

Pharma-Bio Serv, Inc.
Form 10-Q
June 14, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended April 30, 2011

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

For the transition period from _____ to _____

Commission File No. 000-50956

PHARMA-BIO SERV, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

20-0653570
(IRS Employer
Identification No.)

Pharma-Bio Serv Building,
6 Road 696
Dorado, Puerto Rico
(Address of Principal Executive Offices)

00646
(Zip Code)

Registrant's Telephone Number, Including Area Code 787-278-2709

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 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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

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Non-accelerated filer

Smaller reporting company

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

The number of shares of the registrant's common stock outstanding as of June 13, 2011 was 20,751,215.

PHARMA-BIO SERV, INC.
FORM 10-Q
FOR THE QUARTER ENDED APRIL 30, 2011

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PART I – FINANCIAL INFORMATION

Item 1.

FINANCIAL STATEMENTS
PHARMA-BIO SERV, INC.
Condensed Consolidated Balance Sheets
(Unaudited)

	April 30, 2011*	October 31, 2010**
ASSETS:		
Current assets		
Cash and cash equivalents	\$2,552,989	\$2,317,168
Marketable securities	95,000	95,000
Accounts receivable	3,989,801	2,520,407
Other	211,759	270,827
Total current assets	6,849,549	5,203,402
Property and equipment		
Other assets	24,399	33,364
Total assets	\$8,190,756	\$6,558,024
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Current liabilities		
Current portion-obligations under capital leases	\$30,095	\$18,227
Accounts payable and accrued expenses	1,484,167	1,205,576
Income taxes payable	629,714	210,911
Total current liabilities	2,143,976	1,434,714
Obligations under capital leases		
Total liabilities	2,252,607	1,488,553
Stockholders' equity:		
Preferred Stock, \$0.0001 par value; authorized 10,000,000 shares; none outstanding	-	-
Common Stock, \$0.0001 par value; authorized 50,000,000 shares; issued and outstanding 20,751,215 shares	2,075	2,075
Additional paid-in capital	650,218	645,886
Retained earnings	5,276,680	4,440,728
Accumulated other comprehensive gain (loss)	9,176	(19,218)
Total stockholders' equity	5,938,149	5,069,471
Total liabilities and stockholders' equity	\$8,190,756	\$6,558,024

* Unaudited.

** Condensed from audited financial statements.

See notes to condensed consolidated financial statements.

PHARMA-BIO SERV, INC.
Condensed Consolidated Statements of Income
(Unaudited)

	Three months ended April 30,		Six months ended April 30,	
	2011	2010	2011	2010
REVENUES	\$ 4,586,804	\$ 2,773,604	\$ 8,179,475	\$ 5,330,343
COST OF SERVICES	3,041,804	2,016,862	5,458,467	3,822,425
GROSS PROFIT	1,545,000	756,742	2,721,008	1,507,918
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	808,245	678,428	1,466,726	1,380,289
INCOME FROM OPERATIONS	736,755	78,314	1,254,282	127,629
OTHER INCOME (EXPENSE):				
Interest expense	(1,991)	(939)	(3,341)	(2,697)
Interest income	4,354	4,300	9,119	8,964
Gain on disposition of property and equipment	-	-	-	1,920
	2,363	3,361	5,778	8,187
INCOME BEFORE TAXES	739,118	81,675	1,260,060	135,816
INCOME TAXES	259,426	34,795	424,108	68,477
NET INCOME	\$ 479,692	\$ 46,880	\$ 835,952	\$ 67,339
BASIC EARNINGS PER COMMON SHARE	\$ 0.023	\$ 0.002	\$ 0.040	\$ 0.003
DILUTED EARNINGS PER COMMON SHARE	\$ 0.021	\$ 0.002	\$ 0.037	\$ 0.003
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – BASIC	20,751,215	20,751,215	20,751,215	20,751,215
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – DILUTED	22,483,430	22,307,369	22,479,368	22,371,489

See notes to condensed consolidated financial statements.

PHARMA-BIO SERV, INC.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Three months ended April 30,		Six months ended April 30,	
	2011	2010	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	\$ 479,692	\$ 46,880	\$ 835,952	\$ 67,339
Adjustments to reconcile net income to net cash provided by operating activities:				
Gain on disposition of property and equipment	-	-	-	(1,920)
Stock-based compensation	2,166	12,826	4,332	28,718
Depreciation and amortization	74,128	81,001	148,841	162,789
(Increase) decrease in accounts receivable	(812,507)	66,805	(1,420,966)	147,673
(Increase) decrease in other assets	(5,140)	(434)	66,618	92,599
Increase in liabilities	448,688	84,068	658,368	63,548
NET CASH PROVIDED BY OPERATING ACTIVITIES	187,027	291,146	293,145	560,746
CASH FLOWS FROM INVESTING ACTIVITIES:				
Acquisition of property and equipment	(56,150)	(8,985)	(66,215)	(20,055)
NET CASH USED IN INVESTING ACTIVITIES	(56,150)	(8,985)	(66,215)	(20,055)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Payments on obligations under capital lease	(5,391)	(5,460)	(9,815)	(26,627)
NET CASH USED IN FINANCING ACTIVITIES	(5,391)	(5,460)	(9,815)	(26,627)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	20,523	(10,691)	18,706	(16,656)
NET INCREASE IN CASH AND CASH EQUIVALENTS	146,009	266,010	235,821	497,408
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	2,406,980	2,283,272	2,317,168	2,051,874
CASH AND CASH EQUIVALENTS - END OF PERIOD	\$ 2,552,989	\$ 2,549,282	\$ 2,552,989	\$ 2,549,282
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION:				
Cash paid during the period for:				
Income taxes	\$ -	\$ 9,325	\$ 6,025	\$ 15,468
Interest	\$ 1,703	\$ 939	\$ 3,053	\$ 2,697
SUPPLEMENTARY SCHEDULES OF NON-CASH INVESTING AND FINANCING ACTIVITIES:				
Income tax withheld by clients to be used as a credit in the Company's income tax return	\$ 6,870	\$ 3,454	\$ 24,671	\$ 3,454
	\$ -	\$ -	\$ 76,475	\$ 31,918

Obligations under capital lease incurred for the acquisition of a vehicle

Property and equipment with accumulated depreciation of \$12,355 disposed during the six month period ended in April 30, 2010	\$ -	\$ -	\$ -	\$ 33,695
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See notes to condensed consolidated financial statements.

PHARMA-BIO SERV, INC.
Notes To Condensed Consolidated Financial Statements
April 30, 2011
(Unaudited)

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

Pharma-Bio Serv, Inc. (“Pharma-Bio”) is a Delaware corporation organized on January 14, 2004. Pharma-Bio is the parent company of Pharma-Bio Serv PR, Inc. (“Pharma-PR”), Pharma Serv, Inc. (“Pharma-Serv”), both Puerto Rico corporations, Pharma-Bio Serv US, Inc. (“Pharma-US”), a Delaware corporation, and Pharma-Bio Serv Validation & Compliance Limited (“Pharma-IR”), a majority owned Irish corporation. Pharma-Bio, Pharma-PR, Pharma Serv, Pharma-US and Pharma-IR are collectively referred to as the “Company.” The Company operates in Puerto Rico, the United States and in Ireland under the name of Pharma-Bio Serv and is engaged in providing technical compliance consulting service, and microbiological and chemical laboratory testing services primarily to the pharmaceutical, chemical, medical device and biotechnology industries.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated balance sheet of the Company as of October 31, 2010 is derived from audited consolidated financial statements but does not include all disclosures required by generally accepted accounting principles. The unaudited interim condensed consolidated financial statements, include all adjustments, consisting of normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of the financial position and results of operations and cash flows for the interim periods. The results of operations for the six months ended April 30, 2011 are not necessarily indicative of expected results for the full 2011 fiscal year.

The accompanying financial data as of April 30, 2011, and for the three-month and six-month periods ended April 30, 2011 and 2010 has been prepared by us, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally contained in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the financial statements and notes contained in our audited Consolidated Financial Statements and the notes thereto for the fiscal year ended October 31, 2010.

Consolidation

The accompanying condensed consolidated financial statements include the accounts of the Company and all of its wholly owned and majority-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results may differ from these estimates.

Fair Value of Financial Instruments

Accounting standards have established a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Accounting standards have established three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets and liabilities.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets with insufficient volume or infrequent transactions (less active markets), or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

Marketable securities consist of an obligation from the Puerto Rico Government Development Bank valued using quoted market prices in active markets with no valuation adjustment. Accordingly, this security is categorized in Level 1.

The carrying value of the Company's financial instruments (excluding marketable securities and obligations under capital leases): cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, are considered reasonable estimates of fair value due to their liquidity or short-term nature. Management believes, based on current rates, that the fair value of its obligations under capital leases approximates the carrying amount.

Revenue Recognition

Revenue is primarily derived from: (1) time and materials contracts (representing approximately 85% of total revenues), which is recognized by applying the proportional performance model, whereby revenue is recognized as performance occurs, (2) short-term fixed-fee contracts or "not to exceed" contracts (representing approximately 8% of total revenues), which revenue is recognized similarly, except that certain milestones also have to be reached before revenue is recognized, and (3) laboratory testing revenue (representing approximately 7% of total revenues) is mainly recognized as the testing is completed and certified (normally within days of sample receipt from customer). If the Company determines that a contract will result in a loss, the Company recognizes the estimated loss in the period in which such determination is made.

Cash Equivalents

For purposes of the consolidated statements of cash flows, cash equivalents include investments in a money market obligations trust that is registered under the U.S. Investment Company Act of 1940, as amended, and liquid investments with original maturities of three months or less.

Marketable Securities

We consider our marketable security investment portfolio and marketable equity investments available-for-sale and, accordingly, these investments are recorded at fair value with unrealized gains and losses generally recorded in other comprehensive income; whereas realized gains and losses are included in earnings and determined based on the specific identification method.

Accounts Receivable

Accounts receivable are recorded at their estimated realizable value. Accounts are deemed past due when payment has not been received within the stated time period. The Company's policy is to review individual past due amounts periodically and write off amounts for which all collection efforts are deemed to have been exhausted. Due to the nature of the Company's customers, bad debts are mainly accounted for using the direct write-off method whereby an

expense is recognized only when a specific account is determined to be uncollectible. The effect of using this method approximates that of the allowance method.

Income Taxes

The Company follows an asset and liability approach method of accounting for income taxes. This method measures deferred income taxes by applying enacted statutory rates in effect at the balance sheet date to the differences between the tax basis of assets and liabilities and their reported amounts on the financial statements. The resulting deferred tax assets or liabilities are adjusted to reflect changes in tax laws as they occur. A valuation allowance is provided when it is more likely than not that a deferred tax asset will not be realized.

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Property and equipment

Owned property and equipment, and leasehold improvements are stated at cost. Vehicles under capital leases are stated at the lower of fair market value or net present value of the minimum lease payments at the inception of the leases.

Depreciation and amortization of owned assets are provided for, when placed in service, in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives, using straight-line basis. Assets under capital leases and leasehold improvements are amortized over the shorter of the estimated useful lives of the assets or initial lease term. Major renewals and betterments that extend the life of the assets are capitalized, while expenditures for repairs and maintenance are expensed when incurred. As of April 30, 2011 and October 31, 2010, the accumulated depreciation and amortization amounted to \$1,097,282 and \$950,107, respectively.

The Company evaluates for impairment its long-lived assets to be held and used, and long-lived assets to be disposed of, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Based on management estimates, no impairment of the operating properties was present.

Intangible assets

Definite-lived intangible assets, such as customer lists and covenants not to compete, are amortized on a straight-line basis over their estimated useful lives. The Company continually evaluates the reasonableness of the useful lives of these assets.

Stock-based Compensation

Stock-based compensation expense is recognized in the consolidated financial statements based on the fair value of the awards granted. Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period, which generally represents the vesting period, and includes an estimate of awards that will be forfeited. The Company calculates the fair value of stock options using the Black-Scholes option-pricing model at grant date. Excess tax benefits related to stock-based compensation are reflected as cash flows from financing activities rather than cash flows from operating activities. The Company has not recognized such cash flow from financing activities since there has been no tax benefit related to the stock-based compensation.

Income Per Share of Common Stock

Basic income per share of common stock is calculated by dividing net income by the weighted average number of shares of common stock outstanding. Diluted income per share includes the dilution of common stock equivalents.

The diluted weighted average shares of common stock outstanding were calculated using the treasury stock method for the respective periods.

Foreign Operations

The functional currency of the Company's foreign subsidiary is its local currency. The assets and liabilities of the Company's foreign subsidiary are translated into U.S. dollars at exchange rates in effect at the balance sheet date. Income and expense items are translated at the average exchange rates prevailing during the period. The cumulative translation effect for subsidiaries using a functional currency other than the U.S. dollar is included as a cumulative translation adjustment in stockholders' equity and as a component of comprehensive income.

The Company's intercompany accounts are typically denominated in the functional currency of the foreign subsidiary. Gains and losses resulting from the remeasurement of intercompany receivables that the Company considers to be of a long-term investment nature are recorded as a cumulative translation adjustment in stockholders' equity and as a component of comprehensive income, while gains and losses resulting from the remeasurement of intercompany receivables from those international subsidiaries for which the Company anticipates settlement in the foreseeable future are recorded in the consolidated statements of operations. The net gains and losses recorded in the condensed consolidated statements of income were not significant for the periods presented.

Reclassifications

Certain reclassifications have been made to the April 30, 2010 condensed consolidated financial statements to conform them to the April 30, 2011 condensed consolidated financial statements presentation. Such reclassifications do not affect net income as previously reported.

Recently issued and adopted accounting standards

Recently issued FASB guidance, including SEC Staff Accounting Bulletins, have either been implemented or are not applicable to the Company.

NOTE B – MARKETABLE SECURITIES AVAILABLE FOR SALE

At April 30, 2011, the marketable securities of \$95,000 consisted of a 5.4% Puerto Rico Commonwealth Government Development Bank Bond, purchased at par and maturing in August 2019. The bond balance approximates its fair market value, therefore no realized or unrealized gains or losses have been recorded.

The primary objectives of the Company's investment portfolio are liquidity and safety of principal. Investments are made with the objective of achieving the highest rate of return consistent with these two objectives. Our investment policy limits investments to certain types of debt and money market instruments issued by institutions primarily with investment grade credit ratings and places restrictions on maturities and concentration by type and issuer.

We review our available-for-sale securities for other-than-temporary declines in fair value below their cost basis on a quarterly basis and whenever events or changes in circumstances indicate that the cost basis of an asset may not be recoverable. This evaluation is based on a number of factors including, the length of time and extent to which the fair value has been less than our cost basis and adverse conditions specifically related to the security including any changes to the rating of the security by a rating agency. As of April 30, 2011, we believe that the cost base for our available-for-sale securities is recoverable in all material respects.

NOTE C - INCOME TAXES

The Company follows guidance from the FASB related to Accounting for Uncertainty in Income Taxes, which includes a two-step approach to recognizing, de-recognizing and measuring uncertain tax positions. As of April 30, 2011, the Company had no significant uncertain tax positions that would be reduced as a result of a lapse of the applicable statute of limitations.

On July 2008, Pharma-Bio and Pharma-PR obtained a Grant of Industrial Tax Exemption ("the Grant") from the Puerto Rico Industrial Development Company pursuant to the terms and conditions set forth in Act No. 135 of December 2, 1997, as amended. The Grant provides relief on various Puerto Rico taxes, including income tax, mostly for the Company's microbiological and chemical laboratory testing facility and service activities outside of Puerto Rico. The Grant is effective as of September 1, 2007 and covers a ten year period. Activities covered by the Grant are subject to a reduced income tax rate of 7%.

The operations carried out in the United States by the Company's subsidiary are taxed in the United States. With certain limitations, the Company's Puerto Rico subsidiary receives a credit on its Puerto Rico tax for the federal income tax paid. Also, upon distribution of earnings by the Puerto Rican subsidiary to its parent those dividends are taxed at the federal level, however, the parent is able to receive a credit for the taxes paid by the subsidiary on its operations in Puerto Rico, to the extent of the federal taxes that result from those earnings (determined at rates which are normally lower than in Puerto Rico). As a result, the income tax expense of the Company, under its present corporate structure, would normally be the Puerto Rico taxes on operations in Puerto Rico, plus 10% withholding in Puerto Rico from dividends paid to the Puerto Rican subsidiary's parent, plus federal taxes on operations in the United States.

Deferred income tax assets and liabilities are computed for differences between the consolidated financial statements and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future, based on enacted

tax laws and rates applicable to the periods in which the differences are expected to affect taxable income.

The Company has not recognized deferred income taxes on undistributed earnings of its Puerto Rican subsidiary, since such earnings are considered to be reinvested indefinitely. If the earnings were distributed in the form of dividends, the Company would be subject to a tollgate tax.

Pharma-Bio and Pharma-IR have unused operating losses which result in a potential deferred tax asset. However, an allowance has been provided covering the total amount of such balance since it is uncertain whether the net operating losses can be used to offset future taxable income before their expiration dates. Realization of future tax benefits related to a deferred tax asset is dependent on many factors, including the company's ability to generate taxable income. Accordingly, the income tax benefit will be recognized when realization is determined to be more probable than not. These net operating losses are available to offset future taxable income which expires for Pharma-Bio in 2025 while for Pharma-IR are available indefinitely.

The statutory income tax rate differs from the effective rate mainly due to income tax permanent differences between financial and tax books income.

The Company files income tax returns in the United States (federal and various states jurisdictions), Puerto Rico and Ireland. The 2005 through 2010 tax years are open and may be subject to potential examination in one or more jurisdictions. The Company is not currently under income tax examination.

NOTE D – WARRANTS

At April 30, 2011 and October 31, 2010, the Company had outstanding warrants to purchase shares of the Company's common stock as follows:

	Exercise Price	Expiration Date	April 30, 2011	October 31, 2010
Investor Warrants A	\$ 1.1000	January 25, 2011	-	3,999,700
Investor Warrants B	\$ 1.6500	January 25, 2011	-	3,999,700
Other Warrants A	\$ 0.0600	January 16, 2014	249,600	249,600
Other Warrants B	\$ 0.0600	January 24, 2014	1,830,991	1,830,991
Warrants Total			2,080,591	10,079,991

NOTE E – EARNINGS PER SHARE

The following data shows the amounts used in the calculations of basic and diluted earnings per share.

	Three months ended April 30,		Six months ended April 30,	
	2011	2010	2011	2010
Net income available to common equity holders - used to compute basic and diluted earning per share	\$479,692	\$46,880	\$835,952	\$67,339
Weighted average number of common shares - used to compute basic earning per share	20,751,215	20,751,215	20,751,215	20,751,215
Effect of warrants to purchase common stock	1,721,291	1,556,154	1,717,885	1,620,274
Effect of options to purchase common stock	10,924	-	10,268	-
Weighted average number of shares - used to compute diluted earnings per share	22,483,430	22,307,369	22,479,368	22,371,489

Options for the purchase of 374,885 shares of common stock for the three-month and six-month periods ended in April 30, 2011 and 2010, were not included in computing diluted earnings per share because their effects were antidilutive.

NOTE F - CONCENTRATIONS OF RISK

Cash and cash equivalents

The Company maintains cash deposits in an FDIC insured bank and in a money market obligations trust, registered under the US Investment Company Act of 1940, as amended. The bank deposit balances frequently exceed federally insured limits. No losses have been experienced or are expected on these accounts.

Accounts receivable and revenues

Management deems all of its accounts receivable to be fully collectible, and, as such, does not maintain any allowances for uncollectible receivables.

The Company's revenues, and the related receivables, are concentrated in the pharmaceutical industry in Puerto Rico, the United States of America and Ireland. Although a few customers represent a significant source of revenue, the Company's functions are not a continuous process, accordingly, the client base for which the services are typically rendered, on a project-by-project basis, changes regularly.

The Company provided a substantial portion of its services to three customers, which accounted for 10% or more of its revenues in the three-month and six-month periods ended April 30, 2011 and 2010. During the three months ended April 30, 2011, revenues from these customers were 20.4%, 15.3%, and 12.7%, or a total of 48.4%, as compared to the same period last year for 0.0%, 19.4%, and 12.4%, or a total of 31.8%, respectively. For the six months ended April 30, 2011 revenues from these customers were 20.8%, 16.5%, and 14.5%, or a total of 51.8%, as compared to the same period last year for 0.0%, 21.4%, and 13.1%, or a total of 34.5%, respectively. At April 30, 2011 amounts due from these customers represented 43.7% of the Company's total accounts receivable balance.

NOTE G - SEGMENT DISCLOSURES

The Company's segments are based on the organizational structure for which financial results are regularly evaluated by the Company's chief operating decision maker to determine resource allocation and assess performance. Each reportable segment is managed by its own management team and reports to executive management. The Company has three reportable segments: (i) Puerto Rico and United States technical compliance consulting, (ii) Ireland technical compliance consulting, and (iii) a Puerto Rico microbiological and chemical laboratory testing division ("Lab"). These reportable segments provide services primarily to the pharmaceutical, chemical, medical device and biotechnology industries in their respective markets.

The following table presents information about the reported revenue from services and earnings from operations of the Company for the three and six month periods ended in April 30, 2011 and 2010. There is no intersegment revenue for the mentioned periods. Corporate expenses that support the operating units have been allocated to the segments. Asset information by reportable segment is not presented, since the Company does not produce such information internally, nor does it use such data to manage its business.

	Three months ended April 30,		Six months ended April 30,	
	2011	2010	2011	2010
REVENUES:				
Puerto Rico and United States consulting	\$ 3,368,863	\$ 2,004,966	\$ 5,943,608	\$ 3,786,191
Ireland consulting	734,126	540,621	1,445,535	1,122,572
Lab (microbiological and chemical testing)	152,396	149,306	231,191	268,392
Other segments ¹	331,419	78,711	559,141	153,188
Total consolidated revenues	\$ 4,586,804	\$ 2,773,604	\$ 8,179,475	\$ 5,330,343
INCOME (LOSS) BEFORE TAXES:				
Puerto Rico and United States consulting	\$ 790,479	\$ 238,605	\$ 1,322,941	\$ 382,190
Ireland consulting	(45,527)	(48,424)	35,366	(12,249)
Lab (microbiological and chemical testing)	(73,059)	(119,111)	(217,103)	(237,489)
Other segments ¹	67,225	10,605	118,856	3,364
Total consolidated income before taxes	\$ 739,118	\$ 81,675	\$ 1,260,060	\$ 135,816

¹ Other segments represent activities that fall below the reportable threshold and are carried out in Puerto Rico and United States. These activities include a technical seminars/training division, an information technology services and consulting division, and corporate headquarters, as applicable.

Long lived assets (property and equipment and intangible assets) as of April 30, 2011 and October 31, 2010, and related depreciation and amortization expense for the three and six months ended April 30, 2011 and 2010, were concentrated in the domestic markets (Puerto Rico and United States). The aggregate amount of long lived assets for the international operations (Ireland) is considered insignificant.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion of our results of operations and financial condition should be read in conjunction with the financial statements and the related notes included under Part I Item 1 of this Quarterly Report on Form 10-Q. In addition, reference should be made to our audited Consolidated Financial Statements and notes thereto and related Management's Discussion and Analysis appearing in our Annual Report on Form 10-K for the year ended October 31, 2010. The following discussion includes forward-looking statements. For a discussion of important factors that could cause actual results to differ from results discussed in the forward-looking statements, see "Forward Looking Statements" below and the "Risk Factors" section in our Annual Report on Form 10-K for the year ended October 31, 2010.

Overview

We are a compliance services consulting firm with a laboratory testing facility with headquarters in Puerto Rico, servicing the Puerto Rico, United States and Europe markets. The compliance consulting service sector in those markets consists of local compliance and validation consulting firms, United States dedicated validation and compliance consulting firms and large publicly traded and private domestic and foreign engineering and consulting firms. We provide a broad range of compliance related consulting services. We also provide microbiological testing services and chemical testing services through our laboratory testing facility ("Lab") in Puerto Rico. We also provide information technology consulting services and technical trainings/seminars, which services are not currently significant to our operating results. We market our services to pharmaceutical, chemical, biotechnology and medical devices, and allied products companies in Puerto Rico, the United States and Europe. Our team includes more than 150 experienced engineering and life science professionals, and includes former quality assurance managers or directors, and experienced and trained professionals with bachelors, masters and doctorate degrees in health sciences and engineering.

During fiscal 2006 and 2008, respectively, we expanded the markets we serve from Puerto Rico to the United States and Ireland. Our Ireland operation, with an Ireland-based management team reporting to our headquarters, by fiscal year 2010 achieved a \$1.2 million revenue growth and has established a network of potential key customers and contacts that serve as the base for our future sales target and opportunities. We are also further expanding our United States market.

We have plans to further penetrate the markets we currently serve. We market our services with an active presence in industry trade shows, professional conventions, industry publications and company provided seminars to the industry. Our senior management is also actively involved in the marketing process, especially in marketing to major accounts. Our senior management and staff also concentrate on developing new business opportunities and focus on the larger customer accounts (by number of professionals or dollar volume) and responding to prospective customers' requests for proposals.

While our core business is FDA and international agencies regulatory compliance related services, we feel that our clients are in need of other services that we can provide and allow us to present the company as a global solution provider with a portfolio of integrated services that will bring value added solutions to our customers. Accordingly, in fiscal year 2009 we expanded our portfolio of services to include a laboratory testing facility, an information technology consulting practice and a training center that provides seminars/trainings to the industry.

Our Lab located in Puerto Rico, with an investment of approximately \$1.5 million for microbiology and chemical testing, commenced operations in early fiscal 2009. The Lab incorporates the latest technology and test methodologies meeting pharmacopoeia industry standards and regulations. It currently offers services to our core industries already

serviced as well as the cosmetic and food industries.

We identified the industry need, and the opportunity to provide, technical seminars/trainings that will incorporate the latest regulatory trends and standards as well as other related areas. A network of leading industry professional experts in their field, which includes resources of our own, were identified and teamed to provide these seminars/trainings to the industry through our “Pharma Serv Academy” division. Our goal is to provide these services and market our company in the markets we currently serve as well as others.

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In December 2008, we acquired the operations and assets of Integratek Corp. (“Integratek”), an information technology services and consulting firm based in Puerto Rico. Integratek provides a variety of information technology services such as web pages and portals development, digital art design, intranets, extranets, software development including database integration, Windows and web applications development, software technical training and learning management systems, technology project management, and compliance consulting services, among others. Integratek is a Microsoft Certified Partner and a reseller for technology products from leading vendors in the market. Although this operation is not currently significant to our operating results, our goal is to broaden the portfolio of services that we can provide to our customer base and also target other potential customers in other industries.

In line with the strategy to penetrate the United States market, on September 1, 2010, we obtained the annual renewal of the certification as a "minority-controlled company" as defined by the National Minority Supplier Development Council and Growth Initiative ("NMSDC"). The certification allows us to participate in corporate diversity programs available from various potential customers in the United States and Puerto Rico.

On July 2008, Pharma-Bio and Pharma-PR obtained a Grant of Industrial Tax Exemption (“the Grant”) from the Puerto Rico Industrial Development Company pursuant to the terms and conditions set forth in Act No. 135 of December 2, 1997, as amended. The Grant provides relief on various Puerto Rico taxes, including income tax, mostly for our new Lab and service activities outside of Puerto Rico. The Grant is effective as of September 1, 2007 and covers a ten year period. Activities covered by the Grant are subject to a reduced income tax rate of 7%.

Mostly triggered by favorable gains in the United States consulting market, our first six months for fiscal year 2011 experienced a positive turnaround when compared to the same period last fiscal year. Except for the Lab which sustained a decline in revenues, while we continue our efforts to broaden its customer base, other Company divisions sustained minor revenue gains or remained constant. Total net revenues increased by approximately \$2.8 million, when compared to the same period last year. We continued our strategies to adjust our pricing and gross margin structure, and aligned/increased our operations support to follow the favorable revenue trend. These factors have led our six months ended April 30, 2011 net income to be approximately \$0.8 million, an increase of \$0.7 million or an increase in profit margin of 8.9 percentage points when compared with the same period last year.

The following table sets forth information as to our revenue for the three-month and six-month periods ended April 30, 2011 and 2010, by geographic regions (dollars in thousands).

Revenues by Region:	Three months ended April 30,				Six months ended April 30,			
	2011		2010		2011		2010	
Puerto Rico	\$ 2,270	49.5 %	\$ 1,922	69.3 %	\$ 4,109	50.2 %	\$ 3,628	68.1 %
United States	1,583	34.5 %	311	11.2 %	2,625	32.1 %	580	10.9 %
Ireland	734	16.0 %	541	19.5 %	1,445	17.7 %	1,122	21.0 %
	\$ 4,587		\$ 2,774		\$ 8,179		\$ 5,330	

Weak economies where we do business and worldwide industry consolidations were unfavorable factors which affected fiscal year 2010. These factors and the potential impact over the industry of the recently enacted US health care reform (Patient Protection and Affordable Care Act) and Puerto Rico Act 154, which imposed temporary excise taxes to the industry we serve, remain as industry uncertainties that might adversely affect our future performance. We believe that our future profitability and liquidity will be highly dependent on the effect the global economy, changes in tax laws and worldwide industry consolidations will have over our operations, and our ability to seek service opportunities and adapt to current industry trends.

Results of Operations

The following table sets forth our statements of operations for the three-month and six-month periods ended April 30, 2011 and 2010, (dollars in thousands) and as a percentage of revenue:

	Three months ended April 30,				Six months ended April 30,			
	2011		2010		2011		2010	
Revenues	\$ 4,587	100.0 %	\$ 2,774	100.0 %	\$ 8,179	100.0 %	\$ 5,330	100.0 %
Cost of services	3,042	66.3 %	2,017	72.7 %	5,458	66.7 %	3,822	71.7 %
Gross profit	1,545	33.7 %	757	27.3 %	2,721	33.3 %	1,508	28.3 %
Selling, general and administrative costs	808	17.6 %	678	24.4 %	1,467	17.9 %	1,380	25.9 %
Interest expense	2	0.0 %	1	0.0 %	3	0.0 %	3	0.1 %
Interest income	4	0.0 %	4	-0.1 %	9	0.0 %	9	-0.2 %
Gain on disposition of property	-	0.0 %	-	0.0 %	-	0.0 %	2	0.0 %
Income before income taxes	739	16.1 %	82	3.0 %	1,260	15.4 %	136	2.5 %
Income tax expense	259	5.6 %	35	1.3 %	424	5.2 %	69	1.3 %
Net income	480	10.5 %	47	1.7 %	836	10.2 %	67	1.2 %

Revenues. Revenues for the three and six months ended April 30, 2011 were \$4.6 and \$8.2 million, an increase of approximately \$1.8 and \$2.9 million or 65% and 53%, respectively, when compared to the same periods last year. This improvement is mainly attributable to \$1.3 and \$2.0 million gains in the United States market for the three-month and six-month periods ended April 30, 2011, respectively. The additional increase is distributed almost evenly between the Puerto Rico, Ireland and Integratek divisions.

The increase in the United States, Ireland and Integratek operations are mostly attributable to volume acquired from one customer in each of the divisions.

Cost of Services; gross margin. The overall gross margin for the three-month and six-month periods ended in April 30, 2011 reflected a gross margin net gain of 6.4 and 5.0 percentage points, respectively, when compared to the same periods last year. The net increase is mainly attributable to project gains attained in the consulting business, partially offset by the Lab's low gross margin yield as a function of billings versus fixed costs of services.

Selling, General and Administrative Expenses. Selling, general and administrative expenses for the three and six month periods ended April 30, 2011 were approximately \$0.8 and \$1.5 million, respectively, an increase of \$0.1 million for each period, over the same periods last year. The investment is intended to support the favorable net revenue trend.

Income Taxes Expense. The increase in income taxes expense is attributable to the increase of income before income tax. The statutory income tax rate differs to the effective rate mainly due to income tax permanent differences between financial and taxable book income.

Net Income. Our net income for the three and six month periods ended April 30, 2011 was approximately \$0.5 million and \$0.8 million, respectively, an increase of \$0.4 million and \$0.7 million or an increase in profit margin of 8.8 and 8.9 percentage points, respectively, when compared with the same periods last year.

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For the three months ended in April 30, 2011, earnings per common share basic and diluted were \$0.023 and \$0.021, respectively, an improvement of \$0.021 and \$0.019, respectively, when compared to the same period last year. For the six months period ended in April 30, 2011, earnings per common share basic and diluted were \$0.040 and \$0.037, respectively, a gain of \$0.037 and \$0.034, respectively, when compared to the same period last year.

Our net income improvement is attributable mainly to the increase in overall gross margin, offset by a minor increase in selling general and administrative expenses, and by the increase of income tax expense due to the increase in taxable income.

Liquidity and Capital Resources

Liquidity is a measure of our ability to meet potential cash requirements, including planned capital expenditures. For the six months ended April 30, 2011, we have generated a working capital increase of approximately \$0.9 million.

Our primary cash needs consist of the payment of compensation to our professional staff, overhead expenses, and statutory taxes. Management believes that based on current level of operations and cash flows from operations, the collectability of high quality customer receivables will be sufficient to fund anticipated expenses and satisfy other possible long-term contractual commitments for the next twelve months.

To the extent that we pursue possible opportunities to expand our operations, either by acquisition or by the establishment of operations in a new locale, we will incur additional overhead, and there may be a delay between the period we commence operations and our generation of net cash flow from operations.

While uncertainties relating to the current local and global economic condition, competition, the industries and geographical regions served by us and other regulatory matters exist within the consulting services industry, as described above, management is not aware of any other trends or events likely to have a material adverse effect on liquidity or its financial statements.

Off-Balance Sheet Arrangements

We were not involved in any significant off-balance sheet arrangement during the six months ended April 30, 2011.

Critical Accounting Policies and Estimates

There were no material changes during the six months ended April 30, 2011 to the critical accounting policies reported in our Annual Report on Form 10-K for the fiscal year ended October 31, 2010.

New Accounting Pronouncements

There were no new accounting standards, issued since our filing of the Annual Report on Form 10-K for the fiscal year ended October 31, 2010, which could have a significant effect on our condensed consolidated financial statements.

Forward-Looking Statements

Our business, financial condition, results of operations, cash flows and prospects, and the prevailing market price and performance of our common stock, may be adversely affected by a number of factors, including the matters discussed below. Certain statements and information set forth in this Quarterly Report on Form 10-Q, as well as other written or oral statements made from time to time by us or by our authorized executive officers on our behalf, constitute “forward-looking statements” within the meaning of the Federal Private Securities Litigation Reform Act of 1995. These statements include all statements other than those made solely with respect to historical fact and identified by words such as “believes”, “anticipates”, “expects”, “intends” and similar expressions, but such words are not the exclusive means of identifying such statements. We intend for our forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and we set forth this statement and these risk factors in order to comply with such safe harbor provisions. You should note that our forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q or when made and we undertake no duty or obligation to update or revise our forward-looking statements, whether as a result of new information, future events or otherwise. Although we believe that the expectations, plans, intentions and projections

reflected in our forward-looking statements are reasonable, such statements are subject to known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. The risks, uncertainties and other factors that our stockholders and prospective investors should consider include the following:

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- Because our business is concentrated in the pharmaceutical industry in Puerto Rico, and to a lesser extent in the United States and other countries, any changes in that industry or in those markets could impair our ability to generate revenue and realize a profit.
- Puerto Rico government enacted ACT 74 of October 22, 2010 may affect the willingness of our customers to do business in Puerto Rico and consequently affect our business.
- Changes in tax benefits may affect the willingness of companies to continue or expand their operations in Puerto Rico.
- Puerto Rico's economy, including its governmental financial crisis, may affect the willingness of businesses to commence or expand operations in Puerto Rico.
- Other factors, including economic factors, may affect the decision of businesses to continue or expand their operations in Puerto Rico.
- Because our business is dependent upon a small number of clients, the loss of a major client could impair our ability to operate profitably.
- Customer procurement and sourcing practices intended to reduce costs could have an adverse affect on our margins and profitability.
- A trend by multinational companies to lower cost on consulting services by converting this highly skilled service to "temporary workers" has a negative impact not only in employee morale and retention, but also impairs our capacity to compete with lower cost companies, impairs our ability to maintain fair compensation and benefits to our employees and also jeopardizes our capacity of making a profit for the service. We have lost some volume to staffing agencies which offer the same service with lower cost employees.
- Since our business is dependent upon the development and enhancement of patented pharmaceutical products or processes by our clients, the failure of our clients to obtain and maintain patents could impair our ability to operate profitably.
 - We may be unable to pass on increased labor costs to our clients.
 - Consolidation in the pharmaceutical industry may have a harmful effect on our business.
- Because the pharmaceutical industry is subject to government regulations, changes in government regulations relating to this industry may affect the need for our services.
 - If we are unable to protect our clients' intellectual property, our ability to generate business will be impaired.
- We may be subject to liability if our services or solutions for our clients infringe upon the intellectual property rights of others.
 - We may be held liable for the actions of our employees or contractors when on assignment.
- To the extent that we perform services pursuant to fixed-price or incentive-based contracts, our cost of services may exceed our revenue on the contract.
- Because most of our contracts may be terminated on little or no advance notice, our failure to generate new business could impair our ability to operate profitably.
- Because we are dependent upon our management, our ability to develop our business may be impaired if we are not able to engage skilled personnel.
- We may not be able to continue to grow unless we consummate acquisitions or enter markets outside of Puerto Rico, the United States and Ireland.
 - If we identify a proposed acquisition, we may require substantial cash to fund the cost of the acquisition.
 - If we make any acquisitions, they may disrupt or have a negative impact on our business.
- Because there is a limited market in our common stock, stockholders may have difficulty in selling our common stock and our common stock may be subject to significant price swings.
- Our quarterly revenues, operating results and profitability will vary from quarter to quarter, which may result in increased volatility of our stock price.
- The issuance of securities, whether in connection with an acquisition or otherwise, may result in significant dilution to our stockholders.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Quarterly Report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report.

Changes in Internal Control Over Financial Reporting

Based on an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, there has been no change in our internal control over financial reporting during our last fiscal quarter identified in connection with that evaluation that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

From time to time, we may be a party to legal proceedings incidental to our business. We do not believe that there are any proceedings threatened or pending against us, which, if determined adversely to us, would have a material effect on our financial position or results of operations and cash flows.

ITEM 6. EXHIBITS

(a) Exhibits:

- 31.1 Certification of chief executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of chief financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of the chief executive officer and chief financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PHARMA-BIO SERV, INC.

/s/ Elizabeth Plaza
Elizabeth Plaza
Chief Executive Officer
(Principal Executive Officer)

/s/ Pedro J. Lasanta
Pedro J. Lasanta
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Dated: June 14, 2011