BIO REFERENCE LABORATORIES INC
Form 10-K
January 29, 2004

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, 2003

Commission file number 0-15266

BIO-REFERENCE LABORATORIES, INC.

481 Edward H. Ross Drive, Elmwood Park, New Jersey 07407
201-791-2600

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

Securities registered pursuant to Section 12(b) of the Act:	None
Securities registered pursuant to Section 12(g) of the Act:	Common Stock, $.01 par value

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes o No ý

On January 16, 2004, the aggregate market value of the voting stock of Bio-Reference Laboratories, Inc. (consisting of Common Stock, $.01 par value and Series A Senior Preferred Stock, $.10 par value) held by non-affiliates of the registrant was approximately $148,300,000 based upon the last sales price for such Common Stock on said date as reported on the NASDAQ National Market System. On such date, there were 11,451,023 shares of Common Stock of the registrant outstanding.

PART I

Item. 1.Business

Overview

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

We currently process over 2 million requisitions each year. A requisition form accompanies a patient s specimen. It indicates the tests to be performed and the party to be invoiced for the tests. Our clients include doctors, employers, clinics and governmental units. We have a network of over 50 patient service centers for collection of patient specimens.

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

We also operate a web-based connectivity portal solution for laboratories and physicians through our CareEvolve subsidiary. This wholly owned subsidiary is operated in conjunction with Roche Diagnostics (Roche). We use this portal ourselves to provide laboratory ordering and results to our physician customers. Together with Roche, we are marketing this connectivity solution to other laboratories throughout the country.

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

The Clinical Laboratory Testing Market in the United States

We believe that the U.S. market for clinical laboratory testing generates approximately $35-40 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 55% of the clinical laboratory tests done in the United States were performed in a hospital laboratory, approximately 29% performed by an independent clinical laboratory and the balance in a physician office or other laboratory.

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

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

Aging of the population of the United States;

Awareness by patients of the value of laboratory tests;

Decrease in the cost of tests;

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

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

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

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

Employer sponsored wellness programs;

Research and development in genomics.

Business Strategy

We are a regional clinical laboratory with subspecialty testing capabilities. As a regional laboratory, we service the New York metropolitan area, and currently conduct business in most New York State counties, as well as in most of New Jersey and some parts of Pennsylvania and Connecticut. We primarily offer laboratory services to physician offices in these areas with an infrastructure that includes a comprehensive logistical department, extensive phlebotomy services and phlebotomy draw stations scattered around our geographic area. We have also developed expertise in certain testing areas with specific emphasis in cancer pathology and diagnostics as well as molecular diagnostics. These services are marketed as a business unit, called GenPath, which services customers outside of routine physician office testing. We have developed certain specialized markets, such as in the areas of correctional health, substance abuse testing, fertility testing and molecular diagnostics. Testing in these areas also may be supported outside of physician offices.

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

We believe that our large marketing staff and strong infrastructure within our designated area can be leveraged to bring new technologies to physicians and healthcare providers. Over the past year, our volume of testing in the area of molecular diagnostics has increased. We believe that laboratory data has great value in managing the healthcare of a population, but can only be properly utilized when combined with medical claims and pharmacy data. Our medical information unit, PSIMedica, seeks to combine laboratory data with these other data elements in order to provide information analytics that will help to improve the quality and efficiency of healthcare. We seek to continue our strong growth not only through our marketing organization, new technologies and superior service, but by providing value added analytics in conjunction with laboratory results.

Our mission is to be recognized by our clients as the best provider of clinical laboratory testing, information and related services. The principal components of our strategy to achieve our mission are as follows:

Capitalize on our position within the clinical market:

Lead in the providing of medical information:

Provide the highest quality service:

Pursue strategic growth opportunities.

Services

The clinical laboratory testing business consists of routine testing and esoteric testing. Routine testing generates approximately 72% and esoteric testing generates approximately 28% of our net revenues. The net revenue generated by our PSIMedica business unit and our subsidiaries has been minimal to date.

Routine Testing

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

Blood Cell Counts;

Cholesterol levels;

HIV-related tests;

Pap Smears;

Pregnancy;

Substance Abuse

Urinalysis;

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

We operate 24 hours a day, 365 days a year. We perform and report most routine tests within 24 hours. Tests results are delivered via driver or electronically.

Esoteric Tests

We also perform esoteric tests that require sophisticated equipment and materials, highly skilled personnel, professional attention and are ordered less frequently than routine tests. These tests are generally priced higher than routine tests. Esoteric tests are usually in these medical fields:

Endocrinology (the study of glands and their hormone secretions)

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

Immunology (the study of the immune system)

Microbiology (the study of microscopic forms of life)

Oncology (the study of abnormal cell growth)

Serology (the study of body fluids)

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

Medical Information

Our PSIMedica business unit is based on a Clinical Knowledge Management (CKM) System that uses data derived from various disparate sources to provide both administrative and clinical analysis of a population. The source data consists of enrollment (demographic) data, claims data, pharmacy data, laboratory results data, and any other data that may be available. The system uses sophisticated algorithms to cleanse and configure the data so that analysis can be comprehensive and meaningful. The data is maintained on multiple levels of analysis enabling review of data from the global level to the granular transactional detail. The system includes a base set of queries that provide basic functionality and allows on-line real-time ad hoc query capability enabling the user to customize analysis to the best needs of the organization using the system. In addition to the basic queries provided by the system, PSIMedica Quality Indicators (PQI) provide comprehensive, disease state oriented queries that disclose the quality and efficiency of the care and service. These indicators have been designed to provide the customer with standards and outcome predictors based on a medical standards basis. We are using PSIMedica to market value-added clinical laboratory services to bulk purchasers of clinical laboratory solutions, as well as marketing our PSIMedica programs to businesses such as Health Plans, Integrated Delivery Networks, Disease Management Companies, Insurers, Clinical Trial Companies and other healthcare providers that most benefit from the ability of the system to combine both clinical and administrative analysis.

Other Products

CareEvolve, our wholly owned subsidiary, is a physician-based connectivity portal. This system provides a complex, sophisticated system for ordering laboratory services and delivering laboratory results. The system is designed to be physician-centric and to provide a highly flexible, scalable, comprehensive desktop solution for physicians to manage their day-to-day practice and personal needs, as well as to handle their clinical laboratory ordering and reporting. This product has been designed to work as a platform with plug and play capability that can easily be used by other laboratories that also need a web-based solution for their physician customers. We have entered into a Strategic Marketing Agreement with Roche Diagnostics to operate a Joint Venture for the sale and distribution of CareEvolve services to other laboratories throughout the country. Under the terms of the Strategic Marketing Agreement, Roche supports the marketing of CareEvolve to clinical laboratories through its extensive diagnostic marketing force. The joint venture is managed by a Steering Committee that consists of executives from both companies. Roche holds an option exercisable to purchase up to a 50% equity interest in this wholly owned subsidiary.

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 2003, 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, 2001, 2002, and 2003.

	Years Ended October 31,		
	2001	**2002**	**2003**
Direct Patient Billing	12%	9%	7%
Commercial Insurance	37%	37%	43%
Professional Billing	23%	26%	20%
Medicare	24%	25%	27%
Medicaid	4%	3%	3%
	100%	100%	100%

Clients

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

Employers, Governmental Agencies

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

Sales and Marketing

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

Client Service Coordinators

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

Logistical Support

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

Strategic Growth Opportunities

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

Selective Acquisitions: The clinical laboratory industry is still highly fragmented. Historically, acquisition has been one method that has fueled our growth. We intend to continue to look for acquisitions that can be integrated into our existing processing facility

without maintaining duplicate facilities or which will provide us with entry into new product or geographic areas. This strategy, if successfully implemented, will enable us to reduce costs and gain economies of scale from the elimination of redundant facilities and equipment and the reduction of personnel.

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

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

Billing

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

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

Competition

We compete with three types of providers in a highly fragmented and competitive industry: hospital laboratories, physician-office laboratories and other independent clinical laboratories. Our major competitors in the New York metropolitan area are Quest Diagnostics and Laboratory Corporation of America. Although we are much smaller than these national laboratories, we believe that we compete successfully with them in our region because of the following factors:

Fewer layers of staff

A more responsive business atmosphere

Customized service

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

Quality Assurance

Medical testing is essentially a process of communication and data transfer. In order to provide accurate and precise information to the physician, it is essential that we maintain a well structured and vigorous quality assurance program. Our goal is to continually improve this process. We hold the required Federal and State licenses necessary to permit our operation of a clinical laboratory at both of our facilities in New Jersey and New York. 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 assurance committee continually monitor the laboratory s quality. Depending on the test, two or three levels of Quality Control materials are run in each analytical assay to assure precision and accuracy. Patient population statistics are evaluated each day. Highly abnormal samples are repeated to assure their accuracy.

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

Regulation of Clinical Laboratory Operations

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

Waste management is subject to Federal and state regulations governing the transportation and disposal of medical waste including bodily fluids. Federal regulations require licensure of interstate transporters of medical waste. In New Jersey, we are subject to the Comprehensive Medical Waste Management Act, (CMWMA), which requires us to register as a generator of special medical waste. CMWMA mandates the sterilization of certain medical waste and a tracking system to insure disposal at an approved facility. All of our medical waste is disposed of by a licensed interstate hauler. The hauler provides a manifest of the disposition of the waste products as well as a certificate of incineration which is retained by us. These records are audited by the State of New Jersey on a yearly basis.

Regulation of Reimbursement for Laboratory Services

Containment of health-care costs, including reimbursement for clinical laboratory services, has been a focus of ongoing governmental activity. Omnibus budget reconciliation legislation, designed to reconcile existing laws with reductions and reimbursements required by enactment of a Congressional budget can adversely affect clinical laboratories by reducing Medicare reimbursement for laboratory services. Although in the past, legislation has been enacted which reduced the permitted Medicare reimbursement for clinical laboratory services from previously authorized levels, none of the reductions enacted to date has had a material adverse effect on us. 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. 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. We are unable to predict, however, the extent to which any such actions will be taken.

CLIA-88

CLIA-88 extended Federal licensing requirements to all clinical laboratories (regardless of the location, size or type of laboratory), including those operated by physicians in their offices, based on the complexity of the tests they perform. The legislation also substantially increased regulation of cytology screening, most notably by requiring the Secretary of Health and Human Services, (HHS,) to implement regulations placing a limit on the number of slides that a cytotechnologist may review in a twenty-four hour period. CLIA-88 also established a more stringent proficiency testing program for laboratories and increased the range and severity of sanctions for violating Federal licensing requirements. A number of these provisions, including those that imposed stricter cytology standards and increased proficiency testing, have been implemented by regulations applicable only to laboratories subject to Medicare certification. On February 28, 1992, HHS published three sets of regulations implementing CLIA-88, including quality standard regulations establishing Federal quality standards for all clinical laboratories; application and user fee regulations applicable to most laboratories in the United States which became effective on March 30 1993; and enforcement procedure regulations applicable to laboratories that are found not to meet CLIA-88 requirements. The quality standard regulations establish varying levels of regulatory scrutiny depending upon the complexity of testing performed. Under these regulations, a laboratory that performs only one or more of seventy eight routine waived tests may apply for a waiver from most requirements of CLIA-88. We believe that most tests performed by physician office laboratories will fall into either the waived or the moderately complex category. The latter category applies to simple or automated tests and generally permits existing personnel in physicians offices to continue to perform testing under the implementation of systems that insure the integrity and accurate reporting of results, establishment of quality control systems, proficiency testing by approved agencies, and biannual inspection. Our testing is often much more complex and as a result, we are subject to full compliance with CLIA-88. The quality standard and enforcement procedure regulations became effective on September 1, 1992, most personnel, quality control and proficiency testing requirements have been implemented; the remainder will be phased in over a number of years. Our laboratory completed its first CLIA inspection under CLIA-88 guidelines and received its certificate of compliance effective February 7, 1996.

Compliance Program

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

Confidentiality of Health Information

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

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

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

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

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

These regulations establish a minimum and would default to more stringent state laws. Therefore, we are required to comply with both sets of standards. Laboratories were required to submit a compliance plan to HHS by October 16, 2003. We have filed our application for a one year extension for compliance with the Transaction Data Set Regulations and intend to file 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 $3,000,000 per occurrence, $3,000,000 in the aggregate. In addition, we maintain excess commercial insurance of $2,000,000 per occurrence and $3,000,000 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, 2003, we had 720 full-time and 302 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. 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.

At November 1, 1998, we were being represented by counsel in connection with various reviews being conducted by our Medicare carrier. One review involved overpayments that occur in the normal course of business. We remitted approximately $75,000 to Medicare in connection with this matter. At October 31, 2002, we had established a reserve of $154,000 on our financial statements for the remaining liability. In January 2003, Medicare determined that the remaining overpayment was $78,684 and interest on this amount was $2,392. We remitted the total amount of $81,076 to Medicare in January 2003, bringing the matter to a close.

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

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

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 costs.

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

We fund our operations through a line of credit under a revolving loan agreement (the Loan Agreement) with PNC Bank. At October 31, 2003, we were utilizing approximately $8,700,000 of the credit line. The credit facility has been increased and extended on a number of occasions and is currently due on September 30, 2004. Borrowings under the credit line are collateralized by substantially all of

our assets as well as through the assignment to PNC Bank of a $4,000,000 face amount insurance policy on the life of the president of our company. The Loan Agreement requires us to be in compliance with various affirmative and negative covenants concerning our operations and financial condition. Among other provisions, it imposes requirements for maintaining fixed charge coverage, various financial ratios and certain insurance coverage. Although we have been able to obtain waivers from PNC Bank in the past for failure to meet certain of the covenants under the Loan Agreement, the availability of any future required waivers cannot be assured. Any failure on our part to obtain a renewal or an extension of the loan, when due, or to obtain a waiver from PNC Bank, if required, would have a material adverse effect on our business and financial condition.

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. We maintain a $4,000,000 key-man life insurance policy on Dr. Grodman s life payable to the Company in the event of his death. The policy has been assigned to PNC Bank as collateral to secure borrowings under our credit line. 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.

Item 2 - Properties

Our executive offices and New Jersey processing facility occupy approximately 56,000 square feet of leased space in two one-story brick facilities at 481-487 Edward H. Ross Drive, Elmwood Park, New Jersey. We are currently paying approximately $50,000 in total in monthly rentals for these facilities. Although the leases for the majority of these facilities expire in February 2004, we have given the Landlord notice of exercise of our option to extend the leases for five additional years and are currently in negotiation concerning the terms of the extension. Our New York processing facility occupies approximately 11,000 square feet of leased space in a two-story brick facility at 140 Route 303, Valley

Cottage, New York. The lease for this facility, which expires in April 2005, provides for a monthly rental of $9,772 and increases to $10,366 in the final year. Our testing equipment maintained at each of our processing 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 $200,000,000 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 52 additional relatively small draw stations throughout the New York metropolitan area to collect specimens from physician-referred patients for testing at our processing facilities.

Item 3 - Legal Proceedings

At October 31, 2003 and at the date of this Report, we were not involved in any material legal proceedings.

On January 22, 2004, we were informed that IMPATH, Inc., as a debtor-in-possession had commenced an adversary proceeding in Bankruptcy Court in the Southern District of New York against James Weisberger, M.D., our Vice President, Assistant Chief Medical Officer and Director of Hematopathology, alleging that Dr. Weisberger had, among other things, misappropriated certain of IMPATH s alleged trade secrets and had unlawfully solicited former IMPATH employees to commence employment with us. We were not named as a party to this lawsuit. Both Dr. Weisberger and we believe that the allegations in this proceeding are utterly baseless and totally without merit and intend to fully contest the matter.

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 2003

PART II

Item 5. - Market for Registrant s Common Equity and Related Shareholder Matters

Our Common Stock was readmitted for trading on the National Association of Securities Dealers Automated Quotation (NASDAQ) Small Cap System under the symbol BRLI on November 24, 1993. It continued to trade on a continuous basis on the Small Cap System until March 26, 2002 when our application to list our Common Stock on The Nasdaq® National Market was approved. Since said date, our Common Stock has traded on the NASDAQ National Market System under the symbol BRLI.

The following table sets forth the range of high and low closing bid prices for the 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**
2002		
First Quarter	$ 7.875	$ 4.90
Second Quarter	9.98	5.76

Third Quarter	11.45	5.73
Fourth Quarter	8.60	5.15
2003		
First Quarter	7.28	5.54
Second Quarter	6.19	4.11
Third Quarter	7.16	4.70
Fourth Quarter	17.60	6.84

On January 16, 2004 the last sales price for the Common Stock on NASDAQ was $18.01 per share.

At October 31, 2003 the number of record holders 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 upon 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 dividends or making any distributions with respect to any shares of our stock without the prior written consent of the Bank.

Recent Sales of Unregistered Securities

During fiscal year 2003, we issued an aggregate 82,140 shares of our Common Stock to four employees upon exercise of previously granted stock options at exercise prices equal to the market price on the date of grant of each option ranging from $.71875 to $1.75 per share and issued 10,000 shares to one employee valued at $1.50 per share for services rendered.

See Item 11-Stock Options and Note 11 of Notes to the Consolidated Financial Statements as to our grant of stock options during fiscal 2003.

The transactions described above were effected in reliance upon the exemption from the registration requirements of the Securities Act of 1933 provided by Section 4(2) of the Act on the basis that such transactions did not involve a public offering. Each of the recipients of shares of our Common Stock in the above transactions represented that he or she was acquiring the shares for investment and not with a view to distribution. A restrictive legend was placed on each of the certificates representing the shares and stop transfer instructions were issued against such shares.

Item 6. Selected Financial Data

	[In thousands, except per share data] Years ended October 31,				
	2003	2002	2001	2000	1999
Operating Data:					
Net Revenues	$ 109,034	$ 96,631	$ 80,622	$ 66,460	$ 53,856
Cost of Services	$ 56,216	$ 51,706	$ 44,265	$ 37,174	$ 30,850
Gross Profit	$ 52,818	$ 44,925	$ 36,357	$ 29,286	$ 23,006
General and Administrative Expenses	$ 43,533	$ 38,853	$ 32,750	$ 27,654	$ 26,432
Income [Loss] from Operations	$ 9,285	$ 6,072	$ 3,607	$ 1,632	$ (3,426)
Other Expenses - Net	$ 681	$ 849	$ 1,660	$ 1,568	$ 1,185
Provision for Income Tax Expense [Benefit]	$ 2,064	$ 301	$ (414)	$ (42)	$ 367
Net Income [Loss]	$ 6,540	$ 4,922	$ 2,361	$ 105	$ (4,978)
Net Income [Loss] Per Common Share	$ .57	$ .43	$ .24	$ .01	$ (.68)
Net Income [Loss] Per Share - Diluted	$ .51	$ .39	$ .21	$ .01	$ (.68)
Cash Dividends Per Common Share	$	$	$	$	$
Balance Sheet Data:					
Total Assets	$ 53,219	$ 47,442	$ 44,006	$ 38,349	$ 32,318
Total Long-Term Liabilities	$ 2,202	$ 1,519	$ 1,158	$ 2,378	$ 2,931
Total Liabilities	$ 23,261	$ 23,235	$ 25,532	$ 25,287	$ 20,948
Working Capital	$ 17,671	$ 12,651	$ 7,257	$ 2,820	$ 3,702
Stockholders Equity	$ 29,958	$ 24,207	$ 18,474	$ 13,061	$ 11,369

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

Note Regarding Forward-Looking Statements

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

OVERVIEW

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

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

Our PSIMedica business unit is a Clinical Knowledge Management (CKM) System that uses data derived from various disparate sources to provide both administrative and clinical analysis of a population. The source data consists of enrollment (demographic) data, claims data, pharmacy data, laboratory results data, and any other data that may be available. The system uses sophisticated algorithms to cleanse and configure the data so that analysis can be comprehensive and meaningful. The data is maintained on multiple levels of analysis enabling review of data from the global level to the granular transactional detail. The system includes a base set of queries that provide basic functionality and allows on-line real-time ad hoc query capability enabling the user to customize analysis to the best needs of the organization using the system. In addition to the basic queries provided by the system, PSIMedica Quality Indicators (PQI) provide comprehensive, disease state oriented queries that disclose the quality and efficiency of the care and service. These indicators have been designed to provide the customer with standards and outcome predictors based on a medical standards basis. We are using PSIMedica to market value-added clinical laboratory services to bulk purchasers of clinical laboratory solutions, as well as marketing our PSIMedica programs to businesses such as Health Plans, Integrated Delivery Networks, Disease Management Companies, Insurers, Clinical Trial Companies and other healthcare providers that most benefit from the ability of the system to combine both clinical and administrative analysis.

CareEvolve, our wholly owned subsidiary, is a physician-based connectivity portal. This system provides a complex, sophisticated system for ordering laboratory services and delivering laboratory results. The system is designed to be physician-centric and to provide a highly flexible, scalable, comprehensive desktop solution for physicians to manage their day-to-day practice and personal needs, as well as to handle their clinical laboratory ordering and reporting. This product has been designed to work as a platform with plug and play capability that can easily be used by other laboratories that also need a web-based solution for their physician customers. We have entered into a Strategic Marketing Agreement with Roche Diagnostics to operate a Joint Venture for the sale and distribution of CareEvolve services to other laboratories throughout the country. Under the terms of the Strategic Marketing Agreement, Roche supports the marketing of CareEvolve to clinical laboratories through its extensive diagnostic marketing force. The joint venture is managed by a Steering Committee that consists of executives from both companies. Roche holds an option exercisable to purchase up to a 50% equity interest in this wholly owned subsidiary.

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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period. While many aspects of our business are subject to complex federal, state and local regulations, the accounting for our business is generally straightforward. Our revenues are primarily comprised of a high volume of relatively low dollar transactions, and about 46% 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.

future 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.

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

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

changes in payor mix.

failure to maintain our days sales outstanding levels.

increased competition, including price competition.

our ability to attract and retain experienced and qualified personnel.

adverse litigation results.

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

	Quarter Ended				
	1/31	**4/30**	**7/31**	**10/31**	**Fiscal Year**
FY 2002	$ .06	$ .10	$ .12	$ .13	$ .41