometry has been a high growth area for us, so are other areas which, in fact, saw an increase in reimbursement rates under the new schedule. It is difficult to see what the net effect of these changes will be in fiscal 2005. If we only take into account the decreases in Flow Cytometry reimbursement rates, we estimate that if these changes to reimbursement rates solely in the Flow Cytometry area had been in effect for all of fiscal 2004, the effect would have been a reduction in net revenues of less than 2% and a reduction in pre-tax income of somewhat less than 20%. It should be recognized that this type of proforma retrospective analysis, keeping all other variables constant except for the decrease in Flow Cytometry reimbursement rates, may not be realistic. In any event, we are working with other members of the laboratory industry in attempting to mitigate these reductions as we believe Medicare in calculating the revised reimbursement rates for Flow Cytometry, significantly underestimated the laboratory costs in performing these tests. No assurances can be given that we will be successful in obtaining an increase in these particular reimbursement rates.

Insurance

Although we believe that our present insurance coverage is sufficient to cover currently estimated exposures, 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.

Uncertainties Related to Accounts Receivable

All of our services are rendered on a list fee for services. We therefore assume the financial risk related to collection of these receivables such as:

- Delays attendant to reimbursement by third party payors
- Difficulties in gathering complete and accurate billing information
- Inability to collect accounts
- Long collection cycles

There have been times when our accounts receivable have increased at a greater rate than revenue growth and, therefore, has adversely affected our cash 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.

Competition

We operate in a business which 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 which possess greater name recognition, larger customer bases and significantly greater financial resources and employ substantially more personnel than we do. Many of our competitors have long established relationships. We cannot give assurances that we will be able to compete successfully with such entities in the future. Our ability to attract and retain sales representatives and management may also affect our ability to compete in this marketplace.

Dependence on Bank Financing

In October 2004, we entered into an Amended and Restated Loan and Security Agreement (the Loan Agreement) with PNC Bank, National Association (PNC Bank) as Lender. Pursuant to the Loan Agreement, our credit facility from PNC Bank was extended to October 31, 2007 and the maximum permitted amount of our credit line (not to exceed 50% of our eligible receivables as defined in the Loan Agreement) was increased from $25,000 to $30,000. The Loan Agreement also provides us with an Acquisition Subline under the maximum $30,000 credit facility of up to $10,000 which can be repaid in 36 equal monthly installments thereafter. Interest on advances under this credit facility are subject to PNC Bank s prime rate or the Eurodollar rate of interest plus, in certain instances, an additional interest percentage.

Dependence on our Chief Executive Officer

Our success is substantially dependent on the efforts and abilities of Marc D. Grodman, M.D., our founder, president and chief executive officerThe unavailability of Dr. Grodman, whether as a result of his death, disability or otherwise, could have a material adverse effect upon our business.

Possible Volatility of Stock Price

There is a history of volatility in the market price for shares of companies in the healthcare marketplace. Factors such as fluctuations in our quarterly revenues and operating results, announcements of new innovations or services by us or our competitors, changes in third party payment policies and government regulations may have an effect on the market price of our Common Stock. In addition, any announcement of a material pending legal action could have a negative impact on the market price of our Common Stock regardless of the outcome of any such matter.

Factors In Place To Discourage Takeover Attempts

The substantial percentage ownership of our outstanding Common Stock by our executive officers and directors; our charter provision providing for a staggered board of directors so that only one-third of the board is elected each year to serve a three year term; our Rights Plan which was adopted to discourage hostile acquisitions of control of the Company; and the requirement that the holders of not less than 80% of our outstanding Common Stock must approve any merger, consolidation, asset sale or acquisition of the Company not approved by the board may discourage attempts by third parties to tender for or otherwise obtain control of the Company, even if such an attempt might be deemed beneficial to the Company and its shareholders.

Item 2 - Properties

Our executive offices and New Jersey processing facility occupy approximately 122,500 square feet of leased space in two one-story brick buildings at 481-487 Edward H. Ross Drive, Elmwood Park, New Jersey. We are currently paying approximately $74,000 in total in monthly rentals for these facilities. The leases for the majority of these facilities expire in February 2009. Our New York processing facility occupies approximately 11,000 square feet of leased space in a two-story brick building at 140 Route 303, Valley Cottage, New York. The lease for this facility, which expires in April 2005, provides for a monthly rental of $10,366. Our cancer cytogenetics testing facility occupies approximately 6,900 square feet of leased space in a three story brick

building at 25 Birch Street, Milford, Massachusetts. The lease for this facility, which expires in December 2007, provides for a monthly rental of approximately $8,000. Our testing equipment maintained at each of our processing and testing facilities is in good condition and in working order. We believe that these facilities, as presently equipped, have the capacity to generate up to approximately $350,000,000 in net revenues based on the type of testing now being performed by us. We maintain fire, theft and liability insurance coverage for our facilities in what we believe are adequate amounts. We also lease 57 additional relatively small draw stations 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, 2004 and at the date of this Report, we were not involved in any material legal proceedings.

Item 4 - Submission of Matters to a Vote of Security Holders

No matter was submitted to a vote of our security holders during the fourth quarter of fiscal 2004

PART II

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

Our Common Stock is listed for trading on The NASDAQ National Market System under the symbol BRLI . It traded on the NASDAQ Small Cap System from November 24, 1993 until March 26, 2002 when our application to list our Common Stock on the NASDAQ National Market System was approved.

The following table sets forth the range of high and low closing bid prices for our Common Stock for the periods indicated, as derived from reports furnished by Pink Sheets LLC. Such quotations represent prices between dealers, do not include mark-ups, mark-downs or commissions and may not necessarily represent actual transactions.

	Bid Prices	
Fiscal Year	**High**	**Low**
2003		
First Quarter	$ 7.28	$ 5.54
Second Quarter	6.19	4.11
Third Quarter	7.16	4.70
Fourth Quarter	17.60	6.84
2004		

First Quarter	$ 21.88	$ 12.62
Second Quarter	21.45	13.09
Third Quarter	15.46	10.76
Fourth Quarter	14.87	11.23

On January 7, 2005 the last sale price for the Common Stock on NASDAQ was $14.32 per share.

At October 31, 2004, the number of record owners of the Common Stock was 371. 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

During fiscal year 2004, we issued an aggregate 604,078 shares of our Common Stock to our President and Chief Executive Officer, Marc Grodman and his wife, Pam Grodman, upon their conversion of an aggregate 604,078 shares of Series A Senior Preferred Stock and payment of the $.75 per share conversion price. A restrictive legend was placed on each of the Common Stock certificates issued upon the conversion and stop transfer instructions were issued against the shares. The conversion was effected in reliance upon the exemption from the registration requirements of the Securities Act of 1933 provided by Section 4(2) of the Act on the basis that the transaction did not involve a public offering. See Item 13 herein.

Equity Compensation Plan Information

The information required under this item is disclosed in item 12 of this Annual Report on Form 10-K and is incorporated herein by reference.

Issuer Purchases of Equity Securities

On March 6, 2003, we announced adoption of a stock repurchase program pursuant to which we would repurchase up to 500,000 shares of our Common Stock from time to time at prevailing market prices in the over-the-counter market. Through July 31, 2004, we had repurchased an aggregate 259,700 shares pursuant to the repurchase program. No repurchases were made in the fourth quarter of fiscal year 2004, at the end of which, the program terminated.

Item 6. Selected Financial Data

	[In thousands, except per share data] Years ended October 31,				
	2004	**2003**	**2002**	**2001**	**2000**
Operating Data:					
Net Revenues	$ 136,184	$ 109,034	$ 96,631	$ 80,622	$ 66,460
Cost of Services	$ 68,201	$ 56,216	$ 51,706	$ 44,265	$ 37,174
Gross Profit	$ 67,983	$ 52,818	$ 44,925	$ 36,357	$ 29,286
	$ 55,163	$ 43,533	$ 38,853	$ 32,750	$ 27,654

General and Administrative Expenses										
Income from Operations	$	12,820	$	9,285	$	6,072	$	3,607	$	1,632
Other Expenses - Net	$	634	$	681	$	849	$	1,660	$	1,568
Provision for Income Tax Expense [Benefit]	$	3,670	$	2,064	$	301	$	(414)	$	(42)
Net Income	$	8,516	$	6,540	$	4,922	$	2,361	$	105
Net Income Per Common Share	$	.71	$	.57	$	.43	$	.24	$	.01
Net Income Per Share - Diluted	$	.67	$	.51	$	.39	$	.21	$	.01
Cash Dividends Per Common Share	$		$		$		$		$	
Balance Sheet Data:										
Total Assets	$	72,151	$	53,219	$	47,442	$	44,006	$	38,349
Total Long-Term Liabilities	$	4,520	$	2,833	$	1,519	$	1,158	$	2,378
Total Liabilities	$	31,478	$	23,261	$	23,235	$	25,532	$	25,287
Working Capital	$	23,815	$	18,302	$	12,651	$	7,257	$	2,820
Shareholders Equity	$	40,673	$	29,958	$	24,207	$	18,474	$	13,061

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

Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains historical information as well as forward-looking statements. Statements looking forward in time are included in this Annual Report pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements involve known and unknown risks and uncertainties that may cause our actual results in future periods to be materially different from any future performance suggested herein.

OVERVIEW

We are a regional clinical laboratory with focused market testing capabilities. As a regional laboratory, we service the New York metropolitan area, and currently do business in most New York State counties, as well as in most of New Jersey and some parts of Pennsylvania and Connecticut. As a regional laboratory, 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. We have also developed expertise in certain focused testing areas with specific emphasis in cancer pathology and diagnostics as well as molecular diagnostics. These services are marketed as a business unit, called GenPath, which services customers outside of routine physician office testing. We have developed certain specialized markets, such as in the areas of correctional health, substance abuse testing, fertility testing and molecular diagnostics. Testing in these areas also may be supported outside of physician offices.

During the last few years, the fundamentals of the industry have been improving. In the cost containment era of the 1990s, the industry was negatively impacted by the rapid growth of managed care, stringent government regulation and investigations into fraud and abuse. These factors led to revenue and profit declines and industry consolidations, especially among commercial clinical laboratories. As a result, fewer but larger 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. These changes resulted in improved profitability. In addition, new and emerging technologies continue to provide greater testing opportunities for clinical laboratories.

Our PSIMedica business unit is a Clinical Knowledge Management (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 so that analysis can be comprehensive and meaningful. The data is maintained on multiple levels of analysis 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 allows on-line real-time ad hoc query capability enabling the user to customize analysis to the best needs of the organization using the system. In addition to the basic queries provided by the system, PSIMedica Quality Indicators (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 customer with standards and outcome predictors based 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 most benefit from the ability of the system to combine both clinical and administrative analysis.

CareEvolve, our wholly owned subsidiary, is a physician-based connectivity portal. This system provides a complex, sophisticated system for ordering laboratory services and delivering laboratory results. 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 and personal 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. 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. We executed a Strategic Marketing Agreement (the SMA) in December 2001 with Roche Diagnostics (Roche) to operate a Joint Venture for the sale and distribution of the CareEvolve Services to laboratories throughout the country. Under the terms of the SMA, Roche provided funding to pay certain of the costs and expenses of operating CareEvolve and agreed to cause its sales personnel to exercise reasonable efforts to market and sell the CareEvolve Services. In return, Roche was entitled to a 50% share in any net after-tax income generated by CareEvolve, and was granted an option to purchase up to a 50% equity interest in CareEvolve and certain other rights. In December 2004, we executed an Addendum to the SMA with Roche. Pursuant to the Addendum, Roche s rights to share in CareEvolve s net after-tax income and to purchase up to a 50% equity interest in CareEvolve were canceled. Roche did retain a right of first refusal to purchase CareEvolve in the event we were willing to accept such a purchase offer from a third party. Although we retain the rights to market the CareEvolve Services in all markets including the laboratory market, Roche is the sole Diagnostic Company (manufacturer of diagnostic equipment and supplies) granted the right to market the CareEvolve Services to laboratories. As a result of the execution of the Addendum, we took a one-time charge to fiscal 2004 earnings of approximately $400,000 to reflect the revised change in terms of our relationship with Roche. The charge is associated with one-time technology development expenses which had been assessed to CareEvolve and are now our responsibility. CareEvolve s monthly revenues now exceed its expenses.

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

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 57% of all our costs consist of employee compensation and benefits. Revenues are recognized at the time the services are performed and are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered including prospectively determined adjustments under reimbursement agreements with third-party payors. These adjustments are accrued on an estimated basis in the period the services are rendered and adjusted in future periods as final settlements are determined. These estimates are reviewed and adjusted, if warranted, by senior management on a monthly basis. We believe that our estimates and assumptions are correct; however, several factors could cause actual results to differ materially from those currently anticipated due to a number of factors in addition to those discussed under Cautionary Statements as well as elsewhere herein including:

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

our failure to obtain and retain new customers and alliance partners, or a reduction in tests ordered or specimens submitted by existing customers.

adverse results from investigations of clinical laboratories by the government, which may include significant monetary damages and/or exclusion from the Medicare and Medicaid programs.

loss or suspension of a license or imposition of a fine or penalties under, or future changes in, the law or regulations of CLIA-88, or those of Medicare, Medicaid or other federal, state or local agencies.

changes in federal, state, local and third party payor regulations or policies (or in the interpretation of current regulations) affecting governmental and third-party reimbursement for clinical laboratory testing (such as the decrease in Medicare

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reimbursement for Flow Cytometry testing described above under Cautionary Statements).

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

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

changes in payor mix.

failure to maintain our days sales outstanding levels.

increased competition, including price competition.

our ability to attract and retain experienced and qualified personnel.

adverse litigation results.

We utilize diluted earnings per share (EPS) on pre-tax income as a performance indicator rather than the traditional EPS calculation on an after-tax basis. This pre-tax EPS takes out the nuance of tax differences caused by large net operating loss carryforwards which create benefits (which we used in the past) and tax expense (which we expect in the future). The table below shows our pre-tax EPS on a diluted quarterly and annual basis for fiscal years 2002 and 2003.

	Quarter Ended				
	1/31	4/30	7/31	10/31	Fiscal Year
FY 2003	.04	.13	.24	.26	.67
FY 2004	$ .11	$ .26	$ .29	.$28	$ .96

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

Fiscal Year 2004 Compared to 2003

NET REVENUES:

Net Revenues for the year ended October 31, 2004 were $136,184 as compared to $109,034 for the year ended October 31, 2003; this represents a 25% increase in net revenues. This increase is due to a 19% increase in patients serviced and a 5% increase in net revenue per patient. Our laboratory operations had net revenues of $135,435 in fiscal 2004.

The number of patients serviced during the year ended October 31, 2004 was 2,522 which was 19% greater when compared to the prior fiscal year. Net revenue per patient for the year ended October 31, 2004 was $53.71 compared to net revenue per patient for the year ended October 31, 2003 of $51.41, an increase of $2.30 or 5% as a result of increases in esoteric testing.

COST OF SALES:

Cost of Sales for the year ended October 31, 2004 was $68,201 as compared to $56,216 for the year ended October 31, 2003, an increase of 21%. This increase is related to the increase in net revenues of 25%.

GROSS PROFITS:

Gross profits on net revenues increased to $67,983 for the year ended October 31, 2004 from $52,818 for the year ended October 31, 2003; an increase of $15,165 (29%), primarily attributable to the increase in net revenues and the decrease in direct costs relative to the increase in net revenue. Gross profit margins in the laboratory increased to 50% from 48%, primarily due to the increase in net revenues and efficiencies in direct operating expenses.

GENERAL AND ADMINISTRATIVE EXPENSES:

General and administrative expenses for the year ended October 31, 2004 were $55,163 as compared to $43,533 for the year ended October 31, 2003, an increase of $11,630 or 27%. This is 2% greater than the increase in net revenues and is attributable to several factors. Bad debt expense increased to 13% of net revenues as compared to 12% for the twelve month period ended October 31, 2003. This increase in bad debt is partly attributable to an increase in our third party billing and our acquisition of new payors in new geographical regions resulting from the expansion of our Oncology and esoteric testing services. Marketing expenses as a percent of net revenues increased from 9% in fiscal year 2003 to 10% in fiscal year 2004, a result of our continued emphasis on sales and marketing in the area of Oncology and esoteric testing. In addition, we took a one time charge against earnings of approximately $400,000 that came about because of changes in an Addendum we executed to our Strategic Marketing Alliance with Roche Diagnostic Corporation.

INTEREST EXPENSE:

Interest expense decreased from $704 during the year ended October 31, 2003 to $667 during the year ended October 31, 2004; a decrease of $37. This decrease is due to a decline in the variable interest rates associated with our line of credit. Management believes that this trend may not continue in the future due to the continued use of our revolving line of credit to fund our expansion and growth and the increase in interest rates that may continue to occur during fiscal year 2005.

NET INCOME:

We realized net income of $8,516 for the twelve month period ended October 31, 2004 as compared to $6,540 for the twelve month period ended October 31, 2003, an increase of 30%.

Pre-tax income for the period ended October 31, 2004 was $12,186, as compared to $8,604 for the period ended October 31, 2003, an increase of $3,582 (42%) and was caused primarily by a decrease in expenses in relation to an increase in net revenues. The provision for income taxes increased from $2,064 for the period ended October 31, 2003, to $3,670 for the current twelve month period. This increase was anticipated due to the full utilization of Federal and State net operating loss carry-forwards during the third quarter of fiscal 2003. However, it was mitigated by other tax considerations.

Fiscal Year 2003 Compared to Fiscal Year 2002

NET REVENUES:

Net Revenues for the year ended October 31, 2003 were $109,034 as compared to $96,631 for the year ended October 31, 2002; this represents a 13% increase in net revenues. This increase is due to a 9% increase in patients serviced and a 4% increase in net revenue per patient. Our laboratory operations had net revenues of $108,720 in fiscal 2003.

The number of patients serviced during the year ended October 31, 2003 was 2,115 which was 9% greater when compared to the prior fiscal year. This increase is attributable to six new sales representatives and our ongoing marketing efforts during the current fiscal year. Net revenue per patient for the year ended October 31, 2003 was $51.41 compared to net revenue per patient for the year ended October 31, 2002 of $49.63, an increase of $1.78 or 4% as a result of increases in esoteric testing.

COST OF SALES:

Cost of Sales for the year ended October 31, 2003 was $56,216 as compared to $51,706 for the year ended October 31, 2002, an increase of 9%. This increase is related to the increase in net revenues of 13%.

GROSS PROFITS:

Gross profits on net revenues increased to $52,818 for the year ended October 31, 2003 from $44,925 for the year ended October 31, 2002; an increase of $7,893 (18%), primarily attributable to the increase in net revenues and the decrease in direct costs relative to the increase in net revenue. Gross profit margins in the laboratory increased to 48% from 46%, primarily due to the increase in net revenues and efficiencies in direct operating expenses.

GENERAL AND ADMINISTRATIVE EXPENSES:

General and administrative expenses for the year ended October 31, 2003 were $43,533 as compared to $38,853 for the year ended October 31, 2002, an increase of $4,680 or 12%. This increase is in line with the increase in net revenues. However, insurance expense increased approximately $1,057 or 97% over the prior period.

INTEREST EXPENSE:

Interest expense decreased from $889 during the year ended October 31, 2002 to $704 during the year ended October 31, 2003; a decrease of $185. This decrease is due to a decline in the variable interest rates and a decline in the outstanding balance with the PNC line of credit utilized by the Company. Management believed that this trend would not continue in the future due to the continued use of our revolving line of credit to fund our expansion and growth and the expectation that interest rates might increase during fiscal year 2004.

NET INCOME:

We realized net income of $6,540 for the twelve month period ended October 31, 2003 as compared to $4,922 for the twelve month period ended October 31, 2002, an increase of 33%.

Pre-tax income for the period ended October 31, 2003 was $8,604, as compared to $5,223 for the period ended October 31, 2002, an increase of $3,381 (65%) and was caused primarily by a decrease in expenses in relation to an increase in net revenues. The provision for income taxes increased from $301 for the period ended October 31, 2002, to $2,064 for the current twelve month period. This increase was anticipated due to the full utilization of certain state net operating loss carry-forwards in fiscal 2002 and Federal and State net operating loss carry-forwards during the third quarter of fiscal 2003.

Liquidity and Capital Resources (In thousands)

For the Fiscal Year Ended October 31, 2004

Our working capital at October 31, 2004 was approximately $23,815 as compared to approximately $18,302 at October 31, 2003, an increase of $5,513. Our cash position increased by approximately $2,715 during the current period. We increased our short term borrowing by approximately $1,615 and repaid approximately $1,717 in existing debt and increased our long term debt by approximately $2,546. We had current liabilities of approximately $26,958 at October 31, 2004. We generated approximately $5,026 in cash from operations, a decrease of approximately $567 as compared to the year ended October 31, 2003.

Accounts receivable, net of allowance for doubtful accounts, totaled approximately $40,952 at October 31, 2004, an increase of approximately $8,039 from October 31, 2003, or 24%. This increase was primarily attributable to increased revenue. Cash collected over the twelve month period ended October 31, 2004 increased 20% over the prior twelve month period.

Credit risk with respect to accounts receivable is generally diversified due to the large number of patients comprising the client base. We have significant receivable balances with government payors and various insurance carriers. Generally, we do not require collateral or other security to support customer receivables, however, we continually monitor and evaluate our client acceptance

and collection procedures to minimize potential credit risks associated with our accounts receivable. While we maintain what we believe to be an adequate allowance for doubtful accounts, there can be no assurance that our ongoing review of accounts receivable will not result in the need for additional reserves. Such additional reserves could have a material impact on our financial position and results of operations.

In October 2004, the Company entered into an amended revolving note payable loan agreement with a bank. The maximum amount of the credit line available to the Company is the lesser of (i) $30,000 or (ii) 50% of the Company s qualified accounts receivable [as defined in the agreement]. The amended loan agreement provides for an acquisition subline of up to $10,000 which can be repaid in 36 equal monthly installments. Under the amendment to the Loan and Security Agreement, interest on advances will be subject to the bank s prime rate or Eurodollar rate of interest plus, in certain instances, an additional interest percentage. The additional interest percentage charges on Eurodollar borrowings range from 1% to 4% and are determined based upon certain financial ratios achieved by the Company. At October 31, 2004, the Company had elected to have $6,000 of the total advances outstanding converted into a Eurodollar rate loan with an interest rate of 3.16% at October 31, 2004. The remaining outstanding advances during that period were subject to the prime rate of interest. At October 31, 2004, advances of $4,333 were subject to interest at the prime rate. As of October 31, 2004 and 2003, the bank s prime rate of interest was 4.75% and 4.00%, respectively. The credit line is collateralized by substantially all of the Company s assets. The line of credit is available through October 2007 and may be extended for annual periods by mutual consent, thereafter. The terms of this agreement contain, among other provisions, requirements for maintaining defined levels of capital expenditures, fixed charge coverage, insurance coverage, and the prohibition of the payment by the Company of cash dividends. As of October 31, 2004, the Company utilized $12,879 and had $17,121 of available unused credit under this revolving note payable agreement.

The weighted average interest rate on short-term borrowings outstanding as of October 31, 2004 and 2003 was approximately 3.92% and 2.85%, respectively.

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

Tabular Disclosure of Contractual Obligations

Payments Due By Period

(Dollars in thousands)

	Total	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009 and thereafter
Long-Term Debt	$ 2,334	$ 1,273	$ 1,061	$ -0-	$ -0-	$ -0-
Capital Leases	$ 5,521	$ 1,525	$ 1,485	$ 1,382	$ 925	$ 204
Operating Leases	$ 5,655	$ 1,422	$ 1,180	$ 1,114	$ 900	$ 1,039
Purchase Obligations	$ 6,104	$ 2,714	$ 1,877	$ 1,381	$ 106	$ 26
Long-Term Liabilities under Employment and Consultant Contracts	$ 8,037	$ 2,338	$ 1,831	$ 868	$ 750	$ 2,250
Total	$ 27,651	$ 9,272	$ 7,434	$ 4,745	$ 2,681	$ 3,519

Our cash balances at October 31, 2004 totaled approximately $6,681 as compared to approximately $3,966 at October 31, 2003. We believe that our cash position, the anticipated cash generated from future operations, and the availability of our credit line with PNC Bank, will meet our anticipated cash needs in fiscal 2005.

We do not have any off-balance sheet items.

Impact of Inflation

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

New Authoritative Pronouncements

In November 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 151, Inventory Costs an amendment to ARB No. 43. This statement provides guidance to clarify the accounting for abnormal amounts of idle facility expense, freight handling costs, and wasted material (spoilage), among other production costs. Provisions of ARB No. 43 stated that under some circumstances, items such as idle facility expense, excessive spoilage and other costs may be so abnormal as to require treatment as current period charges. This statement requires that those items be recognized as current period charges regardless of whether they meet the criterion of so abnormal. In addition, SFAS 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production overheads to the costs of conversion be based on the normal capacity of the production facilities. Adoption of the Statement is not expected to have a material impact on the financial statements of the Company.

In November 2004, the FASB issued SFAS No. 152 Accounting for Real Estate time-Sharing Transactions An amendment of SFAS No. 66 and 67. This Statement amends SFAS No. 66. Accounting for Sales of Real Estate, to refrence the financial accounting and reporting guidance for real estate time-sharing transactions that is provided in AICPA Statement of Position (SOP) 04-2, Accounting for Real Estate Time-Sharing Transactions. This Statement also amends SFAS No. 67, Accounting for Costs and Initial Rental Operations of Real Estate Projects, to state the guidance for (a) incidental costs and (b) costs incurred to sell real estate projects does not apply to real estate time-sharing transactions. The accounting for those operations and costs is subject to guidance in SOP 04-2. Effective for financial statements with fiscal years beginning after June 15, 2005. Adoption of this Statement is not expected to have a material impact on the financial statements of the Company.

In November 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets an amendment to APB No. 29. This Statement amends Opinion No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity expected to change significantly as a result of the exchange. Adoption of this statement is not expected to have a material impact on the financial statements of the Company.

In December 2004, the FASB issued SFAS No. 123 (Revised 2004). Share-Based Payment. The statement requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instrument issued. The statement covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. The company will be required

to adopt SFAS 123 (R) as of August 1, 2005. The adoption may have a material impact on the consolidated financial statements of the Company.

In April 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities (SFAS 149), which amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments

embedded in other contracts, and for hedging activities under SFAS 133. SFAS 149 is effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. The adoption of SFAS 149, effective July 1, 2003, did not have a material impact on the Company s results of operations or financial position.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Instruments with Characteristics of both Liabilities and Equity (SFAS 150), which establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company s adoption of the initial recognition and initial measurement provisions of SFAS 150, effective June 1, 2003, did not have a material impact on the Company s results of operations or financial position.

With the exception of the adoption of SFAS 123 (R), the Company expects that the adoption of the new statements will not have a significant impact on its consolidated financial statements.

Item 7A Quantitative and Qualitative Disclosures about Market Risk

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

We do have exposure to both rising and falling interest rates. At October 31, 2004, advances of approximately $4,333 under our Loan Agreement with PNC Bank were subject to interest charges at the Bank s then prime rate of 4.75 %. In addition, we elected to have the remaining $6,000 of advances outstanding at said date converted into a Eurodollar rate loan with a variable interest rate of 3.16%

We estimate that our monthly cash interest expense at October 31, 2004 was approximately $55 thousand and that a one percentage point increase or decrease in short-term rates would increase or decrease our monthly interest expense by approximately $8 thousand.

See Note 5 to the Consolidated Financial Statements contained herein.

Item 8. - Financial Statements and Supplementary Data

Financial Statements are annexed hereto

Item 9. - Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A. Controls and Procedures

An evaluation was performed under the supervision, and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of October 31, 2004. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures provide management with timely notice of material information that is required to be disclosed in periodic reports filed with the Securities and Exchange Commission. We also reviewed our internal controls, and there have been no significant changes in our internal controls, or in other factors that could significantly affect our internal controls, subsequent to the date of our previous evaluation.

Item 9B. Other Information

None.

PART III

Item 10.- Directors and Executive Officers of the Registrant

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

Name	Age	Position
Marc D. Grodman, M.D.	53	Chairman of the Board, President, Chief Executive Officer and Director
Howard Dubinett	53	Executive Vice President, Chief Operating Officer and Director
Sam Singer	61	Vice President, Chief Financial Officer, Chief Accounting Officer and Director
Harry Elias(a)(c)(e)	74	Director
Gary Lederman, Esq. (b)(c)(e)	70	Director
John Roglieri, M.D. (a)(d)(e)	65	Director

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

The Audit Committee is comprised of the three non-employee members of the Board of Directors, Gary Lederman (Chairman), John Roglieri and Harry Elias. The Board of Directors deems each such individual as independent as defined by the rules of the National Association of Securities Dealers. The Audit Committee met four times during fiscal year 2004. The Audit Committee confers with the Company s auditors and reviews, evaluates and advises the Board of Directors concerning the adequacy of the Company s accounting systems, its financial reporting practices, the maintenance of its books and records and its internal controls. In addition, the Audit Committee reviews the scope of the audit of the Company s financial statements and the results thereof. The Board of Directors has determined that Gary Lederman is qualified to serve as the Company s audit committee financial expert as defined in Item 401 (h) of Regulation S-K promulgated by the SEC.

The Compensation Committee is comprised of three non-employee members of the Board of Directors, John Roglieri (Chairman), Harry Elias and Gary Lederman. The Compensation Committee met once during fiscal year 2004. The Compensation Committee reviews salaries, cash bonuses and compensation plans for the Company s executive officers and eligible employees and makes recommendations concerning same to the Board of Directors.

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

The Nominating Committee is comprised of the three non-employee members of the Board of Directors, Harry Elias, Gary Lederman and John Roglieri. Pursuant to its charter, the Nominating Committee s role is to establish criteria for the selection of directors; to identify individuals

qualified to be directors; to evaluate director candidates proposed by stockholders; to recommend individuals to fill vacancies on the Board and to recommend nominees for director at each annual stockholder meeting.

Code of Ethics

The Company has adopted a Code of Ethics that applies to its executive officers and to key financial and accounting personnel. The Company will, upon a stockholder s written request to Investor Relations, c/o the Company, furnish a paper copy of the Code of Ethics.

The following is a brief account of the business experience of each director including each nominee for director of the Company.

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

Howard Dubinett has been the Executive Vice-President and Chief Operating Officer of the Company since its formation in 1981. He became a Director of the Company in April 1986. Mr. Dubinett attended Rutgers University. Mr. Dubinett devotes all of his working time to the business of the Company.

Sam Singer has been the Company s Vice President and Chief Financial Officer since October 1987 and a Director since November 1989. He is responsible for all of the Company s financial activities. Mr. Singer was the Controller for Sycomm Systems Corporation, a data processing and management consulting company, from 1981 to 1987, prior to joining the Company. He received a B.A. degree from Strayer University and an M.B.A. from Rutgers University. Mr. Singer devotes all of his working time to the business of the Company.

Harry Elias became a Director of the Company in March 2004. Mr. Elias commenced his employment in sales and marketing with JVC Company of America (JVC) in 1967, subsequently being appointed as JVC s Senior Vice President of Sales and Marketing in 1983 and as Executive Vice President of Sales and Marketing in 1990. In 1995, Mr. Elias was named as JVC s Chief Operating Officer, a position he occupied until April 2003 when he resigned his positions upon his appointment as JVC s Honorable Chairman. JVC, a distributor of audio and video products headquartered in Wayne, New Jersey is the wholly owned United States subsidiary of Victor Company of Japan, a manufacturer of audio and video products headquartered in Japan. In January 2005, after retiring from JVC, Mr. Elias was appointed Chairman of the Board of and commenced to serve as a consultant to AKAI USA, the sole distributor in the United States of electronic products produced by AKAI, a Japanese manufacturer.

Gary Lederman, Esq. became a Director of the Company in May 1997. He received his B.A. degree from Brooklyn College in 1954 and his J.D. degree from NYU Law School in 1957. He was manager of Locals 370, 491 and 662 of the U.F.C.W. International Union from 1961 to 1985.

He is retired from the unions and has been a lecturer at Queensboro Community College in the field of insurance. He currently serves on an institutional review board for RTL, a pharmaceutical drug testing laboratory.

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

There are no family relationships between or among any directors or executive officers of Bio-Reference Laboratories. The Company s Certificate of Incorporation provides for a staggered Board of Directors pursuant to which the Board is divided into three classes of directors and the members of only one class or one-third of the Board are elected each year to serve a three-year term.

Key Personnel and Consultants

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

James Weisberger, M.D. (Age 49) joined the Company in September 2003 as Vice President, Assistant Chief Medical Officer and Director of Hematopathology. He is currently employed as the Company s Chief Medical Officer. Prior to joining the Company, he was Director of Hematopathology at IMPATH, Inc. (1999-2003). He is board certified in internal medicine, anatomic and clinical pathology, and hematopathology. He has a New York State Department of Health Certificate of Qualification as a Laboratory Director. He is a Clinical Assistant Professor of Pathology at New York Medical College, Valhalla, New York. Prior to joining IMPATH, he was an Assistant Professor of Medicine and Pathology at New York Medical College (1995-1999). He has a B.S. degree from Stanford University (1977); an M.S. degree from Stanford University (1978); and an M.D. degree from the University of Pennsylvania (1983).

Charles T. Todd, Jr. (Age 53) is the Senior Vice President of Sales and Marketing. Mr. Todd was the founder and CEO of GenCare Biomedical Research Corporation, a specialty oncology laboratory that was purchased by the Company in 1995. He attended Seton Hall University and received a B.S. in Finance in 1974.

John W. Littleton (Age 43) joined the Company in September 2002 as the Vice President of Sales. Prior to joining the Company, Mr. Littleton was Vice President of Sales for Specialty Laboratories and the Northeast Regional Vice President of Sales for Quest Diagnostics. He received a B.A.. degree from Seton Hall University in 1983.

John Bennett, M.D., (Age 71) Scientific Advisory Board Chairman, Professor Emeritus, University of Rochester Medical Center, Rochester, New York. Dr. Bennett has long been recognized as an intellectual force in the treatment and understanding of leukemias, lymphomas and other cancer-related diseases. He established the French-American-British (FAB) Leukemia working Group and is one of the world s leading authorities on Myelodysplasia. He is founder and

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

Compliance with Section 16(a) of the Exchange Act

Based solely on a review of Forms 3 and 4 and any amendments thereto furnished to the Company pursuant to Rule 16a-3(e) under the Securities Exchange Act of 1934, or representations that no Forms 5 were required, we believe that with respect to fiscal 2004, our officers, directors and beneficial owners of more than 10% of our equity timely complied with all applicable Section 16(a) filing requirements.

Item 11. - Executive Compensation

The following table sets forth information concerning the compensation paid or accrued by us during the year ended October 31, 2004 to our Chief Executive Officer and our other executive officers who were serving as our executive officers at October 31, 2004. All of our group life, health, hospitalization or medical reimbursement plans, if any, do not discriminate in scope, terms or operation, in favor of the executive officers or directors and are generally available to all salaried employees.

SUMMARY COMPENSATION TABLE

		Annual Compensation			Long-Term Compensation			
Name and Principal Position	**Year Ended October 31,**	**Salary**	**Bonus**	**Other Annual Compen-sation(a)**	**Restricted Stock Awards**	**Options (SARs)**	**LTIP Pay-outs**	**All Other Compen-sation**
Marc D. Grodman								
M.D.	2004	$ 554,625	$ 125,000	$ -0-	-0-	-0-	$ -0-	$ -0-
President and Chief	2003	$ 499,750	$ 154,750	$ -0-	-0-	-0-	$ -0-	$ -0-
Executive Officer	2002	$ 470,000	$ 125,000	$ -0-	-0-	4,000	$ -0-	$ -0-
Howard Dubinett	2004	$ 272,200	$ 60,000	$ -0-	-0-	-0-	$ -0-	$ -0-
Executive Vice	2003	$ 240,000	$ 21,800	$ -0-	-0-	-0-	$ -0-	$ -0-
President and Chief	2002	$ 191,700	$ 60,000	$ -0-	-0-	4,000	$ -0-	$ -0-
Operating Officer								
Sam Singer								
Vice President and	2004	$ 259,004	$ 60,000	$ -0-	-0-	-0-	$ -0-	$ -0-

Chief Financial and	2003	$ 240,000	$ 9,600	$ -0-	-0-	-0-	$ -0-	$ -0-
Accounting Officer	2002	$ 180,300	$ 60,000	$ -0-	-0-	4,000	$ -0-	$ -0-

(a) See Split-Dollar Life Insurance herein concerning our payment of life insurance premiums pursuant to split-dollar life insurance programs for our three executive officers.

Employment Agreements with Executive Officers

Dr. Grodman serves as our President and Chief Executive Officer pursuant to a seven-year

employment agreement which expires on October 31, 2011. Dr. Grodman has the right to elect to cancel the employment agreement effective at the end of any calendar month commencing October 31, 2008 on not less than 90 days prior written notice, subject to a six month non-competition restriction. The employment agreement is automatically renewable for additional two year periods subject to the right of either party to elect not to renew at least six months prior thereto. The employment agreement provides Dr. Grodman with minimum annual base compensation of $750,000 subject to annual percentage increases to the extent of annual percentage increases in the Consumer Price Index. The Compensation Committee can but is not required to increase Dr. Grodman s compensation at the end of any fiscal year based upon his and the Company s performance. The employment agreement also provides Dr. Grodman with business use of an automobile leased by the Company and participation in any fringe benefit and bonus plans available to the Company s employees to the extent determined by the Compensation Committee. The employment agreement contains provisions governing in the event of Dr. Grodman s partial or total disability and provides for termination for cause or in the event of Dr. Grodman s death. Dr. Grodman has the right to terminate the employment agreement in the event of a material change in his duties and responsibilities, the relocation of the Company s principal executive offices from Elmwood Park, New Jersey to a location more than fifty miles distant or a material breach of the employment agreement by the Company (including a reduction in Dr. Grodman s benefits under the agreement). In the event of a Change in Control of the Company, Dr. Grodman can elect to terminate the agreement. In that event, he will be entitled to be paid a lump sum Severance Payment equal to 2.99 times the average of his annual compensation paid by the Company for the five calendar years preceding the earlier of the calendar year in which the Change of Control occurred or the calendar year of the Date of Termination. See Split-Dollar Life Insurance herein as to the Endorsement Split-Dollar Life Insurance Agreement between the Company and Dr. Grodman.

Mr. Dubinett serves as Executive Vice President and Chief Operating Officer pursuant to an employment agreement which was extended in fiscal 2004 for two additional years beyond its October 31, 2004 termination date. Mr. Dubinett s minimum annual compensation under the extended agreement is equal to his annual compensation in fiscal 2002 and is subject to increases based on increases in the Consumer Price Index as well as to increases (including bonuses) at the discretion of the Compensation Committee. The agreement provides (i) typical health insurance coverage; (ii) the leasing of an automobile for his use; (iii) participation in fringe benefit, bonus, pension, profit sharing, and similar plans maintained for the Company s employees; (iv) disability benefits; (v) certain termination benefits; and (vi) in the event of termination due to a Change in Control of the Company, a Severance Payment equal to 2.99 times Mr. Dubinett s average annual compensation during the preceding five years. The Company has the option to extend the extension period of the employment agreement on the same terms and conditions through October 31, 2007. See Split Dollar Life Insurance herein as to the Endorsement Split Dollar Life Insurance Agreement between the Company and Mr. Dubinett.

Mr. Singer serves as Vice President and Chief Financial Officer pursuant to an employment agreement which was extended in fiscal 2004 for two additional years beyond its October 31, 2004 termination date. Mr. Singer s minimum annual compensation under the extended agreement is equal to his annual compensation in fiscal 2002 and is subject to increases based on increases in the Consumer Price Index as well as to increases (including bonuses) at the discretion of the Compensation Committee. The agreement provides (i) typical health insurance coverage; (ii) the leasing of an automobile for his use; (iii) participation in fringe benefit, bonus, pension, profit sharing, and similar plans maintained for the Company s employees; (iv) disability benefits; (v) certain termination benefits; and (vi) in the event of termination due to a Change in Control of the Company, a Severance Payment equal to 2.99 times Mr. Singer s average annual compensation during the preceding five years. The Company has the option to extend the employment agreement on the same terms and conditions through October 31, 2007. See Split-Dollar Life Insurance herein as to the Endorsement Split-Dollar Life Insurance Agreement between the Company and Mr. Singer.

Split-Dollar Life Insurance

Pursuant to the terms of their 1997 employment agreements, the Company had

established split-dollar life insurance programs for each of its three Executive Officers. As a result of the passage of the Sarbanes Oxley Act of 2002 (signed into law on July 30, 2002), these three programs were modified. Pursuant to the modification, each of the three Executive Officers assigned ownership of his policies to the Company and new policies were issued to replace the prior policies with annual premiums under the new policies ($70,000 under Dr. Grodman s policy and $25,000 each under Messrs. Dubinett s and Singer s policies) being equal to the premiums paid under the replaced policies. The Company has now executed new Endorsement Split-Dollar Life Insurance Agreements with each of its three Executive Officers. Pursuant to the new agreements, the Company has agreed to continue to pay the annual premium on the policy on each officer s life during the period of his full-time employment by the Company. The Company is the sole owner of the policy and of its net cash surrender value, and in the event of the officer s death while serving as a full-time employee of the Company, the Company will be entitled to receive that amount of the death proceeds equal to its interest in the policy (the aggregate amount of premiums paid by the Company with respect to the policy less the amount of any loans, if any, from the Insurer to the Company against the cash value or policy proceeds, and less the aggregate amount of any premiums paid by the officer to the Company in reimbursement of premiums paid by the Company) and the balance of the death proceeds will be paid to the officer s designated beneficiaries. The premiums paid by the Company on the current policies and the prior policies aggregated approximately $1,044 at October 31, 2004. At that date, the net cash surrender value of the three current policies aggregated approximately $1,044.

Stock Options

Employee Stock Option Plans

The 1989 Plan

In July 1989, the Company s Board of Directors adopted the 1989 Employees Stock Option Plan (the 1989 Plan) which was approved by shareholders in November 1989. The 1989 Plan provided for the grant of options to purchase up to 666,667 shares of Common Stock. Under the terms of the 1989 Plan, options granted thereunder could be designated as options which qualify for incentive stock option treatment (ISOs) under Section 422 of the Internal Revenue Code of 1986 (the Code), or options which do not so qualify (NQOs).

Under the 1989 Plan, the exercise price of an option designated as an ISO could not be less than the fair market value of the Common Stock on the date the option was granted. However, in the event an option designated as an ISO was granted to a 10% shareholder (as defined in the 1989 Plan) such exercise price was required to be at least 110% of such fair market value. Exercise prices of NQOs could be less than such fair market value. The aggregate fair market value of shares subject to options granted to a participant which are designated as ISOs which first become exercisable in any calendar year could not exceed $100,000. All options under the 1989 Plan were required to be granted before the Plan s July 1999 Termination Date so that no further options can be granted under the 1989 Plan.

At October 31, 2003, there were outstanding ISOs issued under the 1989 Plan held by five employees and exercisable to purchase an aggregate 257,668 shares at an exercise price of $.71875 per share. During fiscal 2004, two employees exercised ISOs under the 1989 Plan and purchased an aggregate 205,000 shares. As a result, at October 31, 2004, there were outstanding ISOs under the 1989 Plan exercisable to purchase an aggregate 52,668 shares at an exercise price of $.71875 per share.

The 2000 Plan

On August 25, 2000, the Board of Directors adopted the 2000 Employee Incentive Stock Option Plan (the 2000 Plan) reserving an aggregate 800,000 shares of Bio-Reference Common Stock for issuance upon exercise of ISOs which may be granted under the 2000 Plan. Stockholders ratified the adoption of the 2000 Plan at our December 14, 2000 Annual Meeting of Stockholders. At October 31, 2003, there were outstanding ISOs issued under the 2000 Plan

exercisable to purchase an aggregate 705,000 shares at exercise prices ranging from $1.688 to $9.66 per share. During fiscal 2004, ISOs were granted under the 2000 Plan to ten employees exercisable to purchase an aggregate 50,000 shares at exercise prices ranging from $13.70 to $15.34 per share, and 46 employees exercised ISOs issued under the 2000 Plan and purchased an aggregate 215,088 shares at exercise prices ranging from $1.125 to $8.40 per share. As a result, at October 31, 2004, there were outstanding ISOs under the 2000 Plan exercisable to purchase an aggregate 539,912 shares at exercise prices ranging from $1.688 to $15.34 per share.

The 2000 Plan authorizes the grant of options which qualify for ISO treatment under Section 422 of the Code, to purchase up to a maximum aggregate 800,000 shares of the Company s Common Stock. Options may only be granted under the 2000 Plan to employees of the Company and its subsidiaries (including officers and directors who are also employees).

The 2000 Plan will be administered by the Board of Directors or by a Stock Option Committee designated by the Board of Directors. The Board or the Stock Option Committee, as the case may be, has the discretion to determine the eligible employees to whom, and the price (not less than the fair market value on the date of grant) at which options will be granted; the periods during which each option is exercisable; and the number of shares subject to each option. The Board or the Stock Option Committee has the authority to interpret the 2000 Plan and to establish and amend rules and regulations relating thereto.

The 2000 Plan provides that the exercise price of an option granted thereunder shall not be less than the fair market value of the Common Stock on the date the option is granted. However, in the event an option is granted under the 2000 Plan to a holder of 10% or more of the Company s outstanding Common Stock, the exercise price must be at least 110% of such fair market value. Under the 2000 Plan, options must be granted before the August 24, 2010 Termination Date. No option may have a term longer than ten years (limited to five years in the case of an option granted to a 10% or greater stockholder of the Company). The aggregate fair market value of the Company s Common Stock with respect to which options are exercisable for the first time by a grantee under the 2000 Plan during any calendar year cannot exceed $100,000. Options granted under the 2000 Plan are non-transferable and must be exercised by an optionee, if at all, while employed by the Company or a subsidiary or within three months after termination of such optionee s employment due to retirement, or within one year of such termination if due to disability or death. The Board or the Stock Option Committee, as the case may be, may, in its sole discretion, cause the Company to lend money to or guaranty any obligation of an employee for the purpose of enabling such employee to exercise an option granted under the 2000 Plan provided that such loan or obligation cannot exceed fifty percent (50%) of the exercise price of such option.

The 2003 Plan

On June 3, 2003, the Board of Directors adopted the 2003 Employee Incentive Stock Option Plan (the 2003 Plan) reserving an aggregate 800,000 shares of Bio-Reference Common Stock for issuance upon exercise of ISOs which may be granted under the 2003 Plan. Stockholders ratified the adoption of the 2003 Plan at our July 31, 2003 Annual Meeting of Stockholders. At October 31, 2003, no ISOs had been granted pursuant to the 2003 Plan. During fiscal 2004, ISOs were granted under the 2003 Plan to 40 employees exercisable to purchase an aggregate 104,000 shares at exercise prices ranging from $12.22 to $21.46 per share and one employee exercised her ISOs and purchased 2,000 shares. As a result, at October 31, 2004, there were outstanding ISOs under the 2003 Plan exercisable to purchase an aggregate 102,000 shares at exercise prices ranging from $12.22 to $21.46 per share.

The 2003 Plan authorizes the grant of options which qualify for ISO treatment under Section 422 of the Code to purchase up to a minimum aggregate 800,000 shares of the Company s Common Stock. Options may only be granted under the 2003 Plan to employees of the Company and its subsidiaries (including those officers and directors who are also employees).

The 2003 Plan will be administered by the Board of Directors or by a Stock Option Committee designated by the Board of Directors. The Board or the Stock Option Committee, as the case may be, has the discretion to determine the eligible employees to whom, and the prices (not less than the fair market value on the date of grant) at which options will be granted; the periods during which each option is exercisable; and the number of shares subject to each option. The Board or the Stock Option Committee has the authority to interpret the 2003 Plan and to establish and amend rules and regulations relating thereto.

The 2003 Plan provides that the exercise price of an option granted thereunder shall not be less than the fair market value of the Common Stock on the date the option is granted. However, in the event an option is granted under the 2003 Plan to a holder of 10% or more of the Company s outstanding Common Stock, the exercise price must be at least 110% of such fair market value.

Under the 2003 Plan, options must be granted before the June 2, 2013 Termination Date. No option may have a term longer than ten years (limited to five years in the case of an option granted to a 10% or greater stockholder of the Company). The aggregate fair market value of the Company s Common Stock with respect to which options are exercisable for the first time by a grantee under all of the Company s Stock Option Plans during any calendar year cannot exceed $100,000. Options granted under the 2003 Plan are non-transferable and must be exercised by an optionee, if at all, while employed by the Company or a subsidiary or within three months after termination of such optionee s employment due to retirement, or within one year of such termination if due to disability or death. The Board or the Stock Option Committee, as the case may be, may, in its sole discretion, cause the Company to lend money to or guaranty any obligation of an employee for the purpose of enabling such employee to exercise an option granted under the 2003 Plan provided that such loan or obligation cannot exceed fifty percent (50%) of the exercise price of such option.

Non-Qualified Options (NQOs) and Warrants

At October 31, 2003, there were outstanding NQOs and Warrants owned by employees, directors, consultants including members of the Scientific Advisory Board and a software provider exercisable to purchase an aggregate 533,750 shares at exercise prices ranging from $1.00 to $7.94 per share. During fiscal 2004, NQOs exercisable to purchase 15,000 shares at an exercise price of $13.70 per share were granted to a member of the Scientific Advisory Board; NQOs exercisable to purchase 12,000 shares were canceled and NQOs exercisable to purchase 210,750 shares were exercised by 17 individuals. As a result, at October 31, 2004, there were outstanding NQOs and Warrants owned by employees, directors, consultants including members of the Scientific Advisory Board and a software provider exercisable to purchase an aggregate 326,000 shares at exercise prices ranging from $1.19 to $13.70 per share.

See Note 11 of Notes to the Consolidated Financial Statements.

Option Grants to Our Three Named Executive Officers in Last Fiscal Year

No options to purchase shares of our Common Stock were granted to any of our three Named Executive Officers in fiscal 2004.

Aggregated Option Exercises by Our Three Named Executive Officers in Last Fiscal Year And Fiscal Year-End Option Values

Name	Shares of Common Stock Acquired Upon Option Exercise in Fiscal 2004	Value Realized	Shares of Common Stock Underlying Unexercised Options at 2004 Fiscal Year End (b)	Value of Unexercised In-The-Money Options at 2004 Fiscal Year-End (c)
Marc D. Grodman			4,000	$ 29,080
Howard Dubinett	200,000	$ 2,578,250(a)	13,334	178,025
			4,000	29,080
Sam Singer			4,000	29,080

(a) Based upon the difference between the last sale price for the Common Stock on NASDAQ on March 22, 2004 (the date of exercise) and the exercise price.

(b) All of these options are currently exercisable.

(c) Based upon the difference between the last sales price for the Common Stock on NASDAQ on Friday, October 29, 2004 and the exercise price.

Directors Compensation

Directors who are not our employees were each paid a $6,250 per quarter director s fee during the first half of fiscal year 2004 which increased to $10,000 per quarter for the second half of fiscal 2004.

Item 12. - Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth information as of October 31, 2004 with respect to the ownership of Common Stock by (i) each person known to us to be the beneficial owner of more than 5% of our outstanding Common Stock, (ii) each of our directors, (iii) each of our executive officers, and (iv) all directors and executive officers as a group. The percentages have been calculated on the basis of treating as outstanding for a particular holder, all shares of Common Stock outstanding on said date owned by such holder and all shares of Common Stock issuable to such holder in the event of exercise or conversion of outstanding options, warrants and convertible securities owned by such holder at said date which are exercisable or convertible within 60 days of such date.

Name and Address of Beneficial Owner Directors and Executive Officers*	**Shares of Common Stock Beneficially Owned(1)**	**Percentage Ownership**
Marc D. Grodman(2)	1,657,846	13%
Howard Dubinett(3)	481,001	4%
Sam Singer(4)	315,667	2%
Harry Elias	-0-	0%
Gary Lederman(5)	27,200	**
John Roglieri(6)	52,000	**
Executive Officers and Directors as a group	2,533,714	20%
(six persons)(2)(3)(4)(5)(6)		

* The address of all of the Company s directors and executive officers is c/o the Company, 481 Edward H. Ross Drive, Elmwood Park, New Jersey 07407.

** Less than one (1%) percent.

(1) Except as otherwise noted, each holder named in the table has sole voting and investment power with respect to all shares of Common Stock shown as beneficially

owned.

(2) Includes 1,429,779 shares owned directly and 4,000 shares issuable upon exercise of options. Also includes 176,067 shares owned directly by Dr. Grodman s wife, Pam Grodman, and 48,000 shares owned by their minor children. Dr. Grodman disclaims beneficial ownership of these 224,067 shares.

(3) Includes 463,667 shares owned directly and 17,334 shares issuable upon exercise of options. In lieu of an outright sale, on March 30, 2004, Mr. Dubinett entered into a pre-paid variable forward sales contract (Forward Contract) with Bear Stearns Bank plc (Bear Stearns). Pursuant to the Forward Contract, Mr. Dubinett pledged 100,000 of his shares of Common Stock to secure his obligation to deliver a maximum 100,000 shares of Common Stock to Bear Stearns on March 30, 2006 (the Settlement Date). Mr. Dubinett received a prepayment of $1,297,680 from Bear Stearns for his pledge of the 100,000 shares. On the Settlement Date, Mr. Dubinett will be obligated to deliver a variable number of shares to Bear Stearns based on the price of the Common Stock on the Settlement Date, up to a maximum 100,000 shares. Mr. Dubinett will benefit from any excess in the price of the Common Stock on the Settlement Date to the extent it exceeds $16.07 per share up to a maximum $21.69 per share by being able to deliver fewer shares. Until the Settlement Date, Mr. Dubinett is deemed the beneficial owner of the pledged shares.

(4) Includes 305,667 shares owned directly, 4,000 shares issuable upon exercise of options and 6,000 shares owned by children who share Mr. Singer s household. Mr. Singer disclaims beneficial ownership of these 6,000 shares.

(5) Includes 15,200 shares owned directly and 12,000 shares issuable upon exercise of options.

(6) Includes 40,000 shares owned directly and 12,000 shares issuable upon exercise of options.

Equity Compensation Plan Information

The following table provides information as of October 31, 2004 regarding shares of Common Stock that may be issued pursuant to the Company s equity compensation plans:

	(a) Number of Shares Issuable upon Exercise of Outstanding Options and Warrants		(b) Weighted-Average Exercise Price per Share of Outstanding Options and Warrants	(c) Number of Shares Remaining Available for Future Issuances Under Equity Compensation Plans (Excluding Shares Reflected in Column (a))
Equity Compensation Plans Approved by Stockholders	694,580(1)	$	6.44	696,000(2)
Equity Compensation Plans Not Approved by Stockholders	326,000(3)	$	3.16	-0-
Totals	1,020,580	$	5.39	696,000

(1) Reflects shares issuable upon exercise of outstanding ISOs granted pursuant to the Company s 1989, 2000 and 2003 Employee Stock Option Plans.

(2) Reflects shares reserved for issuance upon the grant of ISOs which may be granted pursuant to the Company s 2000 and 2003 Employee Incentive Stock Option Plans.

(3) Includes 200,000 shares issuable upon exercise of Warrants held by a software provider; 70,000 shares issuable upon exercise of NQOs held by members of the Company s Scientific

Advisory Board; 36,000 shares issuable upon exercise of NQOs held by five directors; and 20,000 shares issuable upon exercise of NQOs held by a consultant. The Warrants and the NQOs held by the software provider, the members of the Scientific Advisory Committee and the consultant were issued pursuant to individual contracts with each recipient.

Item 13. - Certain Relationships and Related Transactions

On April 20, 1993, in order to facilitate the Company s 1993 public offering, Dr. Grodman canceled his pro-rata option and all other outstanding options and warrants to purchase shares of Common Stock held by Dr. Grodman, his wife and an affiliated entity (the Grodman Group) exercisable to purchase an aggregate 604,078 shares of Common Stock at prices ranging from $1.4438 to $1.50 or an average price of $1.47 per share. The pro-rata option permitted the Grodman Group to purchase a proportionate number of shares of Common Stock or securities convertible into shares of Common Stock sold or issued by the Company so as to continue to maintain an approximately 19.6% beneficial ownership in the Common Stock on a fully diluted basis. In consideration for the cancellation, the Company issued 604,078 shares of a new class of senior preferred stock, $.10 par value per share (Senior Preferred Stock) to the Grodman Group. Each share of Senior Preferred Stock had the same voting rights (one vote per share), dividend rights and liquidation rights as each share of Common Stock and for a period of ten years after issuance, was convertible into one share of Common Stock upon payment of a conversion price of $1.50 per share. The 604,078 shares of Senior Preferred Stock were issued to the Grodman Group on August 23, 1993. On May 13, 1997 pursuant to a recapitalization, the Senior Preferred Stock was retired in exchange for a new class of Series A Senior Preferred Stock issued to the Grodman Group. The new Series A Senior Preferred Stock was convertible into an aggregate 604,078 shares of Common Stock on or before May 1, 2007 at a conversion price of $.75 per share and had the same voting rights (one vote per share), dividend rights and liquidation rights as each share of Common Stock On July 23, 2004, Dr. and Mrs. Grodman paid the $453,059 aggregate conversion price and converted their 604,078 shares of Series A Senior Preferred Stock into 604,078 shares of Common Stock.

Item 14 Principal Accountant Fees and Services

The firm of Moore Stephens, P.C. (Moore Stephens) certified public accountants, audited our accounts and the accounts of our subsidiaries for the fiscal years ended October 31, 2004 and 2003. Moore Stephens and its predecessor firm have been our auditors since 1988.

(1) Audit Fees

Moore Stephens billed us $125,595 for professional services rendered in connection with the audit of our annual financial statements for the fiscal year ended October 31, 2004 and the review of the financial statements included in our quarterly reports on Form 10-Q for such fiscal year compared to $124,485 in billings for such services for the fiscal year ended October 31, 2003. In addition, Moore Stephens billed us $7,600 in fiscal 2004 for its audit of our 401(k) Plan for calendar year 2003 as compared to $9,360 of such fees in fiscal 2003 with respect to calendar year 2002.

(2) Audit-Related Fees

Moore Stephens did not render any services related to the performance of the audit or review of our financial statements for fiscal 2004 or 2003 other than the services reported in Item 14 (1) herein.

(3) Tax Fees

Moore Stephens billed us approximately $39,000 for tax services for fiscal 2004 and approximately $29,000 for tax services for fiscal 2003. The fees were billed for tax return preparation.

(4) All Other Fees

No fees were billed to us by Moore Stephens with respect to fiscal 2004 or fiscal 2003 other than for services described in Item 14 (1) and (3) herein.

(5) Pre-Approval Policies and Procedures

The engagement of Moore Stephens to render the above audit and tax services was approved by our audit committee prior to the engagement.

PART IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a)1. Financial Statements

The following financial statements of the Company are included in Part II, Item 7

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets - October 31, 2004 and 2003

Consolidated Statements of Operations-
Years ended October 31, 2004, 2003 and 2002

Consolidated Statements of Shareholders Equity
Years ended October 31, 2004, 2003, and 2002

Consolidated Statements of Cash Flows -
Years ended October 31, 2004, 2003 and 2002

Notes to Consolidated Financial Statements-

2. Financial Statements Schedule

Schedule II -

Years ended October 31, 2004, 2003 and 2002

3. Exhibits

Exhibit No.	Item	Incorporated by Reference to
3.1*	Amended and Restated Certificate of Incorporation dated November 15, 1989	(A)
3.1.1*	Amendment to Certificate of Incorporation dated October 4, 1991 (authorizing one-for-10 reverse stock split)	(B)
3.1.2*	Amendment to Certificate of Incorporation dated August 23, 1993 (authorizing one-for-three reverse stock split)	(C)
3.1.3*	Amendment to Certificate of Incorporation dated March 23, 1998 (creating Series A Senior Preferred Stock)	(F)
3.1.4*	Amendment to Certificate of Incorporation dated March 31, 1998 (creating Series A Junior Participating Preferred Stock)	(F)
3.1.5*	Amendment to Certificate of Incorporation dated September 22, 2003 (increasing authorized shares of Common Stock to 35,000,000 shares)	(J)
3.2*	By-laws	(D)

4.1*	Form of Common Stock Certificate, $.01 par value	(C)

10.1*	Lease Agreement for Elmwood Park, New Jersey Premises, expiring in February, 2004	(F)
10.1.1	Fifth Amendment dated as of July 16, 2004 to Lease for Elmwood Park, New Jersey Premises	
10.1.2	Sixth Amendment dated as of October 27, 2004 to Lease for Elmwood Park, New Jersey Premises	
10.2*	Employment Agreement between the Company and Marc Grodman expiring in October 2011	(K)
10.3*	Employment Agreement between the Company and Howard Dubinett as in effect at October 31, 2001	(F)
10.3.1*	Extension to Employment Agreement between the Company and Howard Dubinett effective November 1, 2002	(I)
10.3.2	Extension to Employment Agreement between the Company and Howard Dubinett effective November 1, 2004.	
10.4*	Employment Agreement between the Company and Sam Singer as in effect at October 31, 2001	(F)
10.4.1*	Extension to Employment Agreement between the Company and Sam Singer effective November 1, 2002	(I)
10.4.2	Extension to Employment Agreement between the Company and Sam Singer effective November 1, 2004	
10.5*	The Company s 1989 Stock Option Plan	(B)
10.5.1*	The Company s 2000 Employee Incentive Stock Option Plan.	(G)
10.5.2*	The Company s 2003 Employee Incentive Stock Option Plan.	(J)
10.7*	Rights Agreement dated as of March 31, 1998 including Exhibits thereto between the Company and American Stock Transfer & Trust Company as Rights Agent	(E)
10.11*	Stock Purchase Agreement dated May 14, 2001, between the Company on the one hand and CastleTop Investments, L.P. (an affiliate of Morton L. Topfer) and Morton L. Topfer on the other	(H)
10.12*	Strategic Marketing Alliance Agreement dated as of December 31, 2001 between the Company and CareEvolve.com, Inc. on the one hand and Roche Diagnostics Corporation on the other.	(H)
10.12.1	Addendum dated as of December 27, 2004 between the Company and CareEvolve.com, Inc. on the one hand and Roche Diagnostics Corporation on the other.	
10.13	Amended and Restated Loan and Security Agreement as of September 30, 2004 between the Company and PNC Bank, National Association.	
21	Subsidiaries of the Company	

The following are the Company s two wholly-owned subsidiaries:

	State of Incorporation	Name under which it Conducts or Conducted Business
Medilabs, Inc.	**New York**	**Medilabs**

CareEvolve.com, Inc.	**New Jersey**	**CareEvolve**

31.1	Certification of Chief Executive Officer
31.2	Certification of Chief Financial Officer
32.1	Certification pursuant to 18 U.S.C. Section 1350 of Chief Executive Officer
32.2	Certification pursuant to 18 U.S.C. section 1350 of Chief Financial Officer

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The exhibits designated above with an asterisk (*) have previously been filed with the Commission and, pursuant to 17 C.F.R. Secs. 201.24 and 240.12b-32, are incorporated by reference to the documents as indicated below.

(A)	Incorporated by reference to exhibit filed with the Company s Registration Statement on Form S-1 (File No. 33-31360).
(B)	Incorporated by reference to exhibit filed with the Company s annual report on Form 10KSB for the year ended October 31, 1992.
(C)	Incorporated by reference to exhibit filed with the Company s Registration Statement on Form SB-2 (File No. 33-68678).
(D)	Incorporated by reference to exhibit filed with the Company s Registration Statement on Form S-18 (File No. 33-5048-NY).
(E)	Incorporated by reference to exhibit filed with the Company s report on Form 8-A dated March 31, 1998.
(F)	Incorporated by reference to exhibit filed with the Company s annual report on Form 10-K for the year ended October 31, 1999.
(G)	Incorporated by reference to exhibit filed with the Company s annual report on Form 10-K for the year ended October 31, 2000.
(H)	Incorporated by reference to exhibit filed with the Company s annual report on Form 10-K for the year ended October 31, 2001.
(I)	Incorporated by reference to exhibit filed with the Company s annual report on Form 10-K for the year ended October 31, 2002
(J)	Incorporated by reference to exhibit filed with the Company s Registration Statement on Form S-8 (File No. 333-111578).
(K)	Incorporated by reference to exhibit filed with the Company s current report on Form 8-K (for December 6, 2004).

(b) **Reports on Form 8-K**

On October 12, 2004, we filed a current report on Form 8-K reporting our execution on October 5, 2004 (as of September 30, 2004) of an Amended and Restated Loan and Security Agreement with PNC Bank, National Association.

On December 10, 2004, we filed a current report on Form 8-K, reporting our execution of a seven year Employment Agreement commencing November1, 2004 with our President and Chief Executive Officer, Marc Grodman.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BIO-REFERENCE LABORATORIES, INC.

By: /S/ Marc D. Grodman
Marc D. Grodman
Chairman of the Board, President,
Chief Executive Officer and Director
Dated: January12, 2005

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/S/ Marc D. Grodman
Marc D. Grodman
Chairman of the Board, President,
Chief Executive Officer and Director
January 12, 2005

/S/ Howard Dubinett
Howard Dubinett
Executive Vice President,
Chief Operating Officer and Director
January 12, 2005

/S/ Sam Singer
Sam Singer
Vice President, Chief Financial Officer,
Chief Accounting Officer and Director
January 12, 2005

/S/ Harry Elias
Harry Elias
Director
January 12, 2005

/S/ Gary Lederman
Gary Lederman
Director
January 12, 2005

/S/ John Roglieri
John Roglieri
Director
January 12, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Bio-Reference Laboratories, Inc.
Elmwood Park, New Jersey

We have audited the accompanying consolidated balance sheets of Bio-Reference Laboratories, Inc. and its subsidiary as of October 31, 2004 and 2003, and the related consolidated statements of operations, shareholders equity, and cash flows for each of the three fiscal years in the period ended October 31, 2004. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bio-Reference Laboratories, Inc. and its subsidiary as of October 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three fiscal years in the period ended October 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

MOORE STEPHENS, P. C.

Certified Public Accountants.

Cranford, New Jersey

December 17, 2004

BIO-REFERENCE LABORATORIES, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

[Dollars In Thousands, Except Per Share Data]

	October 31,	
	2004	**2003**
Assets:		
Current Assets:		
Cash and Cash Equivalents	$ 6,681	$ 3,966
Accounts Receivable - Net	40,952	32,913
Inventory	1,277	1,088
Other Current Assets	834	763
Deferred Tax Asset	1,029	
Total Current Assets	50,773	38,730
Property and Equipment - At Cost	13,501	7,485
Less: Accumulated Depreciation	4,225	2,722
Property and Equipment - Net	9,276	4,763
Other Assets:		
Deposits	426	314
Goodwill - Net	8,190	5,843
Intangible Assets - Net	2,438	2,299
Other Assets	1,048	1,270
Total Other Assets	12,102	9,726
Total Assets	$ 72,151	$ 53,219

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

BIO-REFERENCE LABORATORIES, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

[Dollars In Thousands, Except Per Share Data]

	October 31,	
	2004	**2003**
Liabilities and Shareholders Equity:		
Current Liabilities:		
Accounts Payable	$ 10,801	$ 7,900
Accrued Salaries and Commissions	2,139	1,719
Accrued Taxes and Expenses	1,081	1,158
Revolving Note Payable - Bank	10,333	8,718
Current Maturities of Long-Term Debt	1,273	
Capitalized Lease Obligation - Short-Term Portion	1,331	933
Total Current Liabilities	26,958	20,428
Long-Term Liabilities:		
Capitalized Lease Obligations - Long-Term Portion	3,092	2,127
Long-Term Debt Net of Current Portion	1,061	
Other Long-Term Liabilities	25	75
Deferred Tax Liabilities	342	631
Total Long-Term Liabilities	4,520	2,833
Commitments and Contingencies		
Shareholders Equity:		
Preferred Stock, Par Value $.10 Per Share, Authorized 1,059,589 Shares; None Issued		
Series A - Senior Preferred Stock, Par Value $.10 Per Share, Authorized, Issued and Outstanding; None and 604,078 Shares at October 31, 2004 and 2003, respectively		60
Series A - Junior Participating Preferred Stock, Par Value $.10 Per Share, Authorized 3,000 Shares; None Issued		
Common Stock, Par Value $.01 Per Share, Authorized 35,000,000 Shares; Issued and Outstanding 12,657,939 and 11,451,023 Shares at October 31, 2004 and 2003, Respectively	127	115
Additional Paid-in Capital	30,099	27,907
Retained Earnings	10,831	2,315
Totals	41,057	30,397
Deferred Compensation	(384)	(439)
Total Shareholders Equity	40,673	29,958
Total Liabilities and Shareholders Equity	$ 72,151	$ 53,219

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

BIO-REFERENCE LABORATORIES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

[Dollars In Thousands, Except Per Share Data]

	Years ended October 31,		
	2004	**2003**	**2002**
Net Revenues	$ 136,184	$ 109,034	$ 96,631
Cost of Services:			
Depreciation and Amortization	1,764	1,032	650
Employee Related Expenses	30,818	26,562	23,669
Reagents and Laboratory Supplies	20,523	16,843	15,418
Other Cost of Services	15,096	11,779	11,969
Total Cost of Services	68,201	56,216	51,706
Gross Profit	67,983	52,818	44,925
General and Administrative Expenses:			
Depreciation and Amortization	838	689	899
General and Administrative Expenses	36,819	30,038	25,613
Provision for Doubtful Accounts	17,506	12,806	12,341
Total General and Administrative Expenses	55,163	43,533	38,853
Income from Operations	12,820	9,285	6,072
Other [Income] Expense:			
Interest Expense	667	704	889
Interest Income	(33)	(23)	(40)
Total Other Expense - Net	634	681	849
Income Before Income Taxes	12,186	8,604	5,223
Provision for Income Tax Expense	3,670	2,064	301
Net Income	$ 8,516	$ 6,540	$ 4,922
Net Income Per Common Share - Basic	$ .71	$ .57	$ .43
Net Income Per Common Share - Diluted	$ .67	$ .51	$ .39

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

BIO-REFERENCE LABORATORIES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

[Dollars In Thousands]

	Series A Senior Preferred Stock		Common Stock		Additional Paid-in	Accumulated	Deferred	Total Shareholders
	Shares	Amount	Shares	Amount	Capital	[Deficit]	Compensation	Equity
Balance October 31, 2001	604,078	$ 60	11,010,646	$ 110	$ 28,101	$ (9,147)	$ (651)	$ 18,473
Amortization of Deferred Compensation							293	293
Reclassification of Warrants					(70)		70	
Exercise of Options - Employees			532,937	5	449			454
Exercise of Options - Consultants			45,000	1	64			65
Net Income						4,922		4,922
Balance - October 31, 2002	604,078	60	11,588,583	116	28,544	(4,225)	(288)	24,207
Amortization of Deferred Compensation							140	140
Shares Issued for Compensation			10,000		15			15
Exercise of Options - Employees			82,140	1	125			126
Warrants Issued to Advisory Board					291		(291)	
Common Stock Repurchased and Retired			(229,700)	(2)	(1,068)			(1,070)
Net Income						6,540		6,540
Balance - October 31, 2003	604,078	60	11,451,023	115	27,907	2,315	(439)	29,958
Warrants Issued to Advisory Board					137		(137)	
Amortization of Deferred Compensation							192	192
Common Stock Repurchased and Retired			(30,000)		(350)			(350)
Exercise of Stock Options			632,838	6	1,898			1,904
Conversion of Preferred Stock to Common Stock	(604,078)	(60)	604,078	6	507			453
Net Income						8,516		8,516
Balance October 31, 2004		$	12,657,939	$ 127	$ 30,099	$ 10,831	$ 384	$ 40,673

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

BIO-REFERENCE LABORATORIES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

[Dollars In Thousands]

	Years ended October 31,		
	2004	**2003**	**2002**
Operating Activities:			
Net Income	$ 8,516	$ 6,540	$ 4,922
Adjustments to Reconcile Net Income to Net Cash Provided by [Used for] Operating Activities:			
Depreciation and Amortization	2,602	1,722	1,549
Amortization of Deferred Compensation	192	140	293
Provision for Doubtful Accounts	17,506	12,806	12,341
Deferred Income Tax (Benefit)/Expense	(1,318)	939	262
Stock Issued for Compensation		15	
Changes in Assets and Liabilities [Net of Effects from Acquisitions]:			
[Increase] Decrease in:			
Accounts Receivable	(25,330)	(17,020)	(13,753)
Inventory	(189)	(7)	(95)
Other Current Assets	(71)	113	(441)
Other Assets	222	(203)	(107)
Deposits	(112)	(21)	(33)
Increase [Decrease] in:			
Accounts Payable, Accrued Taxes and Expenses	3,008	569	(256)
Total Adjustments	(3,490)	(947)	(240)
Net Cash - Operating Activities - Forward	5,026	5,593	4,682
Investing Activities:			
Business Acquisitions	(3,146)		
Acquisition of Property and Equipment	(3,541)	(1,105)	(433)
Capitalized Software Development Costs			(210)
Repayment of Related Party Receivable			9
Capitalized Loan Fees	(75)		9
Net Cash - Investing Activities - Forward	(6,762)	(1,105)	(634)
Financing Activities:			
Proceeds from Long-Term Debt	2,546		
Payments of Long-Term Debt	(212)	(400)	(1,060)
Payments of Capital Lease Obligations	(1,505)	(753)	(384)
Increase [Decrease] in Revolving Line of Credit	1,615	(1,828)	(2,075)
Proceeds from the Exercise of Stock Options	1,904	126	519
Conversion of Preferred Stock	453		
Common Stock Repurchased	(350)	(1,070)	
Net Cash - Financing Activities - Forward	$ 4,451	$ (3,925)	$ (3,000)

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

	Years ended October 31,		
	2004	2003	2002
Net Cash - Operating Activities - Forwarded	$ 5,026	$ 5,593	$ 4,682
Net Cash - Investing Activities - Forwarded	(6,762)	(1,105)	(634)
Net Cash - Financing Activities - Forwarded	4,451	(3,925)	(3,000)
Net Increase in Cash and Cash Equivalents	2,715	563	1,048
Cash and Cash Equivalents - Beginning of Years	3,966	3,403	2,355
Cash and Cash Equivalents - End of Years	$ 6,681	$ 3,966	$ 3,403
Supplemental Disclosures of Cash Flow Information:			
Cash paid during the years for:			
Interest	$ 646	$ 723	$ 926
Income Taxes	$ 4,590	$ 326	$ 274

Supplemental Schedule of Non-Cash Investing and Financing Activities:

In fiscal 2004 and 2003, the Company issued 15,000 and 70,000 common stock options valued at $137 and $291 to members of its Scientific Advisory Board as deferred compensation.

During fiscal 2004, 2003 and 2002, the Company wrote-off approximately $617, $310 and $1,340 of furniture and equipment which were fully depreciated.

Approximately $428 and $467 of capitalized costs related to covenants not-to-compete and employment agreements, which were fully amortized, were written off in fiscal 2004 and 2002, respectively.

During fiscal 2004, 2003 and 2002, the Company incurred capital lease obligations totaling approximately $2,869, $1,807 and $1,476 in connection with the acquisition of property and equipment.

[See Notes 9, 11 and 18 for additional non-cash transactions]

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

BIO-REFERENCE LABORATORIES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Dollars In Thousands Except Per Share Data or Unless Otherwise Indicated]

[1] Organization and Business

Bio-Reference Laboratories, Inc. [Bio-Reference or the Company] was incorporated on December 24, 1981. Bio-Reference is principally engaged in providing clinical laboratory testing services, primarily to customers in the greater New York metropolitan area as well as to customers in a number of other states. Bio-Reference offers a comprehensive list of chemical diagnostic tests including blood and urine analysis, blood chemistry, hematology services, serology, radioimmuno analysis, toxicology (including drug screening), pap smears, tissue pathology (biopsies) and other tissue analysis. It operates two clinical laboratories, one in Elmwood Park, New Jersey and one in Valley Cottage, New York, and an andrology laboratory in New York City. Bio-Reference markets its clinical laboratory testing services directly to physicians, hospitals, clinics, correctional and other health facilities.

In July 2004, the Company acquired certain operating assets of Cancer Genetics, Inc. (CGI), a cancer cytogenetics testing laboratory located in Milford, MA. The Company retained the supervisory staff and continues to operate the laboratory at its leased facility in Milford, MA. (See Note 18).

[2] Summary of Significant Accounting Policies

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

Cash and Cash Equivalents **-** Cash equivalents are comprised of certain highly liquid investments with a maturity of three months or less when purchased. The Company had $4,282 and $1,447 in cash equivalents at October 31, 2004 and 2003, respectively.

Inventory **-** Inventory is stated at the lower of cost [on a first-in, first-out basis] or market. Inventory consists primarily of purchased laboratory supplies.

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

The statements of operations reflect depreciation expense related to property and equipment of $2,034, $1,153 and $705 for the years ended October 31, 2004, 2003 and 2002, respectively.

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

Goodwill **-** Effective November 1, 2001, the Company evaluates the recoverability and measures the possible impairment of its goodwill under SFAS 142, Goodwill and Other Intangible Assets. The impairment test is a two-step process that begins with the estimation of the fair value of the reporting unit. The first step screens for potential impairment and the second step measures the amount of the impairment, if any. Management s estimate of fair value considers publicly available information regarding the market capitalization of the Company as well as (i) publicly available information

regarding comparable publicly-traded companies in the clinical laboratory testing industry, (ii) the financial projections and future prospects of the Company s business, including its growth opportunities and likely operational improvements, and (iii) comparable sales prices, if available. As part of the first step to assess potential impairment, management compares the estimate of fair value for the Company to the book value of the Company s consolidated net assets. If the book value of the consolidated net assets is greater than the estimate of fair value, the Company would then proceed to the second step to measure the impairment, if any. The second step compares the implied fair value of goodwill with its carrying value

The implied fair value is determined by allocating the fair value of the reporting unit to all of the assets and liabilities of that unit as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. If the carrying amount of the goodwill is greater than its implied fair value, an impairment loss will be recognized in that period. No impairment loss was recognized in the years ended October 31, 2004, 2003 and 2002.

The balance sheet reflects accumulated amortization of $2,401 and $2,401 as of October 31, 2004 and 2003, respectively.

Other Intangible Assets - Intangible assets are amortized using the straight-line method. The statements of operations reflect amortization expense related to intangible assets of $568, $569, and $631 for the years ended October 31, 2004, 2003 and 2002, respectively. The balance sheet reflects accumulated amortization of $2,794, and $2,654 as of October 31, 2004, and 2003, respectively.

Internal Use Software Costs - The Company accounts for internal use software costs in accordance with Statement of Position 98-1 [SOP 98-1], Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. Per SOP 98-1, the Company has capitalized certain internal use software and web site development costs totaling approximately $210 during the year ended October 31, 2002. No costs were capitalized during fiscal 2004 and 2003. The estimated useful life of costs capitalized is evaluated for each specific project when completed, at which time such costs begin to be amortized.

Net Service Revenue - Service revenues are principally generated from clinical laboratory testing services including chemical diagnostic tests such as blood and urine analysis, among others. Net service revenues are recognized at the time the testing 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 related services are rendered and adjusted in future periods as final settlements are determined. The Company has a subsidiary that provides non-clinical laboratory services. Revenues generated from these services are not material for each of the years presented. Net service revenues on the statements of operations are as follows:

	Years ended October 31,		
	2004	**2003**	**2002**

Gross Revenues	$ 341,180	$ 269,676	$ 232,772
Contractual Adjustments and Discounts:			
Medicare/Medicaid Portion	92,753	78,148	65,401
Other	112,243	82,494	70,740
Total Contractual Adjustments and Discounts	204,996	160,642	136,141
Net Revenues	$ 136,184	$ 109,034	$ 96,631

Contractual Credits and Provision for Doubtful Accounts - An allowance for contractual credits is determined based upon a review of the reimbursement policies and subsequent collections for the different types of payors. An allowance for doubtful accounts is determined based upon a percentage of total receivables. The aggregate allowance, which is shown net against accounts receivable, was $38,102 and $29,185 as of October 31, 2004 and 2003, respectively.

As of October 31, 2004 and 2003, accounts receivable is reported net of an allowance for doubtful accounts which is comprised of the following items:

	October 31,	
	2004	**2003**
Contractual Credits/Discounts	$ 31,067	$ 24,026
Doubtful Accounts	7,035	5,159
Total Allowance	$ 38,102	$ 29,185

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

Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

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

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recoverability and Impairment of Intangible Assets and Other Long-Lived Assets - Effective November 1, 2002, the Company evaluates the possible impairment of its long-lived assets, including intangible assets (which are amortized pursuant to the provisions of SFAS 142), under SFAS No. 144, Accounting for Impairment or Disposal of Long-Lived Assets (SFAS 144). The Company reviews the recoverability of its long-lived assets when events or changes in circumstances occur that indicate that the carrying value of the asset may not be recoverable. Evaluation of possible impairment is based on the Company s ability to recover the asset from the expected future pretax cash flows (undiscounted and without interest charges) of the related operations. If the expected undiscounted pretax cash flows are less than the carrying amount of such asset, an impairment loss is recognized for the difference between the estimated fair value and carrying amount of the asset. The Company s adoption of SFAS 144 did not result in any impairment loss being recorded. No impairment loss was recognized in the fiscal years ended October 31, 2004, 2003 and 2002.

Stock Options Issued to Employees - The Company adopted Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, for financial note disclosure purposes and continues to apply the intrinsic value method of Accounting Principles Board [APB] Opinion No. 25, Accounting for Stock Issued to Employees, for financial reporting purposes.

Advertising Costs -Advertising costs are expensed when incurred. Advertising costs amounted to approximately $272, $188 and $105 for the years ended October 31, 2004, 2003 and 2002, respectively.

Reclassification - Certain prior year amounts have been reclassified to conform with the current year presentation.

[3] Property and Equipment - Property and equipment - at cost is summarized as follows:

	October 31,	
	2004	**2003**
Medical Equipment	$ 5,980	$ 4,119
Leasehold Improvements	3,313	1,728
Furniture, Fixtures and Office Equipment	1,873	994
Automobiles	2,335	644
Totals	13,501	7,485
Less: Accumulated Depreciation	4,225	2,722
Totals - Net of Accumulated Depreciation	$ 9,276	$ 4,763

[4] Intangible Assets

Intangible assets are summarized as follows:

October 31, 2004:

Intangible Asset	**Weighted-Average Amortization Period**	**Cost**	**Accumulated Amortization**	**Net of Accumulated Amortization**
Software Costs	5	$ 1,535	$ 943	$ 592
Customer Lists	20	1,697	860	837
Covenants Not-to-Compete	2	5	1	4
Employment Agreement	7	825	661	164
Costs Related to Acquisitions	19	1,015	260	755

Patent	17	156	70	86
Totals	11	$ 5,233	$ 2,795	$ 2,438

October 31, 2003:

Intangible Asset	Weighted-Average Amortization Period	Cost	Accumulated Amortization	Net of Accumulated Amortization
Software Costs	5	$ 1,535	$ 647	$ 888
Customer Lists	20	1,230	783	447
Covenants Not-to-Compete	2	119	119	
Employment Agreement	7	825	532	293
Costs Related to Acquisitions	19	1,088	512	576
Patent	17	156	61	95
Totals	10	$ 4,953	$ 2,654	$ 2,299

The estimated amortization expense related to intangible assets for each of the five succeeding fiscal years and thereafter as of October 31, 2004 is as follows:

Year Ended October 31,		
2005	$	619
2006		476
2007		223
2008		150
2009		130
Thereafter		840
Total	$	2,438

[5] Revolving Note Payable - Bank

In October 2004, the Company entered into an amended revolving note payable loan agreement with a bank. The maximum amount of the credit line available to the Company is the lesser of (i) $30,000 or (ii) 50% of the Company s qualified accounts receivable [as defined in the agreement]. The amended loan agreement provides for an acquisition subline of up to $10,000 which can be repaid in 36 equal monthly installments. The amendment to the Loan and Security Agreement provides for interest on advances to be subject to the bank s prime rate or Eurodollar rate of interest plus, in certain instances, an additional interest percentage. The additional interest percentage charges on Eurodollar borrowings range from 1% to 4% and are determined based upon certain financial ratios achieved by the Company. At October 31, 2004, the Company had elected to have $6,000 of the total advances outstanding converted into a Eurodollar rate loan with a variable interest rate of 3.16% at October 31, 2004. The remaining outstanding advances during that period were subject to the bank s prime rate of interest. At October 31, 2004, advances of $4,333 were subject to interest at the prime rate. As of October 31, 2004 and 2003, the bank s prime rate of interest was 4.75% and 4.00%, respectively. The credit line is collateralized by substantially all of the Company s assets. The line of credit is available through October 2007 and may be extended for annual periods by mutual consent, thereafter. The terms of this agreement contain, among other provisions, requirements for maintaining defined levels of capital expenditures, fixed charge coverage, insurance coverage and the prohibition of the payment by the Company of cash dividends. As of October 31, 2004, the Company utilized $12,879 (including $2,546 utilized under the acquisition subline) and had $17,121 of available unused credit under this revolving note payable loan agreement.

The weighted average interest rate on short-term borrowings outstanding as of October 31, 2004 and 2003 was approximately 3.92% and 2.85%, respectively.

[6] Long-Term Debt - Bank

In connection with the CGI acquisition, the Company borrowed $2,546 under the acquisition subline available under the revolving note payable agreement (See notes 5 and 18). Principal and interest are due in 26 equal installments of $113 through August 2006. At October 31, 2004 the Company had a principal balance of $2,334 outstanding. Interest is charged at the bank s prime rate of interest plus 1% per annum. At October 31, 2004 the principal balance outstanding under the borrowing was subject to interest at 5.75% per annum.

Principal repayment for each of the five succeeding fiscal years and thereafter as of October 31, 2004 is as follows:

Year Ended October 31,		
2005	$	1,273
2006		1,061
		2,334

[7] Related Party Transactions

In March 2001, the Company entered into a joint marketing agreement [the agreement] with General Prescription Programs, Inc. [GPP]. Provisions of the agreement provide that GPP will assist the Company in marketing its PSIMedica programs to various customers. In addition, GPP will provide ongoing data and data support to the PSIMedica program development. The term of the agreement is for a five year period commencing on October 2001. In exchange for obtaining GPP marketing and technical services, the Company issued GPP 220,000 shares of its common stock with a fair value of approximately $248 which is being amortized over the five year term of the agreement. For the years ended October 31, 2004, 2003 and 2002, the Company recorded an expense of $50 , $50 and $50, respectively. The Chairman of the Board of GPP is the brother of the Company s Chief Executive Officer. See Note 9A as to the conversion by the Company s Chief Executive Officer and his wife of shares of Series A Senior preferred Stock during fiscal 2004.

[8] Income Taxes

The reconciliation of income tax from continuing operations computed at the U.S. federal statutory tax rate to the Company s effective income tax rate is as follows:

	October 31,		
	2004	**2003**	**2002**
U.S. Federal Statutory Rate	34.0%	34.0%	34.0%
State and Local Income Taxes, Net of U.S. Federal Income Tax Benefit	6.0%	6.0%	6.0%
Permanent Differences and Other	(10.0)%	13%	%
Utilization of Net Operating Loss Carryforwards	%	(18.0)%	(18.0)%
Change in Valuation Allowance	%	(11.0)%	(16.0)%
Actual Rate	30.0%	24.0%	6.0%

The provision [benefit] for income taxes shown in the consolidated statements of operations consist of the following:

	October 31,		
	2004	**2003**	**2002**
Current:			
Federal	$ 3,562	$ 543	$
State and Local	1,426	582	39

Deferred:			
Federal	(1,120)	798	222
State and Local	(198)	141	40
Total Provision [Benefit] for Income Taxes	$ 3,670	$ 2,064	$ 301

At October 31, 2004 and 2003, the Company had a net deferred tax asset [liability] of approximately $687 and $(631) , respectively. The deferred taxes primarily relate to timing differences associated with the deductibility of depreciation, bad debts and certain accrued expenses and deferred costs. For fiscal 2004, the Company had no net operating loss carryforwards available to reduce current year taxable income. For fiscal 2003, the Company utilized approximately $4,378 (federal) and $2,682 (state) of net operating loss carryforwards to reduce current year taxable income.

	October 31,	
	2004	**2003**
Deferred Tax Asset:		
Bad Debt Allowance	$ 2,814	$ 2,064
Accrued Expenses	329	277
	3,143	2,341
Deferred Tax Liability:		
Deferred Costs	(2,114)	(2,563)
Property and Equipment	(342)	(409)
	(2,456)	(2,972)
Deferred Tax Asset [Liability] Net	$ 687	$ (631)
As Follows:		
Net Current Deferred Tax Asset		