

Pharma-Bio Serv, Inc.
Form 10-Q
June 16, 2014

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, 2014

- 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.

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Large accelerated filer
Non-accelerated filer

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, 2014 was 23,049,462.

PHARMA-BIO SERV, INC.
FORM 10-Q
FOR THE QUARTER ENDED APRIL 30, 2014

TABLE OF CONTENTS

| | Page |
|---|-----------|
| PART I FINANCIAL INFORMATION | |
| Item 1 – Financial Statements | |
| Condensed Consolidated Balance Sheets as of April 30, 2014 and October 31, 2013 (unaudited) | 3 |
| Condensed Consolidated Statements of Income for the three-month and six-month periods ended April 30, 2014 and 2013 (unaudited) | 4 |
| Condensed Consolidated Statements of Comprehensive Income for the three-month and six-month periods ended April 30, 2014 and 2013 (unaudited) | 5 |
| Condensed Consolidated Statements of Cash Flows for the three-month and six-month periods ended April 30, 2014 and 2013 (unaudited) | 6 |
| Notes to Condensed Consolidated Financial Statements (unaudited) | 7 |
| Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations | 15 |
| Item 4 – Controls and Procedures | 21 |
| PART II OTHER INFORMATION | |
| Item 1 – Legal Proceedings | 22 |
| Item 5 – Other Information | 22 |
| Item 6 – Exhibits | 22 |
| SIGNATURES | 23 |

PART I – FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

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

| | April 30, 2014* | October 31, 2013** |
|---|---------------------|-----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$12,828,589 | \$ 12,045,923 |
| Marketable securities | 68,410 | 71,260 |
| Accounts receivable | 7,039,270 | 7,403,987 |
| Other | 712,183 | 767,452 |
| Total current assets | 20,648,452 | 20,288,622 |
| Property and equipment | 940,584 | 976,423 |
| Other assets | 16,926 | 16,891 |
| Total assets | \$21,605,962 | \$ 21,281,936 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current portion-obligations under capital leases | \$39,406 | \$ 32,188 |
| Accounts payable and accrued expenses | 2,277,461 | 2,825,532 |
| Income taxes payable | 103,387 | 322,731 |
| Total current liabilities | 2,420,254 | 3,180,451 |
| Obligations under capital leases | 109,848 | 51,724 |
| Total liabilities | 2,530,102 | 3,232,175 |
| 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 23,049,462 and 22,702,186 shares at April 30, 2014 and October 31, 2013, respectively | 2,305 | 2,271 |
| Additional paid-in capital | 965,239 | 931,039 |
| Retained earnings | 18,182,880 | 17,193,203 |
| Accumulated other comprehensive loss | (74,564) | (76,752) |
| Total stockholders' equity | 19,075,860 | 18,049,761 |
| Total liabilities and stockholders' equity | \$21,605,962 | \$ 21,281,936 |

* 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, | |
|--|------------------------------|--------------|----------------------------|---------------|
| | 2014 | 2013 | 2014 | 2013 |
| REVENUES | \$6,574,955 | \$ 8,255,719 | \$ 13,582,607 | \$ 15,910,111 |
| COST OF SERVICES | 4,485,041 | 5,134,094 | 9,120,492 | 10,221,718 |
| GROSS PROFIT | 2,089,914 | 3,121,625 | 4,462,115 | 5,688,393 |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES | 1,670,651 | 1,373,911 | 3,215,232 | 2,650,375 |
| INCOME FROM OPERATIONS | 419,263 | 1,747,714 | 1,246,883 | 3,038,018 |
| OTHER (EXPENSE) INCOME, NET | (851) | 755 | (851) | 984 |
| INCOME BEFORE TAX | 418,412 | 1,748,469 | 1,246,032 | 3,039,002 |
| INCOME TAX EXPENSE | 90,634 | 361,189 | 256,321 | 598,477 |
| NET INCOME | \$327,778 | \$ 1,387,280 | \$ 989,711 | \$ 2,440,525 |
| BASIC EARNINGS PER COMMON SHARE | \$0.014 | \$ 0.061 | \$ 0.043 | \$ 0.112 |
| DILUTED EARNINGS PER COMMON SHARE | \$0.014 | \$ 0.059 | \$ 0.042 | \$ 0.105 |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – BASIC | 23,049,176 | 22,664,686 | 22,910,371 | 21,709,740 |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – DILUTED | 23,788,002 | 23,366,117 | 23,755,729 | 23,158,723 |

See notes to condensed consolidated financial statements.

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

| | Three months ended April | | Six months ended April | |
|--|--------------------------|-------------|------------------------|-------------|
| | 2014 | 2013 | 2014 | 2013 |
| NET INCOME | \$327,778 | \$1,387,280 | \$989,711 | \$2,440,525 |
| OTHER COMPREHENSIVE INCOME (LOSS) , NET OF RECLASSIFICATION ADJUSTMENTS AND TAXES: | | | | |
| Foreign currency translation gain | 15,533 | - | 5,038 | - |
| Net unrealized gain (losses) on available-for-sale securities | 4,286 | (31,452) | (2,850) | (3,092) |
| TOTAL OTHER COMPREHENSIVE INCOME (LOSS) | 19,819 | (31,452) | 2,188 | (3,092) |
| COMPREHENSIVE INCOME | \$347,597 | \$1,355,828 | \$991,899 | \$2,437,433 |

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, | |
|---|---------------------------------|--------------------|-------------------------------|--------------------|
| | 2014 | 2013 | 2014 | 2013 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Net income | \$327,778 | \$1,387,280 | 989,711 | \$2,440,525 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | | |
| Stock-based compensation | 17,100 | 2,166 | 34,200 | 4,332 |
| Depreciation and amortization | 95,850 | 83,025 | 187,505 | 164,103 |
| Decrease (increase) in accounts receivable | (1,324,557) | 76,932 | 407,079 | 10,239 |
| (Increase) decrease in other assets | (53,345) | (15,722) | 55,346 | (73,571) |
| (Decrease) increase in liabilities | 54,952 | (13,923) | (804,411) | (582,884) |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | (882,222) | 1,519,758 | 869,430 | 1,962,744 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Acquisition of property and equipment | (65,612) | (18,278) | (65,612) | (99,733) |
| NET CASH USED IN INVESTING ACTIVITIES | (65,612) | (18,278) | (65,612) | (99,733) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Proceeds from issuance of common stock | - | - | - | 109,859 |
| Payments on obligations under capital lease | (10,294) | (9,759) | (20,653) | (19,322) |
| NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES | (10,294) | (9,759) | (20,653) | 90,537 |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH | 3,942 | (10,586) | (499) | 1,425 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (954,186) | 1,481,135 | 782,666 | 1,954,973 |
| CASH AND CASH EQUIVALENTS — BEGINNING OF PERIOD | 13,782,775 | 7,011,951 | 12,045,923 | 6,538,113 |
| CASH AND CASH EQUIVALENTS — END OF PERIOD | \$12,828,589 | \$8,493,086 | 12,828,589 | \$8,493,086 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION | | | | |
| Cash paid during the period for: | | | | |
| Income taxes | \$403,305 | \$642,431 | 472,485 | \$788,655 |
| Interest | \$2,698 | \$1,903 | 4,003 | \$4,003 |
| SUPPLEMENTARY SCHEDULES OF NON-CASH INVESTING AND FINANCING ACTIVITIES | | | | |
| I Income tax withheld by clients to be used as a credit in the | | | | |
| Company's income tax return | \$27,950 | \$42,456 | 37,020 | \$42,456 |

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| | | | | |
|---|----------|-----|--------|----------|
| Capital lease obligation incurred for the acquisition of a vehicle | \$85,995 | \$- | 85,995 | \$- |
| Conversion of cashless exercise of warrants and options to shares of common stock | \$4 | \$- | 34 | \$- |
| Issuance of common stock pursuant to agreement with investor relations firm | \$- | \$- | 30,000 | \$60,000 |

See notes to condensed consolidated financial statements.

PHARMA-BIO SERV, INC.
Notes To Condensed Consolidated Financial Statements
April 30, 2014
(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, Pharma-Bio Serv Validation & Compliance Limited (“Pharma-IR”), an Irish corporation, and Pharma-Bio Serv SL (“Pharma-Spain”), a Spanish limited liability company. Pharma-Bio, Pharma-PR, Pharma Serv, Pharma-US, Pharma-IR and Pharma-Spain are collectively referred to as the “Company.” The Company operates in Puerto Rico, the United States, Ireland and Spain 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, 2013 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, 2014 are not necessarily indicative of expected results for the full 2014 fiscal year.

The accompanying financial data as of April 30, 2014, and for the three-month and six-month periods ended April 30, 2014 and 2013 has been prepared by us, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the “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, 2013.

Consolidation

The accompanying condensed consolidated financial statements include the accounts of the Company and all of its wholly 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 available-for-sale consist of U.S. Treasury securities and an obligation from the Puerto Rico Government Development Bank valued using quoted market prices in active markets. Accordingly, these securities are 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 92% 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 1% 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 as 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.

The Company follows guidance from the Financial Accounting Standards Board (“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, 2014, the Company had no significant uncertain tax positions that would be reduced as a result of a lapse of the applicable statute of limitations.

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, 2014 and October 31, 2013, the accumulated depreciation and amortization amounted to \$2,067,851 and \$1,880,346, 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.

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 the 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, which include principally shares that may be issued upon the exercise of warrants, stock option and restricted stock unit awards.

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 subsidiaries is its local currency. The assets and liabilities of the Company's foreign subsidiaries 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, 2013 condensed consolidated financial statements to conform them to the April 30, 2014 condensed consolidated financial statements presentation. Such reclassifications do not affect net income as previously reported.

Recently issued and adopted accounting standards

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

NOTE B – MARKETABLE SECURITIES AVAILABLE FOR SALE

The amortized cost, gross unrealized gains, gross unrealized losses and estimated fair values of available-for-sale securities by type of security were as follows as of April 30, 2014 and October 31, 2013:

| Type of security as of April 30, 2014 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|--|----------------|------------------------|-------------------------|----------------------|
| U.S. Treasury securities | \$4,500,000 | \$— | \$— | \$4,500,000 |
| Other government-related debt securities: | | | | |
| Puerto Rico Commonwealth Government Development Bond | 95,000 | — | (26,590) | 68,410 |
| Total interest-bearing and available-for-sale securities | \$4,595,000 | \$— | \$(26,590) | \$4,568,410 |

| Type of security as of October 31, 2013 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|--|----------------|------------------------|-------------------------|----------------------|
| U.S. Treasury securities | \$4,500,000 | \$— | \$— | \$4,500,000 |
| Other government-related debt securities: | | | | |
| Puerto Rico Commonwealth Government Development Bond | 95,000 | — | (23,740) | 71,260 |
| Total interest-bearing and available-for-sale securities | \$4,595,000 | \$— | \$(23,740) | \$4,571,260 |

At April 30, 2014 and October 31, 2013, the above marketable securities included a 5.4% Puerto Rico Commonwealth Government Development Bank Bond in the amount of \$95,000, purchased at par and maturing in August 2019.

The fair values of available-for-sale securities by classification in the Condensed Consolidated Balance Sheets were as follows as of April 30, 2014 and October 31, 2013:

| Classification in the Consolidated Balance Sheets | April 30, 2014 | October 31, 2013 |
|---|----------------|------------------|
| Cash and cash equivalents | \$4,500,000 | \$4,500,000 |
| Marketable securities | 68,410 | 71,260 |
| Total available-for-sale securities | \$4,568,410 | \$4,571,260 |

Cash and cash equivalents in the table above exclude cash in banks of approximately \$8.3 and \$7.5 million as of April 30, 2014 and October 31, 2013, respectively.

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 recorded basis on a quarterly basis and whenever events or changes in circumstances indicate that the recorded 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 recorded 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, 2014 and October 31, 2013, we believe that the recorded base for our available-for-sale securities were recoverable in all material respects.

NOTE C - INCOME TAXES

In June 2011, Pharma-Bio, Pharma-PR and Pharma-Serv obtained a Grant of Industrial Tax Exemption pursuant to the terms and conditions set forth in Act No. 73 of May 28, 2008 (“the Grant”) issued by the Puerto Rico Industrial Development Company (“PRIDCO”). The Grant was effective as of November 1, 2009 and covers a fifteen year period. The Grant provides relief on various Puerto Rico taxes, including income tax, with certain limitations, for most of the activities carried on within Puerto Rico, including those that are for services to parties located outside of Puerto Rico. The Grant establishes a threshold (“Baseline”) on the Industrial Development Income (“IDI”) subject to the favorable income tax rates. Within a four year term ending with the taxable year ending October 31, 2013, the Baselines were gradually reduced to zero. Certain activities covered under the Grant were not subject to a Baseline and were allowed a four year gradual phase-in from the maximum income tax rate of 30%, as provided by the 1994 Puerto Rico Internal Revenue Code, to the favorable fixed Act 73 income tax rate of 4%, which was effective to the taxable year ended in October 31, 2013. In addition, IDI earnings distributions accumulated since November 1, 2009 are totally exempt from Puerto Rico earnings distribution tax.

Effective with our fiscal year ended October 31, 2014, Puerto Rico operations not covered in the exempt activities of the Grant are subject to Puerto Rico income tax at a maximum tax rate of 39% as provided by the 1994 Puerto Rico Internal Revenue Code, as amended. The operations carried out in the United States by the Company’s subsidiary are taxed in the United States at a maximum regular federal income tax rate of 35%.

Distribution of earnings by the Puerto Rican subsidiaries to its parent 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. 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, federal taxes on operations in the United States, plus the earnings distribution tax in Puerto Rico from dividends paid to the Puerto Rican subsidiaries’ parent, and the parent’s federal income tax, if any, incurred upon the subsidiary’s earnings distribution.

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 subsidiaries, 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 Puerto Rico earnings distribution tax and United States federal income tax, as applicable.

Pharma-Spain 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 until October 31, 2018 for Pharma-Spain and indefinitely for Pharma-IR.

The statutory income tax rate differs from the effective rate, mainly due to the effect of the Puerto Rico Act 73 Tax Grant over income tax expense, and 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 2010 (2009 for Puerto Rico) through 2013 tax years are open and may be subject to potential examination

in one or more jurisdictions. Currently, the Company has no federal, state, Puerto Rico or foreign income tax examination.

NOTE D – WARRANTS

At October 31, 2013, the Company had outstanding warrants to purchase 240,800 shares of the Company's common stock at an exercise price of \$0.06. In January 2014, all of these warrants were exercised on a cashless basis, resulting in a net issuance of 233,763 shares of common stock. As of April 30, 2014, the Company had no warrants outstanding.

NOTE E – CAPITAL TRANSACTIONS

On January 23, 2013, the Company entered into an agreement with an investor relations firm to assist in the Company's shareholder communication efforts. For these services, in addition to a monthly fee of \$10,000, the Company agreed to issue to the investor relations firm a total of 150,000 shares during the one year term of the agreement (75,000, 37,500 and 37,500 shares in January 2013, July 2013 and January 2014, respectively). Pursuant to the terms of the agreement with the investor relations firm, all shares have been issued. Effective February 1, 2014, the agreement with the investor relations firm was renegotiated for a term of one year. Under the new provisions of the agreement, the Company will no longer grant common shares to the investor relations firm, all other provisions of the original agreement were maintained.

During the six months ended April 30, 2014, in addition to the 37,500 common shares issued pursuant to the agreement with the investor relations firm, warrants and options were exercised on a cashless basis resulting in a net issuance of Company's common shares for 233,763 and 76,013, respectively, or a total of 309,776 of the Company's common shares.

NOTE F – 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, | |
|---|---------------------------------|-------------|-------------------------------|-------------|
| | 2014 | 2013 | 2014 | 2013 |
| Net income available to common equity holders - used to compute | | | | |
| basic and diluted earnings per share | \$327,778 | \$1,387,280 | \$989,711 | \$2,440,525 |
| Weighted average number of common shares - used to compute | | | | |
| basic earnings per share | 23,049,176 | 22,664,686 | 22,910,371 | 21,709,740 |
| Effect of warrants to purchase common stock | - | 228,046 | 96,755 | 1,090,083 |
| Effect of restricted stock units to common stock | 49,391 | - | 33,103 | - |
| Effect of options to purchase common stock | 689,435 | 473,385 | 715,500 | 358,900 |
| Weighted average number of shares - used to compute diluted | | | | |
| earnings per share | 23,788,002 | 23,366,117 | 23,755,729 | 23,158,723 |

Options for the purchase of 80,000 shares of common stock for the three-month and six-month periods ended in April 30, 2014 were not included in computing diluted earnings per share because their effect were antidilutive.

NOTE G - CONCENTRATIONS OF RISK

Cash and cash equivalents

The Company domestic cash and cash equivalents consist of cash deposits in FDIC insured banks (substantially covered by FDIC insurance by the spread of deposits in multiple FDIC insured banks), a money market obligations trust registered under the US Investment Company Act of 1940, as amended, and U.S. Treasury securities with maturities of three months or less. In the foreign markets we serve, we also maintain cash deposits in foreign banks, which tend to be not significant and have no specific insurance. 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, Ireland and Spain. 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 two customers, which accounted for 10% or more of its revenues in the three-month and six-month periods ended April 30, 2014 and 2013. During the three months ended April 30, 2014, revenues from these customers were 22.3% and 20.4%, or a total of 42.7%, as compared to the same period last year for 28.6% and 15.0%, or a total of 43.6%, respectively. During the six months ended April 30, 2014, revenues from these customers were 23.5% and 17.5%, or a total of 41.0%, as compared to the same period last year for 28.5% and 14.4%, or a total of 42.9%, respectively. At April 30, 2014, amounts due from these customers represented 32.8% of the Company's total accounts receivable balance.

The major customers information in the above paragraph is based on revenues earned from said customers at the segment level because in management's opinion contracts by segments are totally independent of each other, and therefore such information is more meaningful to the reader. These revenues pertain to a global group of affiliated companies. During the three months ended April 30, 2014 and 2013, aggregate revenues from this global group of affiliated companies were 47.4% and 51.2%, respectively. During the six months ended April 30, 2014 and 2013, aggregate revenues from this global group of affiliated companies were 46.2% and 51.3%, respectively. At April 30, 2014 amounts due from these global groups of affiliated companies represented 40.2% of total accounts receivable balance.

NOTE H - SEGMENT DISCLOSURES

The Company's segments are based on the organizational structure for which financial results are regularly evaluated by the Company's senior executive management 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 four reportable segments: (i) Puerto Rico technical compliance consulting, (ii) United States technical compliance consulting, (iii) Europe technical compliance consulting, and (iv) 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-month and six-month periods ended in April 30, 2014 and 2013. 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, | |
|--|------------------------------|--------------|----------------------------|---------------|
| | 2014 | 2013 | 2014 | 2013 |
| REVENUES: | | | | |
| Puerto Rico consulting | \$ 3,508,364 | \$ 3,798,142 | \$ 7,029,575 | \$ 7,342,907 |
| United States consulting | 2,013,079 | 2,861,528 | 4,334,419 | 5,611,231 |
| Europe consulting | 467,615 | 849,049 | 1,150,944 | 1,703,823 |
| Lab (microbiological and chemical testing) | 440,210 | 641,715 | 893,266 | 1,008,361 |
| Other segments ¹ | 145,687 | 105,285 | 174,403 | 243,789 |
| Total consolidated revenues | \$ 6,574,955 | \$ 8,255,719 | \$ 13,582,607 | \$ 15,910,111 |
| INCOME (LOSS) BEFORE TAXES: | | | | |
| Puerto Rico consulting | \$ 349,950 | \$ 935,608 | \$ 968,297 | \$ 1,726,906 |
| United States consulting | 171,420 | 658,427 | 506,343 | 1,230,739 |
| Europe consulting | (241,515) | (120,132) | (322,958) | (204,864) |
| | 3,024 | 195,100 | 22,098 | 184,809 |

Lab (microbiological and chemical testing)

| | | | | |
|--|------------|--------------|--------------|--------------|
| Other segments ¹ | 135,533 | 79,466 | 72,252 | 101,412 |
| Total consolidated income before taxes | \$ 418,412 | \$ 1,748,469 | \$ 1,246,032 | \$ 3,039,002 |

¹ Other segments represent activities that fall below the reportable threshold and are carried out in Puerto Rico and the 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, 2014 and October 31, 2013, and related depreciation and amortization expense for the three-month and six-month periods ended April 30, 2014 and 2013, were concentrated in the domestic markets (Puerto Rico and the United States). The aggregate amount of long lived assets for the international operations (Europe) is considered insignificant.

NOTE I – SUBSEQUENT EVENTS

On June 13, 2014, the Board of Directors of the Company authorized the Company to repurchase up to two million shares of its outstanding common stock. The timing, manner, price and amount of any repurchases will be at the discretion of the Company, subject to the requirements of the Securities Exchange Act of 1934, as amended, and related rules. The program does not oblige the Company to repurchase any shares and it may be modified, suspended or terminated at any time and for any reason. No shares will be repurchased directly from directors or officers of the Company.

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, 2013. 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, 2013.

Overview

We are a compliance, project management and technology transfer support 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, 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 training/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 245 experienced engineering and life science professionals, and includes former quality assurance managers and directors, and experienced and trained professionals with bachelors, masters and doctorate degrees in health sciences and engineering.

We actively operate in Puerto Rico, the United States, Ireland and Spain and pursue to further expand these markets by strengthening our business development infrastructure and by constantly realigning our business strategies as new opportunities and challenges arise.

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 allows 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, our portfolio of services include a laboratory testing facility, an information technology consulting practice and a training center that provides seminars/training to the industry.

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 also provide technical seminars/training that incorporate the latest regulatory trends and standards as well as other related areas. A network of leading industry professional experts in their field, which include resources of our own,

provide these seminars/training to the industry through our “Pharma Serv Academy” division. These services are provided in the markets we currently serve, as well as others, and position our company as a key leader in the industry.

Our information technology services and consulting division based in Puerto Rico (“Integratek”) provide 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.

In line with the strategy to further penetrate the United States and Puerto Rico markets, we submit annually for renewal the certification as a "minority-controlled company" as defined by the National Minority Supplier Development Council and Growth Initiative ("NMSDC"). This certification allows us to participate in corporate diversity programs available from various potential customers in the United States and Puerto Rico.

The Company holds a tax grant issued by the Puerto Rico Industrial Development Company ("PRIDCO") which provides relief on various Puerto Rico taxes, including income tax, with certain limitations, for most of the activities carried on within Puerto Rico, including those that are for services to parties located outside of Puerto Rico.

Industry consolidations, the pharmaceutical regulatory environment, changes in tax laws, customers' price sensitive procurement processes, and the local and global economies recession continue to be factors and uncertainties that affect our business. As such, we are constantly realigning our business strategies as new opportunities and challenges arise.

For the six months ended April 30, 2014, net revenues for the Company were \$13.6 million, a decrease of \$2.3 million, or 14.6% when compared to the same period last year. This decline is mainly attributable to a \$1.3, \$0.6 and \$0.3 million revenue decrease in the United States, Europe and Puerto Rico consulting markets, respectively. Other Company divisions sustained minor revenue gains/losses or remained constant, when compared to the same period last year. The Company continues to invest in its business development and operational support expenses for all its divisions in order to diversify their market and customer base.

The revenue decline, combined with an investment increase in business development and operational support expenses, have led our six months ended April 30, 2014 net income to be approximately \$1.0 million, a decrease of \$1.4 million, 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, 2014 and 2013, by geographic regions (dollars in thousands).

| Revenues by Region: | Three months ended April 30, | | | | | | Six months ended April 30, | | | | | |
|---------------------|------------------------------|--------|---------|--------|----------|--------|----------------------------|--------|--|--|--|--|
| | 2014 | | 2013 | | 2014 | | 2013 | | | | | |
| Puerto Rico | \$4,062 | 61.8 % | \$4,545 | 55.0 % | \$8,065 | 59.4 % | \$8,595 | 54.0 % | | | | |
| United States | 2,045 | 31.1 % | 2,862 | 34.7 % | 4,366 | 32.1 % | 5,611 | 35.3 % | | | | |
| Europe | 468 | 7.1 % | 849 | 10.3 % | 1,151 | 8.5 % | 1,704 | 10.7 % | | | | |
| | \$6,575 | | \$8,256 | | \$13,582 | | \$15,910 | | | | | |

Weak economies where we do business and worldwide industry consolidations will continue to be unfavorable factors going forward. These factors, and the impact on the industry, if any, of the enacted U.S. health care reform (Patient Protection and Affordable Care Act) and Puerto Rico Act 154, which imposed temporary excise taxes, and was extended through December 2017, 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 lifescience manufacturing industry consolidations will have over our operations, and our ability to seek service opportunities and adapt to the 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, 2014 and 2013, (dollars in thousands) and as a percentage of revenue:

| | Three months ended April 30, | | | | | | Six months ended April 30, | | | | | |
|---|------------------------------|---------|---------|---------|----------|---------|----------------------------|---------|------|--|------|--|
| | 2014 | | 2013 | | 2014 | | 2013 | | 2014 | | 2013 | |
| Revenues | \$6,575 | 100.0 % | \$8,256 | 100.0 % | \$13,582 | 100.0 % | \$15,910 | 100.0 % | | | | |
| Cost of services | 4,485 | 68.2 % | 5,134 | 62.2 % | 9,120 | 67.1 % | 10,222 | 64.2 % | | | | |
| Gross profit | 2,090 | 31.8 % | 3,122 | 37.8 % | 4,462 | 32.9 % | 5,688 | 35.8 % | | | | |
| Selling, general and administrative costs | 1,671 | 25.4 % | 1,374 | 16.6 % | 3,215 | 23.7 % | 2,650 | 16.7 % | | | | |
| Other (expense) | | | | | | | | | | | | |
| Income, net | (1) | 0.0 % | - | 0.0 % | (1) | 0.0 % | 1 | 0.0 % | | | | |
| Income before income taxes | 418 | 6.4 % | 1,748 | 21.2 % | 1,246 | 9.2 % | 3,039 | 19.1 % | | | | |
| Income tax expense | 90 | 1.4 % | 361 | 4.4 % | 256 | 1.9 % | 598 | 3.8 % | | | | |
| Net income | 328 | 5.0 % | 1,387 | 16.8 % | 990 | 7.3 % | 2,441 | 15.3 % | | | | |

Revenues. Revenues for the three and six months ended April 30, 2014 were \$6.6 and \$13.6 million, respectively, a decrease of approximately \$1.7 and \$2.3 million, or 20.3% and 14.6%, respectively, when compared to the same periods last year.

The revenue decrease for the three-month and six-month periods ended in April 30, 2014, over the same periods last year, are mainly attributable to a decline in projects in the United States, Europe and Puerto Rico consulting markets for \$0.8, \$0.4 and \$0.3 million, respectively, for the three-month period ended April 30, 2014, and \$1.3, \$0.6 and \$0.3 million, respectively, for the six-month period ended April 30, 2014. Other Company divisions sustained minor revenue gains/losses or remained constant, when compared to the same period last year.

A significant portion of the revenues for the European market is mostly attributable to one customer located in Ireland. Most of the European revenue decline is attributable to the loss of project headcount within this Ireland customer.

Cost of Services; gross margin. Gross margin for the three-month and six-month periods ended April 30, 2014 decreased 6.0 and 2.9 percentage points, respectively, when compared to last year.

The decrease in gross margin for the three months ended April 30, 2014 is mainly attributable to the decrease of 4.8 and 1.2 percentage points in consulting services and Lab gross margin, respectively. For the six months ended April 30, 2014, the decline in gross margin is mainly attributable to the decrease of 2.3 and 0.6 percentage points in consulting services and Lab gross margin, respectively. The decline in gross margin is mostly attributable to United States and Puerto Rico consulting projects closing/ending by the end of our first quarter which had an above average gross margin, and the Lab's unfavorable yield resulting from the decrease in testing volume, versus the absorption of fixed cost of services.

Selling, General and Administrative Expenses. Selling, general and administrative expenses for the three and six months ended April 30, 2014 were approximately \$1.7 and \$3.2 million, respectively, a net increase in expenses of approximately \$0.3 and \$0.6 million, respectively, as compared to the same period last year. The Company continues investing in its business development and operations support expenses for all its divisions in order to diversify their market and customer base.

Income Taxes Expense. The reduction in income tax expense for the three and six months ended April 30, 2014, as compared to the same period last year, is a function of the decrease in income before tax for the same period, after giving effect to the effective tax rate attained considering the effect of the Puerto Rico Act 73 Tax Grant.

Net Income. Our net income for three and six months ended April 30, 2014 was approximately \$0.3 and \$1.0 million, a decrease of \$1.1 and \$1.5 million, respectively, when compared with the same periods last year. Our net income variance, when compared to the same periods last year, is mainly attributable to the decline in revenue, the increase in selling general and administrative expenses for the business and operations investments incurred aimed to diversify markets and customer base, and the effect of the effective income tax rates (including Puerto Rico favorable tax grants) over income before tax.

Earnings per common share basic and diluted for the three months ended April 30, 2014 was \$0.014 for both, a decrease of \$0.047 and \$0.045 per share, respectively, when compared to the same period last year. The decrease is mainly attributable to the decrease in net income, and the increase in common shares basic and diluted of approximately 0.3 and 0.4 million shares, respectively, when compared to the same period last year.

For the six months ended April 30, 2014, earnings per common share basic and diluted were \$0.043 and \$0.042, respectively, a decrease of \$0.069 and \$0.063 per share, respectively, when compared to the same period last year. The variance is mainly attributable to the decrease in net income, and the increase in common shares basic and diluted of approximately 1.2 and 0.6 million shares, respectively, when compared to the same period last year.

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, 2014, we have generated a working capital increase of approximately \$1.1 million, when compared to October 31, 2013.

Our primary cash needs consist of the payment of compensation to our professional staff, overhead expenses, and statutory taxes. Management believes that based on the 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. Management believes the Company has adequate liquidity to fund such delays.

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 trends or events likely to have a material adverse effect on liquidity or its Company's finances.

Off-Balance Sheet Arrangements

We were not involved in any significant off-balance sheet arrangement during the six months ended April 30, 2014.

Critical Accounting Policies and Estimates

There were no material changes during the six months ended April 30, 2014 to the critical accounting policies reported in our Annual Report on Form 10-K for the fiscal year ended October 31, 2013.

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, 2013, 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:

Because our business is concentrated in the pharmaceutical industry, any changes in that industry or in the markets we serve could impair our ability to generate revenue and realize a profit.

Puerto Rico government enacted ACT 154 of October 22, 2010, as amended, may affect the willingness of our customers, or potential new 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 the markets we serve.

Our business and operating results may be impacted if we are unable to maintain our certification as a minority-controlled company.

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.

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.

Our reputation and divisions may be impacted by regulatory standards impacting our customer products.

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.

Our cash could be adversely affected if the financial institutions in which we hold our cash fail.

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 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 Principal 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 Principal 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 Principal 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 5. OTHER INFORMATION.

On June 13, 2014, the Board of Directors of the Company authorized the Company to repurchase up to two million shares of its outstanding common stock. The timing, manner, price and amount of any repurchases will be at the discretion of the Company, subject to the requirements of the Securities Exchange Act of 1934, as amended, and related rules. The program does not oblige the Company to repurchase any shares and it may be modified, suspended or terminated at any time and for any reason. No shares will be repurchased directly from directors or officers of the Company.

ITEM 6. EXHIBITS.

(a) Exhibits:

10.1 Pharma-Bio Serv, Inc. 2014 Long-Term Incentive Plan (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 2, 2014 and incorporated herein by reference).+

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.

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema

101.CAL XBRL Taxonomy Extension Calculation Linkbase

101.DEF XBRL Taxonomy Extension Definition Linkbase

101.LAB XBRL Taxonomy Extension Label Linkbase

101.PRE XBRL Taxonomy Extension Presentation Linkbase

+ Management contracts or compensatory plans, contracts or arrangements.

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
Chairman
(Principal Executive Officer)

/s/ Pedro J. Lasanta
Pedro J. Lasanta
Chief Financial Officer and Vice President Finance
and Administration
(Principal Financial Officer and Principal
Accounting
Officer)

Dated: June 16, 2014