

Pharma-Bio Serv, Inc.  
Form 10-Q  
June 14, 2012

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, 2012

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 | <input type="radio"/> | Accelerated filer         | <input type="radio"/> |
| Non-accelerated filer   | <input type="radio"/> | Smaller reporting company | <input type="radio"/> |

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, 2012 was 20,758,695.

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PHARMA-BIO SERV, INC.

FORM 10-Q  
FOR THE QUARTER ENDED APRIL 30, 2012

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## PART I – FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

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

|   | April 30,<br>2012*  | October 31,<br>2011** |
|---|---------------------|-----------------------|
| <b>ASSETS:</b>  |                     |                       |
| Current assets  |                     |                       |
| Cash and cash equivalents   | \$3,975,522         | \$4,316,725           |
| Marketable securities   | 95,000              | 95,000                |
| Accounts receivable   | 6,944,808           | 4,864,616             |
| Other   | 308,964             | 331,441               |
| <b>Total current assets</b>   | <b>11,324,294</b>   | <b>9,607,782</b>      |
| Property and equipment  | 1,159,275           | 1,216,111             |
| Other assets  | 28,892              | 28,306                |
| <b>Total assets</b>   | <b>\$12,512,461</b> | <b>\$10,852,199</b>   |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY:</b>  |                     |                       |
| Current liabilities   |                     |                       |
| Current portion-obligations under capital leases  | \$32,483            | \$31,142              |
| Accounts payable and accrued expenses   | 1,849,681           | 1,941,658             |
| Income taxes payable  | 21,113              | 550,837               |
| <b>Total current liabilities</b>  | <b>1,903,277</b>    | <b>2,523,637</b>      |
| Obligations under capital leases  | 75,658              | 92,237                |
| <b>Total liabilities</b>  | <b>1,978,935</b>    | <b>2,615,874</b>      |
| 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 20,758,695 | 2,076               | 2,076                 |
| Additional paid-in capital  | 673,882             | 654,550               |
| Retained earnings   | 9,934,251           | 7,599,708             |
| Accumulated other comprehensive loss  | (76,683 )           | (20,009 )             |
| <b>Total stockholders' equity</b>   | <b>10,533,526</b>   | <b>8,236,325</b>      |
| <b>Total liabilities and stockholders' equity</b>   | <b>\$12,512,461</b> | <b>\$10,852,199</b>   |

\* 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<br>30, |             | Six months ended April 30, |             |
|--|---------------------------------|-------------|----------------------------|-------------|
|  | 2012                            | 2011        | 2012                       | 2011        |
| REVENUES   | \$7,041,431                     | \$4,586,804 | \$13,401,322               | \$8,179,475 |
| COST OF SERVICES   | 4,645,288                       | 3,041,804   | 8,758,534                  | 5,458,467   |
| GROSS PROFIT   | 2,396,143                       | 1,545,000   | 4,642,788                  | 2,721,008   |
| SELLING, GENERAL AND ADMINISTRATIVE<br>EXPENSES  | 970,330                         | 808,245     | 1,855,030                  | 1,466,726   |
| INCOME FROM OPERATIONS   | 1,425,813                       | 736,755     | 2,787,758                  | 1,254,282   |
| OTHER INCOME (EXPENSE):  |                                 |             |                            |             |
| Interest expense   | (2,081 )                        | (1,991 )    | (4,328 )                   | (3,341 )    |
| Interest income  | 2,197                           | 4,354       | 5,981                      | 9,119       |
| Gain on disposition of property and equipment  | -                               | -           | 190                        | -           |
|  | 116                             | 2,363       | 1,843                      | 5,778       |
| INCOME BEFORE TAX  | 1,425,929                       | 739,118     | 2,789,601                  | 1,260,060   |
| INCOME TAX EXPENSE, NET OF PUERTO RICO<br>TAX GRANT<br>BENEFITS FOR PERIODS ENDED APRIL 30, 2012 | 237,920                         | 259,426     | 455,058                    | 424,108     |
| NET INCOME   | \$1,188,009                     | \$479,692   | \$2,334,543                | \$835,952   |
| BASIC EARNINGS PER COMMON SHARE  | \$0.057                         | \$0.023     | \$0.112                    | \$0.040     |
| DILUTED EARNINGS PER COMMON SHARE  | \$0.052                         | \$0.021     | \$0.102                    | \$0.037     |
| WEIGHTED AVERAGE NUMBER OF COMMON<br>SHARES<br>OUTSTANDING – BASIC                               | 20,758,695                      | 20,751,215  | 20,758,695                 | 20,751,215  |
| WEIGHTED AVERAGE NUMBER OF<br>COMMON SHARES<br>OUTSTANDING – DILUTED                             | 22,829,079                      | 22,483,430  | 22,802,937                 | 22,479,368  |

See notes to condensed consolidated financial statements.



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

|   | Three months ended April<br>30, |                    | Six months ended April<br>30, |                    |
|---|---------------------------------|--------------------|-------------------------------|--------------------|
|   | 2012                            | 2011               | 2012                          | 2011               |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                                 |                    |                               |                    |
| Net income  | \$1,188,009                     | \$479,692          | \$2,334,543                   | \$835,952          |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: |                                 |                    |                               |                    |
| Gain on disposition of property and equipment   | -                               | -                  | (190 )                        | -                  |
| Stock-based compensation  | 17,166                          | 2,166              | 19,332                        | 4,332              |
| Depreciation and amortization   | 75,408                          | 74,128             | 151,701                       | 148,841            |
| Increase in accounts receivable   | (1,193,427)                     | (812,507 )         | (2,122,938)                   | (1,420,966)        |
| (Increase) decrease in other assets   | (24,375 )                       | (5,140 )           | 21,333                        | 66,618             |
| (Decrease) increase in liabilities  | (162,492 )                      | 448,688            | (609,533 )                    | 658,368            |
| <b>NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES</b>                                  | <b>(99,711 )</b>                | <b>187,027</b>     | <b>(205,752 )</b>             | <b>293,145</b>     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                                 |                    |                               |                    |
| Acquisition of property and equipment   | (88,878 )                       | (56,150 )          | (95,839 )                     | (66,215 )          |
| Proceeds from disposition of property and equipment   | -                               | -                  | 681                           | -                  |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>  | <b>(88,878 )</b>                | <b>(56,150 )</b>   | <b>(95,158 )</b>              | <b>(66,215 )</b>   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |                                 |                    |                               |                    |
| Payments on obligations under capital lease   | (7,701 )                        | (5,391 )           | (15,238 )                     | (9,815 )           |
| <b>NET CASH USED IN FINANCING ACTIVITIES</b>  | <b>(7,701 )</b>                 | <b>(5,391 )</b>    | <b>(15,238 )</b>              | <b>(9,815 )</b>    |
| <b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>  | <b>3,023</b>                    | <b>20,523</b>      | <b>(25,055 )</b>              | <b>18,706</b>      |
| <b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>                                 | <b>(193,267 )</b>               | <b>146,009</b>     | <b>(341,203 )</b>             | <b>235,821</b>     |
| <b>CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD</b>                                      | <b>4,168,789</b>                | <b>2,406,980</b>   | <b>4,316,725</b>              | <b>2,317,168</b>   |
| <b>CASH AND CASH EQUIVALENTS – END OF PERIOD</b>  | <b>\$3,975,522</b>              | <b>\$2,552,989</b> | <b>\$3,975,522</b>            | <b>\$2,552,989</b> |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION:</b>                                  |                                 |                    |                               |                    |
| Cash paid during the period for:  |                                 |                    |                               |                    |
| Income taxes  | \$543,682                       | \$-                | \$984,782                     | \$6,025            |
| Interest  | \$545                           | \$1,703            | \$4,328                       | \$3,053            |
| <b>SUPPLEMENTARY SCHEDULES OF NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>              |                                 |                    |                               |                    |
| Income tax withheld by clients to be used as a credit in the Company's income tax return    | \$-                             | \$6,870            | \$11,692                      | \$24,671           |



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Property and equipment with accumulated depreciation of \$982

|   |     |     |         |          |
|---|-----|-----|---------|----------|
| disposed during the six months ended April 30, 2012                       | \$- | \$- | \$1,473 | \$-      |
| Obligations under capital lease incurred for the acquisition of a vehicle | \$- | \$- | \$-     | \$76,475 |

See notes to condensed consolidated financial statements.

PHARMA-BIO SERV, INC.  
Notes To Condensed Consolidated Financial Statements  
April 30, 2012  
(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”), an 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.

During the quarter ended April 30, 2012, based on a prior agreement between the Company and the minority shareholder of Pharma-IR, the Company acquired 100% ownership of Pharma-IR for no consideration. This transaction had no significant impact on the condensed consolidated financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated balance sheet of the Company as of October 31, 2011 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, 2012 are not necessarily indicative of expected results for the full 2012 fiscal year.

The accompanying financial data as of April 30, 2012, and for the three-month and six month periods ended April 30, 2012 and 2011 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, 2011.

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 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 95% 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 2% of total revenues), which revenue is recognized similarly, except that in certain circumstances milestones also have to be reached before revenue is recognized, and (3) laboratory testing revenue (representing approximately 3% 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.

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## 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 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, 2012, 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, 2012 and October 31, 2011, the accumulated depreciation and amortization amounted to \$1,401,467 and \$1,250,748, 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 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.

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, 2011 condensed consolidated financial statements to conform them to the April 30, 2012 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, 2012, 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. The Company's 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.

The Company reviews its 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 its 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, 2012, the Company believes that the cost base for its available-for-sale securities is recoverable in all material respects.



## NOTE C - INCOME TAX

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 is 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. The Baselines will be gradually reduced to zero within a four year term. Certain activities covered under the Grant are not subject to a Baseline and are 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%. In addition, IDI earnings distributions accumulated since November 1, 2009 are exempt from Puerto Rico earnings distribution tax.

The Company began recognizing in its financial statements the Grant tax effect when it was obtained in June 2011. Therefore, the Company’s condensed financial statements for the three-month and six month periods ended in April 30, 2011, does not reflect the adoption of the Grant, which then will have reflected a reduction on income taxes and increase in net earnings of approximately \$120,000 and \$210,000, for those periods respectively.

Effective with our fiscal year beginning in November 1, 2011, 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 30%. Previously, the maximum income tax rate under the Puerto Rico Internal Revenue Code was 39%. 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-IR has 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 indefinitely.

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 in fiscal year 2012, 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 2006 through 2011 tax years are open and may be subject to potential examination in one or more jurisdictions. In the current fiscal year 2012, Pharma-Bio's fiscal year 2008 federal income tax return was examined by the United States Internal Revenue Service, no deficiencies were assessed. Currently, the Company has no other federal, state, Puerto Rico or foreign income tax examination.

## NOTE D – WARRANTS

At April 30, 2012 and October 31, 2011, the Company had outstanding warrants to purchase shares of the Company's common stock as follows:

|                     | Exercise<br>Price | Expiration Date  | Outstanding<br>Warrants |
|---------------------|-------------------|------------------|-------------------------|
| Original Warrants A | \$0.0600          | January 16, 2014 | 240,800                 |
| Broker Warrants B   | \$0.0600          | January 24, 2014 | 1,830,991               |
| Warrants Total      |                   |                  | 2,071,791               |

## NOTE E – EARNINGS PER SHARE

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

|  | Three months<br>ended April 30, |            | Six months<br>ended April 30, |            |
|--|---------------------------------|------------|-------------------------------|------------|
|  | 2012                            | 2011       | 2012                          | 2011       |
| Net income available to common equity holders - used to compute basic and diluted earnings per share | \$1,188,009                     | \$479,692  | \$2,334,543                   | \$835,952  |
| Weighted average number of common shares - used to compute basic earnings per share                  | 20,758,695                      | 20,751,215 | 20,758,695                    | 20,751,215 |
| Effect of warrants to purchase common stock  | 1,908,507                       | 1,721,291  | 1,905,692                     | 1,717,885  |
| Effect of options to purchase common stock   | 161,877                         | 10,924     | 138,550                       | 10,268     |
| Weighted average number of shares - used to compute diluted earnings per share                       | 22,829,079                      | 22,483,430 | 22,802,937                    | 22,479,368 |

Options for the purchase of 250,000 and 374,885 shares of common stock for the three-month and six-month periods ended in April 30, 2012 and 2011, respectively, were not included in computing diluted earnings per share because their effects were antidilutive.

In June 2011, the Company obtained a tax Grant from PRIDCO with a retroactive effective date of November 1, 2009. The Company began recognizing in its financial statements the Grant tax effect when it was obtained. Therefore, the Company's condensed financial statements for the three and six month periods ended in April 30, 2011, does not reflect the adoption of the Grant, which then will have reflected a reduction on income taxes and increase in net earnings of approximately \$120,000 and \$210,000, for those periods respectively, or an increase in earnings per share, basic and diluted by \$0.005 for the three month period and \$0.01 for the six month period ended April 30, 2011.

## NOTE F - CONCENTRATIONS OF RISK

### Cash and cash equivalents

Domestic cash deposits are maintained in a FDIC insured bank and in a money market obligations trust, registered under the US Investment Company Act of 1940, as amended. A major portion of our cash deposits are within non-interest bearing bank accounts which have FDIC unlimited insurance coverage until December 2012. Other operational bank deposit balances may exceed federally insured limits for interest-bearing bank accounts. Operational cash deposits in foreign banks of the markets we serve 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 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, 2012 and 2011. During the three months ended April 30, 2012, revenues from these customers were 10.7%, 10.6%, and 8.5%, or a total of 29.8%, as compared to the same period last year for 20.4%, 1.2%, and 15.3%, or a total of 36.9%, respectively. For the six months ended April 30, 2012 revenues from these customers were 10.8%, 10.8%, and 10.7%, or a total of 32.3%, as compared to the same period last year for 20.8%, 2.3%, and 16.5%, or a total of 39.6%, respectively. As of April 30, 2012, amounts due from these customers represented 22.1% 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 four reportable segments: (i) Puerto Rico technical compliance consulting, (ii) United States technical compliance consulting, (iii) Ireland 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 and six month periods ended in April 30, 2012 and 2011. 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<br>30,<br>2012 |             | Six months ended April<br>30,<br>2011 |             |
|--|---|-------------|---------------------------------------|-------------|
| <b>REVENUES:</b>                           |   |             |                                       |             |
| Puerto Rico consulting                     | \$3,813,781                             | \$1,863,472 | \$7,349,214                           | \$3,476,617 |
| United States consulting                   | 2,007,143                               | 1,582,375   | 3,577,519                             | 2,624,881   |
| Ireland consulting                         | 759,508                                 | 734,126     | 1,601,649                             | 1,445,535   |
| Lab (microbiological and chemical testing) | 217,147                                 | 152,396     | 390,866                               | 231,191     |
| Other segments <sup>1</sup>                | 243,852                                 | 254,435     | 482,074                               | 401,251     |
| Total consolidated revenues                | \$7,041,431                             | \$4,586,804 | \$13,401,322                          | \$8,179,475 |
| <b>INCOME (LOSS) BEFORE TAXES:</b>         |   |             |                                       |             |
| Puerto Rico consulting                     | \$966,165                               | \$367,731   | \$1,903,455                           | \$727,115   |
| United States consulting                   | 536,212                                 | 422,748     | 958,873                               | 595,826     |
| Ireland consulting                         | (124,122 )                              | (45,527 )   | (173,498 )                            | 35,366      |
| Lab (microbiological and chemical testing) | (51,625 )                               | (73,059 )   | (117,357 )                            | (217,103 )  |
| Other segments <sup>1</sup>                | 99,299                                  | 67,225      | 218,128                               | 118,856     |
| Total consolidated income before taxes     | \$1,425,929                             | \$739,118   | \$2,789,601                           | \$1,260,060 |

<sup>1</sup> 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, 2012 and October 31, 2011, and related depreciation and amortization expense for the three and six month periods ended April 30, 2012 and 2011, were concentrated in the domestic markets (Puerto Rico and the United States). The aggregate amount of long lived assets for the international operations (Ireland) is considered insignificant.

## ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF 2. 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, 2011. 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, 2011.

### 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 220 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.

We actively operate in Puerto Rico, the United States and Ireland and continue to 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 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, our portfolio of services include a laboratory testing facility, an information technology consulting practice and a training center that provides seminars/trainings to the industry.

The Lab incorporates the latest technology and testing 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/trainings 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/trainings 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.

In June 2011, Pharma-Bio, Pharma-PR and Pharma-Serv obtained a new Grant of Industrial Tax Exemption pursuant to the terms and conditions set forth in Act No. 73 of May 28, 2008 (“Act 73 Grant”) issued by the Puerto Rico Industrial Development Company (“PRIDCO”). The Act 73 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.

Among others, 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.

We have been able to capitalize on the related challenges and opportunities in the Puerto Rico and United States consulting markets, in which revenues for the three and six months ended in April 30, 2012 have increased by \$2.4 million and \$4.8 million, respectively, as compared to the same period last year. Accordingly, we have aligned and increased our business development and operations support to follow the consulting business favorable revenue trend. Other Company divisions sustained minor revenue gains or remained constant, when compared to the same periods last year. In addition, we continue our efforts to broaden the Lab’s customer base.

Our total net revenues for the six months ended in April 30, 2012 increased by approximately \$5.2 million, or 64%, when compared to the same period last year. The revenue growth, offset by the increase in operational support expenses, and the income tax savings related to the Act 73 Grant, have led our six months ended April 30, 2012 net income to be approximately \$2.3 million, an increase of \$1.5 million, or an increase in profit margin of 7.2 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, 2012 and 2011 by geographic regions (dollars in thousands).

| Revenues by Region: | Three months ended April 30, |        |         | Six months ended April 30, |          |        |         |        |
|---------------------|------------------------------|--------|---------|----------------------------|----------|--------|---------|--------|
|                     | 2012                         | 2011   |         | 2012                       | 2011     |        |         |        |
| Puerto Rico         | \$4,275                      | 60.7 % | \$2,270 | 49.5 %                     | \$8,222  | 61.4 % | \$4,109 | 50.2 % |
| United States       | 2,007                        | 28.5 % | 1,583   | 34.5 %                     | 3,578    | 26.7 % | 2,625   | 32.1 % |
| Ireland             | 759                          | 10.8 % | 734     | 16.0 %                     | 1,601    | 11.9 % | 1,445   | 17.7 % |
|                     | \$7,041                      |        | \$4,587 |                            | \$13,401 |        | \$8,179 |        |



Looking forward to our challenges for fiscal year 2012, in December 2011, a customer vendor management program administrator, who is also a competitor of ours, for a major customer of Pharma-IR which represented 15% of the Company's total consolidated revenue for fiscal year 2011, communicated its intent to place Pharma-IR in a probation/review period. Consequently, in order to maintain market share within Ireland, during the three months ended April 30, 2012, Pharma-IR reduced its billable margins to this customer and committed to an improvement on the level of service. Although management is actively pursuing new business development strategies geared to diversify our Ireland market customer base, at this point in time it is uncertain if these strategies will be able to produce the results necessary to offset the loss in the Ireland market margin.

In addition, 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 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 lifescience manufacturing industry consolidations will have over our operations, and our ability to seek service opportunities and adapt to the current industry trends.

Our success to date has depended in large part on the skills and efforts of our senior management. On April 24, 2012, Ms. Plaza announced that she is stepping down as president and chief executive officer of the Company, effective as of September 30, 2012. Ms. Plaza will continue to serve as Chair of the Company's Board of Directors. A committee of the Board of Directors is actively searching for a new president and chief executive officer candidate.

#### Results of Operations

The following table sets forth our statements of operations for the three-month and six-month periods ended April 30, 2012 and 2011, (dollars in thousands) and as a percentage of revenue:

|   | Three months ended April 30, |         |         |         |          |         | Six months ended April 30, |         |      |  |      |  |
|---|------------------------------|---------|---------|---------|----------|---------|----------------------------|---------|------|--|------|--|
|   | 2012                         |         | 2011    |         | 2012     |         | 2011                       |         | 2012 |  | 2011 |  |
| Revenues                                  | \$7,041                      | 100.0 % | \$4,587 | 100.0 % | \$13,401 | 100.0 % | \$8,179                    | 100.0 % |      |  |      |  |
| Cost of services                          | 4,645                        | 66.0 %  | 3,042   | 66.3 %  | 8,758    | 65.4 %  | 5,458                      | 66.7 %  |      |  |      |  |
| Gross profit                              | 2,396                        | 34.0 %  | 1,545   | 33.7 %  | 4,643    | 34.6 %  | 2,721                      | 33.3 %  |      |  |      |  |
| Selling, general and administrative costs | 970                          | 13.7 %  | 808     | 17.6 %  | 1,855    | 13.8 %  | 1,467                      | 17.9 %  |      |  |      |  |
| Other income, net                         | -                            | 0.0 %   | 2       | 0.0 %   | 2        | 0.0 %   | 6                          | 0.0 %   |      |  |      |  |
| <b>I n c o m e b e f o r e</b>            |                              |         |         |         |          |         |                            |         |      |  |      |  |
| income taxes                              | 1,426                        | 20.3 %  | 739     | 16.1 %  | 2,790    | 20.8 %  | 1,260                      | 15.4 %  |      |  |      |  |
| Income tax expense                        | 238                          | 3.4 %   | 259     | 5.6 %   | 455      | 3.4 %   | 424                        | 5.2 %   |      |  |      |  |
| Net income                                | 1,188                        | 16.9 %  | 480     | 10.5 %  | 2,335    | 17.4 %  | 836                        | 10.2 %  |      |  |      |  |

Revenues. Revenues for the three and six months ended April 30, 2012 were \$7.0 and \$13.4 million, an increase of approximately \$2.5 and \$5.2 million, or 54% and 64%, respectively, when compared to the same period last year. This improvement is mainly attributable to a \$2.4 million and \$4.8 million increase in the Puerto Rico and United States consulting markets for the three and six months ended April 30, 2012, respectively. The additional increase is distributed almost evenly between the Ireland and Integratek divisions.

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

Cost of Services; gross margin. The overall gross margin for the three and six months ended in April 30, 2012 reflected a gross margin net gain of 0.3 and 1.3 percentage points, respectively, when compared to last year. The net increase is mainly attributable to projects in the consulting business (mostly influenced by major customers), 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 months ended in April 30, 2012 were approximately \$1.0 and \$1.9 million, respectively, a net increase in expenses of approximately \$0.2 and \$0.4 million, respectively, as compared to the same periods last year. Business development and operations support expenses were increased to follow the consulting business favorable revenue trend.

Income Taxes Expense. Savings on the effective income tax rate are attributable to the Puerto Rico new tax grant, which significantly reduced the effective income tax rates for the Puerto Rico operation.

Net Income. Our net income for three and six months ended April 30, 2012 was approximately \$1.2 and \$2.3 million, respectively, an increase of \$0.7 and \$1.5 million, or an increase in profit margin of 6.4 and 7.2 percentage points, respectively, when compared with the same periods last year.

For the three months ended April 30, 2012, earnings per common share basic and diluted were \$0.057 and \$0.052, respectively, an increase of \$0.034 and \$0.031 per share, respectively, when compared to the same period last year. For the six months period ended in April 30, 2012, earnings per common share basic and diluted were \$0.112 and \$0.102, respectively, a gain of \$0.072 and \$0.065, respectively, when compared to the same period last year.

Our net income improvement is attributable mainly to the increase in the overall aggregate gross margin, the savings obtained by the new Act 73 Grant, offset by the increase in selling general and administrative expenses to support the favorable revenue trend.

## 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, 2012, we have generated a working capital increase of approximately \$2.3 million, when compared to October 31, 2011.

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.

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, 2012.

## Critical Accounting Policies and Estimates

There were no material changes during the six months ended April 30, 2012 to the critical accounting policies reported in our Annual Report on Form 10-K for the fiscal year ended October 31, 2011.

## 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, 2011, 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 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 the markets we serve.

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.

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 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 1A. RISK FACTORS

In addition to the information set forth in this Form 10-Q, you should carefully consider the risk factors discussed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended October 31, 2011, which could materially affect our business, financial condition, or future results. The following updates our risk factors included in our Form 10-K for the year ended October 31, 2011:

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.

Our success to date has depended in large part on the skills and efforts of Elizabeth Plaza, our president, chief executive officer and founder. On April 24, 2012, Ms. Plaza announced that she is stepping down as president and chief executive officer of the Company, effective as of September 30, 2012. Ms. Plaza will continue to serve as Chair of the Company's Board of Directors. A committee of the Board of Directors is actively searching for a new president and chief executive officer candidate, however we cannot assure you that Ms. Plaza's resignation will not have a material adverse effect on the Company's business or results of operations. Our future success will depend in part upon our ability to attract and retain additional qualified management, including a new president and chief executive officer, and technical personnel. Competition for such personnel is intense and we compete for qualified personnel with numerous other employers, including consulting firms, some of which have greater resources than we have, as well as pharmaceutical companies, most of which have significantly greater financial and other resources than we do. We may experience increased costs in order to retain and attract skilled employees. Our failure to attract additional personnel or to retain the services of key personnel and independent contractors could have a material adverse effect on our ability to operate profitably.



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.

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

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\* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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, 2012