BIO REFERENCE LABORATORIES INC
Form 10-K
January 17, 2006

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, 2005

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 if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No ý.

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

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

As of the last day of the quarter ended April 30, 2005, the aggregate market value of the voting stock of Bio-Reference Laboratories, Inc. (consisting of Common Stock, $.01 par value) held by non-affiliates of the registrant was approximately $142,000,000 based upon the last sale price for the Common Stock on said date as reported on the NASDAQ National Market System. On January 9, 2006, there were 12,981,367 shares of Common 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 nearly 2.9 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. We use this portal ourselves to provide laboratory ordering and results to our physician customers. We are also 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 subsidiary 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 are currently 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 economic 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 62% and esoteric testing generates approximately 38% 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)

We perform cancer cytogenetics testing at our leased facility in Milford, Massachusetts.

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. 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 retained the rights

to market the CareEvolve Services in all markets including the laboratory market, Roche was 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 was associated with one-time technology development expenses which had been assessed to CareEvolve and are now our responsibility. The Joint Venture was terminated by mutual consent in the fourth quarter of fiscal 2005 and we are now marketing the CareEvolve services on our own. CareEvolve s current monthly revenues, although not significant, now exceed its current monthly 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 2005, 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, 2003, 2004, and 2005.

	Years Ended October 31,		
	2003	**2004**	**2005**
Direct Patient Billing	7%	7%	6%
Commercial Insurance	43%	48%	46%
Professional Billing	20%	17%	18%
Medicare	27%	25%	26%
Medicaid	3%	3%	4%
	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 October 2005, we acquired certain assets of a Poughkeepsie, New York pathology practice for $2,174,000 plus assumed liabilities not to exceed $160,000. We retained the staff of this practice and continue to operate at the same three hospital locations that the practice previously operated at in New York s mid-Hudson region. 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 our 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 Massachusetts. 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. Testing of highly abnormal samples is repeated to assure 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. All of our medical waste is disposed of by a licensed interstate hauler. The hauler provides a manifest of the disposition of the waste products as well as a certificate of incineration which is retained by us. These records are audited by the State of New Jersey on a yearly basis. We are also subject to Federal requirements. The Federal Hazardous materials

transportation law, 49 U.S.C. 5101 et seq., and the Hazardous Materials Regulations (HMR), 49 CFR parts 171-180. The Federal government has classified hazardous medical waste as hazardous materials for the purpose of regulation. These regulations preempt State regulation which must be substantively the same, the non-Federal requirement must conform in every significant respect to the Federal requirement. Editorial and other similar de minimis changes are permitted 49 CFR 107.202(d). The amendments to provisions in 49 U.S.C., 5125 reaffirmed the need to achieve greater uniformity and to promote the public health, welfare, and safety at all levels, Federal standards for regulating the transportation of hazardous materials in intrastate, interstate, and foreign commerce are necessary and desirable. We believe we are in compliance with all Federal and State medical waste regulations.

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 third 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.

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.
- Patient s 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, 2005, we had 936 full-time and 340 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 October 2005, we acquired certain assets of a Poughkeepsie, New York pathology practice for $2,174,000 plus assumed liabilities not to exceed $160,000. We retained the staff of this practice and continue to operate at the same three hospital locations that the practice previously operated at in New York s mid-Hudson region. 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. At the beginning of calendar year 2005, CMS announced significant cuts to Medicare reimbursement rates for flow cytometry testing. We do not anticipate any restoration of the former reimbursement rates in fiscal 2006. Furthermore, 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.

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 $25,000,000 to $30,000,000. The Loan Agreement also provides us with an Acquisition Subline under the maximum $30,000,000 credit facility of up to $10,000,000 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 officer. The 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. See Item 11 Employment Agreements with Executive Officers and Severance Payments for Other Employees as to employment agreements signed by the Company which provide for substantial Severance Payments upon termination of employment in the event of a Change in Control of the Company. These Severance Payment provisions may also discourage attempts by third parties to tender for or otherwise obtain control of the Company.

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 12,000 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 2008, provides for a monthly rental of approximately $12,300. 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 $250,000,000 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 additional relatively small draw stations throughout the New York metropolitan area to collect specimens from physician-referred patients for testing at our processing facilities.

Dependence on Bank Financing

Item 3. - Legal Proceedings

At October 31, 2005 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 2005.

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**
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
2005		
First Quarter	$ 17.48	$ 13.25
Second Quarter	15.30	12.93
Third Quarter	15.04	13.55
Fourth Quarter	18.91	14.32

On January 9, 2006 the last sale price for the Common Stock on NASDAQ was $17.10 per share.

At October 31, 2005, the number of record owners of the Common Stock was 370. Such number of record owners was determined from our shareholder records and does not include beneficial owners whose shares are held in nominee accounts with brokers, dealers, banks and clearing agencies.

Dividends

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

Recent Sales of Unregistered Securities

On April 14, 2005 we issued 13,334 shares of our common stock to an executive officer, Howard Dubinett, upon his exercise of incentive stock options issued in 1997. He paid the full exercise price of $.71875 per share at the time of exercise.

On July 19, 2005, we issued 200,000 shares of our common stock to a consulting firm upon its exercise of warrants issued in fiscal 2001 for software services. The full exercise price of $2.00 per share was paid at the time of exercise.

A restrictive legend was placed on the certificates for the 13,334 shares and the 200,000 shares and stop transfer instructions were issued against the shares. The shares were issued in reliance upon the exemption from the registration requirements of the Securities Act of 1933 in

accordance with Section 4(2) of the Act on the basis that neither transaction involved a public offering.

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 June 1, 2005, the Board of Directors authorized the repurchase of up to 500,000 shares of our common stock from time to time at prevailing market prices in the over-the-counter market over the period ending October 31, 2007. As of October 31, 2005, no shares had been repurchased under this plan.

Item 6. - Selected Financial Data

	[In thousands, except per share data] Years ended October 31,				
	2005	**2004**	**2003**	**2002**	**2001**
Operating Data:					
Net Revenues	$ 163,896	$ 136,184	$ 109,034	$ 96,631	$ 80,622
Cost of Services	$ 83,352	$ 68,201	$ 56,216	$ 51,706	$ 44,265
Gross Profit	$ 80,544	$ 67,983	$ 52,818	$ 44,925	$ 36,357
General and Administrative Expenses	$ 67,937	$ 55,163	$ 43,533	$ 38,853	$ 32,750
Income from Operations	$ 12,607	$ 12,820	$ 9,285	$ 6,072	$ 3,607
Other Expenses - Net	$ 1,118	$ 634	$ 681	$ 849	$ 1,660
Provision for Income Tax Expense [Benefit]	$ 3,868	$ 3,670	$ 2,064	$ 301	$ (414)
Net Income	$ 7,621	$ 8,516	$ 6,540	$ 4,922	$ 2,361
Net Income Per Common Share	$ .60	$ .71	$ .57	$ .43	$ .24
Net Income Per Share - Diluted	$ 58	$ .67	$ .51	$ .39	$ .21
Cash Dividends Per Common Share	$	$	$	$	$
Balance Sheet Data:					
Total Assets	$ 88,373	$ 72,151	$ 53,219	$ 47,442	$ 44,006
Total Long-Term Liabilities	$ 4,934	$ 4,520	$ 2,833	$ 1,519	$ 1,158
Total Liabilities	$ 37,658	$ 31,478	$ 23,261	$ 23,235	$ 25,532
Working Capital	$ 30,515	$ 23,815	$ 18,302	$ 12,651	$ 7,257
Shareholders Equity	$ 50,715	$ 40,673	$ 29,958	$ 24,207	$ 18,474

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

OVERVIEW

We are a clinical laboratory located in northeastern New Jersey. Our regional footprint lies within the New York City metropolitan area and the surrounding areas of New Jersey and southern New York State as well eastern Pennsylvania and some areas of western Connecticut; under certain circumstances, we provide services further into New York State, Pennsylvania, Delaware and Maryland. As a regional provider, we are a full-service laboratory that primarily services physician office practices; our drivers pick up samples and deliver reports and supplies, we provide sophisticated technical support, phlebotomy services or patient service centers where appropriate, and electronic communication services in many cases. We have also developed a national reputation for our expertise in certain focused areas of clinical testing. GenPath, our cancer and oncology laboratory, is one of the premier hematopathology laboratories in the country. Physicians outside of our regional footprint send samples to our laboratory in order to take advantage of the expertise that we are able to provide in blood-based cancer pathology and associated diagnostics. Our correctional healthcare services are used throughout the country at prisons and jails. The focused markets we

serve on a national basis outside of our regional footprint do not require many of the logistical and other ancillary support services required within the region. Even within our regional footprint, we provide the same services that we provide on a national basis as well as some regional focused diagnostic services, such as histology and pathology support services, substance abuse testing, fertility testing, hemostasis testing, women s health testing, and molecular diagnostics that are unavailable from many of the smaller regional competitors; testing for some of these areas may be provided outside of physician offices.

Over the last few years, there have been fundamental changes in the laboratory services industry. In the 1990s, the industry was negatively impacted by the growth of managed care, increased government regulation, and investigations into fraud and abuse. These factors led to revenue and profit declines and industry consolidations, especially among commercial laboratories. There are currently only four publicly-traded laboratories, and one of those is being acquired by a private corporation and will be leaving the public markets in the near future. While that will leave the two national mega-laboratories and BioReference Laboratories as the only remaining publicly traded commercial laboratories, there are numerous hospital outreach programs and smaller reference laboratories that compete for the commercial clinical laboratory business scattered throughout the country. Clinical laboratories have had to improve efficiency, leverage economies of scale, comply with government regulations and other laws and develop more profitable approaches to pricing. Moreover, there has been a proliferation of technology advancements in clinical diagnostics over the last decade that has created significant opportunities for new testing and growth.

As a full service clinical laboratory, we are constantly looking for new technologies and new methodologies that will help us to grow. Since the turn of the century, our size alone has made us attractive to companies that are driving the advances in technology. We represent a significant opportunity for these companies to market their products in one of the major population centers of the world the New York Metropolitan area. We have had several successful strategic relationships with such technology opportunities. In addition to new technology opportunities, we have an extremely seasoned and talented management staff that has been able to identify emerging laboratory markets that are under-served or under-utilized. We are currently developing programs for histology and women s health to go along with our existing hemostasis, hematopathology and correctional healthcare initiatives which have already been established and in which we have been increasing our market share for the past several years. We will continue to vigilantly seek focused diagnostic marketing opportunities where we can provide information, technology, service or support that expand and grow our clinical laboratory.

While we recognize that we are a clinical laboratory that processes samples, we also understand that we are an information company that needs to effectively communicate the results of our efforts back to healthcare providers. Laboratory results play a major role in the implementation of physician healthcare. Laboratory results are used to diagnose, monitor and classify health concerns. In many cases, laboratory results represent the confirming data in diagnosing complicated health issues. Since laboratory results play such an important role in routine physician care, we have developed informatics solutions that leverage our role in healthcare. We needed to build a web-based solution to quickly, accurately, conveniently and competitively collect ordering information and deliver results, so we built an internal solution that we call CareEvolve. That solution has been so essential to our own operations that we license the technology to other laboratories throughout the country so they may more effectively compete against the national laboratories. These other laboratories licensing our technology are not out competitors since they are outside our regional footprint. In 2001, we entered into a strategic marketing agreement with Roche Diagnostics to co-market CareEvolve to laboratories throughout the country. Thanks to the relationship with Roche, CareEvolve received funding during its early years and built a solid infrastructure for growth and marketing. However, over the subsequent years, it became apparent that the relationship had served its purpose and it was terminated by mutual consent. We own all right, title and interest to CareEvolve and the informatics solution that has been built. We use it for our own customers and to help other smaller labs effectively compete against our common competition.

We have also created our PSIMedica business unit which has developed a Clinical Knowledge Management (CKM) System that takes data from enrollment, claims, pharmacy, laboratory results

and any other available electronic source to provide both administrative and clinical analysis of a population. The system uses proprietary algorithms to cleanse and configure the data and transfer the resulting information into a healthcare data repository. Using advanced cube technology methodologies, the data can be analyzed from a myriad of views and from highly granular transactional detail to global trended overview. Events such as the Katrina disaster in Louisiana this past summer and general pressures from the government have made development of an electronic medical record system and Pay-for Performance reimbursement priority goals in the healthcare industry. A large portion of an individual s medical record consists of laboratory data and a key performance indicator in any Pay-for-Performance initiative is laboratory result data. Our CKM system is a mature, full functioning solution that will allow us to play a role in these important national initiatives.

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

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

Fiscal Year 2005 Compared to 2004

NET REVENUES:

Net Revenues for the year ended October 31, 2005 were $163,896 as compared to $136,184 for the year ended October 31, 2004; this represents a 20% increase in net revenues. This increase is due to a 15% increase in patients serviced and a 5% increase in net revenue per patient. Our laboratory operations had net revenues of $161,856 in fiscal 2005.

The number of patients serviced during the year ended October 31, 2005 was 2,865 which was 14% greater when compared to the prior fiscal year. Net revenue per patient for the year ended October 31, 2005 was $56.48 compared to net revenue per patient for the year ended October 31, 2004 of $53.71, an increase of $2.77 or 5% as a result of increases in esoteric testing.

COST OF SERVICES:

Cost of Services for the year ended October 31, 2005 was $83,352 as compared to $68,201 for the year ended October 31, 2004, an increase of 22%. Employee related expenses increased by $7,031 (23%) and is attributable to the hiring of additional technical and professional personnel dedicated to the expansion of the Company s cancer and esoteric testing business. Depreciation increased from $1,764 for the period ended October 31, 2004 to $2,946 for the period ended October 31, 2005, an increase of $1,182 or 67% and is consistent with our investment in infrastructure and capacity. Total depreciation and amortization increased from $2,602 for the period ended October 31, 2004 to $4,206 for the period ended October 31, 2005 an increase of $1,604 or 62%.

GROSS PROFIT:

Gross profit on net revenues increased to $80,544 for the year ended October 31, 2005 from $67,983 for the year ended October 31, 2004; an increase of $12,561 (18%), primarily attributable to the increase in net revenues. Gross profit margins decreased to 49% from 50%, primarily due to the increase in direct operating expenses.

GENERAL AND ADMINISTRATIVE EXPENSES:

General and administrative expenses for the year ended October 31, 2005 were $67,937 as compared to $55,163 for the year ended October 31, 2004, an increase of $12,774 or 23%. This is 3% greater than the increase in net revenues and is attributable to an increase in bad debt expense to just over 13% of net revenues as compared to just under 13% for the twelve month period ended October 31, 2004. Management believes that this expense category may remain at this level in the immediate future. Marketing expenses as a percent of net revenues remained relatively constant over the two year period at 10% and management believes that it may remain at this level in the future.

INTEREST EXPENSE:

Interest expense increased from $667 during the year ended October 31, 2004 to $1,226 during the year ended October 31, 2005; an increase of $559. This increase is due to an increase in the variable interest rates associated with and the increased utilization of our line of credit. Management believes that this trend may continue in the future due to the continued use of our revolving line of credit to fund our growth and the increase in interest rates that may continue to occur during fiscal year 2006.

NET INCOME:

We realized net income of $7,621 for the twelve month period ended October 31, 2005 as compared to $8,516 for the twelve month period ended October 31, 2004, a decrease of 11%. At the beginning of calendar year 2005, CMS announced significant cuts to Medicare reimbursement rates for flow cytometry testing. These cuts adversely affected both our net revenues and operating income in fiscal 2005. We do not anticipate any restoration of the former reimbursement rates in fiscal 2006.

Pre-tax income for the period ended October 31, 2005 was $11,489, as compared to $12,186 for the period ended October 31, 2004, a decrease of $697 (6%) and was caused primarily by an increase in expenses in relation to an increase in net revenues. The provision for income taxes increased from $3,670 for the period ended October 31, 2004, to $3,868 for the current twelve month period.

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 4% as a result of increases in esoteric testing.

COST OF SERVICES:

Cost of Services 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 PROFIT:

Gross profit 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 revenues. 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.

Liquidity and Capital Resources **(In thousands)**

For the Fiscal Year Ended October 31, 2005

Our working capital at October 31, 2005 was approximately $30,515 as compared to approximately $23,815 at October 31, 2004, an increase of $6,700. Our cash position decreased by approximately $2,378 during the current period. We increased our short term borrowing by approximately $555 and repaid approximately $3,094 in existing debt. We had current liabilities of approximately $32,724 at October 31, 2005. We generated approximately $2,899 in cash from operations, a decrease of approximately $2,127 as compared to the year ended October 31, 2004.

At the end of the third quarter of the current fiscal year, our short term debt was approximately $17,007. We utilized approximately $2,568 in cash and allowed our accounts payable to increase approximately $1,007 during the fourth quarter to decrease our short term debt to $10,888 at October 31, 2005. In addition, we utilized approximately $2,174 of cash for the PATHCO acquisition.

Accounts receivable, net of allowance for doubtful accounts, totaled approximately $53,113 at October 31, 2005, an increase of approximately $12,161 from October 31, 2004, or 30%. This increase was primarily attributable to increased revenue. Cash collected over the twelve month period ended October 31, 2005 increased 17% over the prior twelve month period.

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

	Years Ended October 31		
	2005	**2004**	**2003**
Gross Revenues	430,162	341,180	269,676
Contr. Adjustments and Discounts	266,266	204,996	160,642
Net Revenues	163,896	136,184	109,034
Percent of Contractual Adjustments and Discounts To Gross Revenues	61.9%	60.0%	59.6%

The table above illustrates the relationship between contractual adjustments and gross revenues for the years 2003, 2004 and 2005. From 2003 to 2004, contractual allowances as a percentage of gross revenues increased approximately 40 basis points, consistent with a relatively stable reimbursement environment. Between 2004 and 2005, contractual allowances increased approximately 190 basis points. The most significant factor in this increase was the decrease in reimbursement rates for flow cytometry. This decrease was fully discussed upon release of our fiscal 2004 results. The Company s growth in flow cytometry testing volume contributed significantly to the increase in contractual allowances for fiscal year 2005.

Credit risk with respect to accounts receivable is generally diversified due to the large number of patients comprising our client base. We have significant receivable balances with government payors and various insurance carriers. Generally, we do not require collateral or other security to support customer receivables. However, we continually monitor and evaluate our client acceptance and collection procedures to minimize potential credit risks associated with our accounts receivable and establish an allowance for uncollectible accounts. As a consequence, we believe that our accounts receivable credit risk exposure beyond such allowance is not material to the financial statements.

A number of proposals for legislation continue to be under discussion which could substantially reduce Medicare and Medicaid reimbursements to clinical laboratories. Depending upon the nature of regulatory action, and the content of legislation, we could experience a significant decrease in revenues from Medicare and Medicaid, which could have a material adverse effect on us. We are unable to predict, however, the extent to which such actions will be taken.

GROSS RECEIVABLES BY PAYOR GROUP

FY 2005

	30 Days	%	60 Days	%	90 Days	%	>90 Days	%	Total	%
Self Pay	2,473	17	1,448	10	1,364	9	9,629	65	14,914	15
Medicare	9,090	38	4,039	17	1,721	7	9,251	38	24,101	24
Medicaid	1,680	20	1,650	19	1,445	17	3,697	44	8,472	8
Prof. Billing	4,043	42	2,244	23	946	10	2,466	25	9,699	10
Comm. Ins	16,037	37	9,209	21	4,784	11	13,152	30	43,182	43
Total	33,323	33	18,590	19	10,260	10	38,195	38	100,368	100

FY 2004

	30 Days	%	60 Days	%	90 Days	%	>90 Days	%	Total	%
Self Pay	2,003	17	1,334	11	1,131	10	7,410	62	11,878	15
Medicare	7,910	38	2,316	11	994	5	9,646	46	20,866	27
Medicaid	1,255	38	721	22	511	16	782	24	3,269	4
Prof. Billing	4,054	53	804	11	883	12	1,874	25	7,615	10
Comm. Ins	12,753	37	6,521	19	3,274	9	11,932	35	34,480	44
Total	27,975	36	11,696	15	6,793	9	31,644	41	78,108	100

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

Differences between fee schedules and reimbursement rates.

Incomplete or inaccurate billing information as provided by the doctor.

Disparity in coverage and information requirements.

Disputes with payors.

Internal and external compliance policies and procedures.

Significant costs are incurred as a result of our participation in government programs since billing and reimbursement for laboratory tests are subject to complex regulations. We perform the requested tests and report the results whether the information is correct or not or even missing. This adds to the complexity and slows the collection process and increases the aging of our accounts receivable (A/R). When patient invoices are not collected in a timely manner the item is written off to the allowance.

Days Sales Outstanding (DSO) for fiscal years 2004 and 2005 were 101 and 111, respectively, an increase of approximately 10%. During April of 2005, CMS along with other commercial insurers implemented certain changes as required by HIPAA that caused this increase in our DSO s. These changes are exaggerated by our primary marketplace, the physician office marketplace. This event caused a 3% reduction in cash collected, as compared to the prior fiscal year. However, when you compare our DSO lag to our collectable net revenues as reported on our financial statements for the periods in question, it varies between 98% to 102%, depending on the period.

Overall, the components of A/R as shown above for the two years under review have not varied much year over year. The percent of A/R over 90 days has decreased from 41% as of October 31, 2004 to 38% as of October 31, 2005. We have maintained a 48% reserve in both fiscal years.

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, 2005, the Company had elected to have $10,000 of the total advances outstanding converted into a Eurodollar rate loan with a variable interest rate of 5.02% at October 31, 2005. The remaining outstanding advances during that period were subject to the bank s prime rate of interest. At October 31, 2005, advances of $888 were subject to interest at the prime rate. As of October 31, 2005 and 2004, the bank s prime rate of interest was 6.75% and 4.75%, 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, 2005, the Company utilized $13,434 (including $2,546 utilized under the acquisition subline) and had $19,931 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, 2005 and 2004 was approximately 5.84% and 3.92%, 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 2006	FY 2007	FY 2008	FY 2009	FY 2010 and thereafter
Long-Term Debt	$ 1,061	$ 1,061	$ -0-	$ -0-	$ -0-	$ -0-
Capital Leases	$ 6,823	$ 2,504	$ 2,092	$ 1,302	$ 676	$ 249
Operating Leases	$ 4,441	$ 1,323	$ 1,122	$ 948	$ 899	$ 149
Purchase Obligations	$ 18,211	$ 7,594	$ 4,837	$ 2,631	$ 2,203	$ 946
Long-Term Liabilities under Employment and Consultant Contracts	$ 8,016	$ 2,411	$ 1,905	$ 1,100	$ 1,100	$ 1,500
Total	$ 38,552	$ 14,893	$ 9,956	$ 5,981	$ 4,878	$ 2,844

Our cash balances at October 31, 2005 totaled approximately $4,303 as compared to approximately $6,681 at October 31, 2004. 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 2006.

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 reference 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 May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3. This Statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement, in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed. The company will be required to adopt SFAS No. 154 as of November 1, 2006. The adoption of this standard may have a material impact on the Company s consolidated financial statements.

In June 2005, the EITF reached consensus on Issue No. 05-6, Determining the Amortization Period for Leasehold Improvements (EITF 05-6). EITF 05-6 provides guidance on determining the amortization period for leasehold improvements acquired in a business combination or acquired subsequent to lease inception. The guidance in EITF 05-6 will be applied prospectively and is effective for periods beginning after June 29, 2005. EITF 05-6 is not expected to have a material impact on the Company s unaudited interim consolidated financial statements.

With the exception of the adoption of SFAS 123 (R) and SFAS 154, the Company expects that the adoption of the new statements will not have a significant impact on its consolidated financial statements.

Critical Accounting Policies

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 reported periods.

Accounting for Goodwill

We evaluate the recoverability and measure the possible impairment of its goodwill under SFAS 142, The impairment test is a two-step process that begins with the estimation of the fair value of the reporting unit. The first step screens for potential impairment and the second step measures the amount of the impairment, if any. Management s estimate of fair value considers publicly available information regarding our market capitalization as well as (i) publicly available information regarding comparable publicly-traded companies in the clinical laboratory testing industry, (ii) the financial projections and future prospects of our business, including its growth opportunities and likely operational

improvements, and (iii) comparable sales prices, if available. As part of the first step to assess potential impairment, management compares the estimate of its fair value to its book value on a consolidated net assets. If the book value of the consolidated net assets is greater than the estimate of fair value, we then proceed to the second step to measure the impairment, if any. The second step compares the implied fair value of goodwill with its carrying value

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

Accounting for Intangible and Other Long-Lived Assets

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

Accounting for Revenue

Service revenues are principally generated from clinical laboratory testing services such as routine and esoteric testing (See pages 3 and 4). 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.

Accounting for Contractual Credits and 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 (such as the decrease in flow cytometry reimbursement rates from CMS starting January 1, 2005). Agings of accounts receivable are monitored by billing personnel and follow-up activities are conducted as necessary. Bad debt expense is recorded within selling, general and administrative expenses as a percentage of sales considered necessary to maintain the allowance for doubtful accounts at an appropriate level, based on our experience with our accounts receivable. We write off accounts against the allowance for doubtful accounts when they are deemed to be uncollectible. For client billing, accounts are written off when all reasonable collection efforts prove to be unsuccessful. Patient accounts are written off after the normal dunning cycle has occurred and the account has been transferred to a third party collection agency. Third party accounts are written off when they exceed the payer s timely filing limits.

Accounting for Employment Benefit Plan

We sponsor the Bio-Reference Laboratories, Inc. 401(k) Profit-Sharing Plan [the Plan]. Our employees become eligible for participation after attaining the age of eighteen and completing one year of service. Participants may elect to contribute up to ten percent of their compensation, as defined in the Plan Adoption Agreement, to a maximum allowed by the Internal Revenue Service. We may choose to make a matching contribution to the plan for each participant who has elected to make tax-deferred contributions for the plan year, at a percentage determined

each year by the Company. For the plan years beginning January 1, 2005 we elected to make a matching contribution of 3% of salary not to exceed $500 which amounted to $182,739. For the plan years beginning January 1, 2004 and 2003, we elected to make a matching contribution of 3% of salary not to exceed $250 per participant which amounted to $78,000 and $71,000 respectively which were charged to operations. Our contribution will be fully vested after the third year of service.

Accounting for Income Taxes

We account for income taxes utilizing the asset and liability method. Under this method deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and for tax loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Future tax benefits, such as net operating loss carryforwards, are recognized to the extent that realization of such benefits is more likely than not.

Forward Looking Statements

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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period. While many aspects of our business are subject to complex federal, state and local regulations, the accounting for our business is generally straightforward. Our revenues are primarily comprised of a high volume of relatively low dollar transactions, and about 42% of all our costs consist of employee compensation and benefits. Revenues are recognized at the time the services are performed and are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered including prospectively determined adjustments under reimbursement agreements with third-party payors. These adjustments are accrued on an estimated basis in the period the services are rendered and adjusted in future periods as final settlements are determined. These estimates are reviewed and adjusted, if warranted, by senior management on a monthly basis. We believe that our estimates and assumptions are correct; however, several factors could cause actual results to differ materially from those currently anticipated due to a number of factors in addition to those discussed under 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 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.

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

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

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, 2005, advances of approximately $888 under our Loan Agreement with PNC Bank were subject to interest charges at the Bank s then prime rate of 6.75 %. In addition, we elected to have the remaining $10,000 of advances outstanding at said date converted into a Eurodollar rate loan with a variable interest rate of 5.02%.

We estimate that our monthly cash interest expense at October 31, 2005 was approximately $102 thousand and that a one percentage point increase or decrease in short-term rates would increase or decrease our monthly interest expense by approximately $14 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 carried out under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act as of the end of the period covered by this report. Based upon that evaluation, our principal executive officer and principal financial officer concluded that those disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission s rules and forms.

Management s Report on Internal Control over Financial Reporting

The Company s management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. The Company s internal control over financial reporting includes those policies and procedures that i) pertain to the maintenance of records that in reasonable detail accurately reflect the transactions and dispositions of the assets of the Company; ii) provide reasonable assurance that transactions are recorded as necessary to permit preparations of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company s assets that could have a material effect on the Company s financial statements.

Internal control over financial reporting cannot provide absolute assurance regarding the prevention or detection of misstatements because of inherent limitations. These inherent limitations are known by management and considered in the design of the Company s internal control over financial reporting which reduce, though not eliminate this risk.

Management conducted an evaluation of the effectiveness of the Company s internal control over financial reporting based on the criteria set forth in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based on this evaluation, management concluded that the Company s internal control over financial reporting was effective as of October 31, 2005. Management s assessment of the effectiveness of the Company s internal control over financial reporting as of October 31, 2005, has been audited by Moore Stephens, P.C., an independent registered public accounting firm, as stated in their report, which is included in part II, Item 8 of this Form 10-K.

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.	54	Chairman of the Board, President, Chief Executive Officer and Director
Howard Dubinett	54	Executive Vice President, Chief Operating Officer and Director
Sam Singer	62	Vice President, Chief Financial Officer, Chief Accounting Officer and Director
Joseph Benincasa(a)(c)(e)	56	Director
Harry Elias(a)(c)(e)	75	Director
Gary Lederman, Esq. (b)(c)(e)	71	Director
John Roglieri, M.D. (a)(d)(e)	66	Director

(a) Member of the Audit Committee

(b) Chairman of the Audit Committee

(c) Member of the Compensation Committee

(d) Chairman of the Compensation Committee

(e) Member of Nominating Committee

The Audit Committee is comprised of the four non-employee members of the Board of Directors, Gary Lederman (Chairman), Joseph Benincasa, John Roglieri and Harry Elias. The Board of Directors deems each such individual as independent as defined by the rules of the National Association of Securities Dealers. The Audit Committee met four times during fiscal year 2005. 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 four non-employee members of the Board of Directors, John Roglieri (Chairman), Joseph Benincasa, Harry Elias and Gary Lederman. The Compensation Committee met four times during fiscal year 2005. 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 four non-employee members of the Board of Directors, Harry Elias, Joseph Benincasa, Gary Lederman and John Roglieri. Pursuant to its charter, the Nominating Committee s role is to establish criteria for the selection of directors; to identify individuals qualified to be directors; to evaluate director candidates proposed by stockholders; to recommend individuals to fill vacancies on the Board and to recommend nominees for director at each annual stockholder meeting.

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 and executive officer of the Company.

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

Since January 2005, Dr. Grodman has been a member of the Board of Directors of the American Clinical Laboratory Association, an industry organization comprised of the largest and most significant commercial clinical laboratories in the United States. Other Board members include the chief executive officers of Quest Diagnostics and Laboratory Corporation of America.

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.

Joseph Benincasa became a Director of the Company in June 2005. Mr. Benincasa currently serves as the Executive Director of The Actors Fund of America, a position he has held since 1989. The Actors Fund is the leading national, non-profit human services organization providing comprehensive social and health care services, employment, training and housing support to the entertainment profession. It is headquartered in New York City with regional offices in Chicago and Los Angeles. Mr. Benincasa also sits on the Board of Directors of The Greater New York Blood Program where he previously served as Director of Public Education and Public Relations. He is a director of St. Peter s University Medical Center and also sits on the board of directors of Broadway Cares/Equity Fights AIDS; the National Theatre Workshop of the Handicapped; Career Transition for Dancers; the Times Square Alliance; the New York Society of Association Executives and the Somerset Patriots, a minor league baseball team. Mr. Benincasa holds a B.A. degree from St. Joseph s University and an M. Ed. Degree from Rutgers University. He also attended Fordham University Graduate School of Business.

Harry Elias became a Director of the Company in March 2004. Mr. Elias commenced his employment in sales and marketing with JVC Company of America (JVC) in 1967, subsequently being appointed as JVC s Senior Vice President of Sales and Marketing in 1983 and as Executive Vice President of Sales and Marketing in 1990. In 1995, Mr. Elias was named as JVC s Chief Operating Officer, a position he occupied until April 2003 when he resigned his positions upon his

appointment as JVC s Honorable Chairman. JVC, a distributor of audio and video products headquartered in Wayne, New Jersey is the wholly owned United States subsidiary of Victor Company of Japan, a manufacturer of audio and video products headquartered in Japan. In January 2005, after retiring from JVC, Mr. Elias was appointed Chairman of the Board of and commenced to serve as a consultant to AKAI USA, the sole distributor in the United States of electronic products produced by AKAI, a Chinese manufacturer.

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 are elected each year to serve a three-year term. Dr. Grodman and Mr. Dubinett are the Class I directors whose term expires in fiscal 2007. Mr. Singer and Mr. Elias are the Class II directors whose term expires in fiscal 2008. Mr. Benincasa, Mr. Lederman and Dr. Roglieri are the Class III directors whose term expires in fiscal 2006.

Key Personnel and Consultants

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

James Weisberger, M.D. (Age 50) 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 54) is a Senior Vice President engaged in Sales. 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 from where he received a B.S. degree in Finance in 1974.

John W. Littleton (Age 44) joined the Company in September 2002 as a Vice President engaged in 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 72) 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 2005, our officers, directors and beneficial owners of more than 10% of our equity timely complied with all applicable Section 16(a) filing requirements. However, Harry Elias filed a Form 4 on June 14, 2005 reporting his open market purchase on July 13, 2004 of 1,000 shares of our common stock.

Item 11. - Executive Compensation

The following table sets forth information concerning the compensation paid or accrued by us during the year ended October 31, 2005 to our Chief Executive Officer and our other executive officers who were serving as our executive officers at October 31, 2005. 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

Name and Principal Position	Year Ended October 31,	Annual Compensation		Other Annual Compensation(b)	Restricted Stock Awards	Long-Term Compensation		All Other Compensation
		Salary	Bonus(a)			Options (SARs)	LTIP Payouts	
Marc D. Grodman								
M.D.	2005	$ 750,000	$	$ -0-	-0-	-0-	$ -0-	$ -0-
President and Chief	2004	$ 554,625	$ 125,000	$ -0-	-0-	-0-	$ -0-	$ -0-
Executive Officer	2003	$ 499,750	$ 154,750	$ -0-	-0-	-0-	$ -0-	$ -0-
Howard Dubinett	2005	$ 285,000	$ 14,600	$ -0-	-0-	-0-	$ -0-	$ -0-
Executive Vice	2004	$ 272,200	$ 60,000	$ -0-	-0-	-0-	$ -0-	$ -0-
President and Chief	2003	$ 240,000	$ 21,800	$ -0-	-0-	-0-	$ -0-	$ -0-
Operating Officer								
Sam Singer								
Vice President and	2005	$ 285,000	$ 14,600	$ -0-	-0-	-0-	$ -0-	$ -0-
Chief Financial and	2004	$ 259,004	$ 60,000	$ -0-	-0-	-0-	$ -0-	$ -0-
Accounting Officer	2003	$ 240,000	$ 9,600	$ -0-	-0-	-0-	$ -0-	$ -0-

(a) The Compensation Committee adopted an Incentive Bonus Plan for Senior Management with respect to fiscal 2005. The Plan established two classes of employee participants. Dr. Grodman and two other management employees comprised the Class I participants. Mr. Dubinett, Mr. Singer and six other management employees comprised the Class II participants. The Plan entitled each participant to earn a bonus equal to a percentage of his or her annual gross wages to the extent that the Company s operating income in fiscal 2005 was equal to or greater than certain percentages of its Net Revenues in the case of Class I participants, or in the case of Class II participants, to the extent that the Company s adjusted operating income in fiscal 2005 was equal to or greater than certain percentages of its adjusted Net Revenues as defined by the Plan. No bonuses were earned for fiscal 2005 pursuant to the Plan by the Class I participants. An aggregate $94,400 in bonuses were earned for fiscal 2005 pursuant to the Plan by the eight Class II participants including the bonus amounts reflected in the above table for Messrs. Dubinett and Singer.

(b) 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.

The Compensation Committee increased Dr. Grodman s, Mr. Dubinett s and Mr. Singer s minimum annual base compensation with respect to fiscal 2006 by 5% in each case over his fiscal 2005 annual base salary.

Severance Payments for Other Employees

The Company signed employment agreements with three other employees effective November 1, 2005 providing in each case for a Severance Payment equal to 2.99 times the employee s average annual compensation during the preceding five years in the event of termination of the employee s employment upon a Change in Control of the Company. The Severance Payment provisions for these three employees were approved by the Compensation Committee. Two of the employees including Charles T. Todd, Jr. are engaged in Sales and the third employee is the Company s Director of Information Services.

Split-Dollar Life Insurance

Pursuant to the terms of their 1997 employment agreements, the Company had establishedsplit-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 $1,114 at October 31, 2005. At that date, the net cash surrender value of the three current policies aggregated approximately $690 and is recorded on the books of the Company at that value.

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.

During fiscal 2005, Howard Dubinett, an executive officer, exercised ISOs under the 1989 plan and purchased an aggregate 13,334 shares at an exercise price of $.71875 per share and one employee terminated his employment with the Company and an aggregate 33,334 shares were canceled. As a result, at October 31, 2005, there were outstanding ISOs under the 1989 Plan exercisable to purchase an aggregate 6,000 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. During fiscal 2005, twelve employees exercised ISOs issued under the 2000 Plan and purchased an aggregate 54,094 shares at exercise prices ranging from $4.21 to $9.66 per share and one employee terminated her employment with the Company and options to purchase an aggregate 12,218 shares were canceled. As a result, at October 31, 2005, there were outstanding ISOs under the 2000 Plan exercisable to purchase an aggregate 475,600 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. During fiscal 2005, ISOs were granted under the plan to 108 employees exercisable to purchase an aggregate 375,458 shares at exercise prices ranging from $12.48 to $18.25 per share, eight employees exercised their ISOs and purchased an aggregate 23,500 shares at exercise prices ranging from $12.22 to $14.82 per share and seven employees terminated their employment with the Company as a result of which, options to purchase an aggregate 39,500 shares were canceled. As a result, at October 31, 2005, there were outstanding ISOs under the 2003 Plan exercisable to purchase an aggregate 414,458 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).