

Pharma-Bio Serv, Inc.  
Form 10-Q  
March 17, 2014

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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 January 31, 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

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

The number of shares of the registrant's common stock outstanding as of March 14, 2014 was 23,049,462.

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PHARMA-BIO SERV, INC.  
FORM 10-Q  
FOR THE QUARTER ENDED JANUARY 31, 2014

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## PART I – FINANCIAL INFORMATION

## Item 1. FINANCIAL STATEMENTS

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

	January 31, 2014*	October 31, 2013**
<b>ASSETS:</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 13,782,775	\$ 12,045,923
Marketable securities	64,124	71,260
Accounts receivable	5,671,395	7,403,987
Other	658,729	767,452
<b>Total current assets</b>	<b>20,177,023</b>	<b>20,288,622</b>
Property and equipment	884,477	976,423
Other assets	16,839	16,891
<b>Total assets</b>	<b>\$ 21,078,339</b>	<b>\$ 21,281,936</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY:</b>		
<b>Current liabilities</b>		
Current portion-obligations under capital leases	\$ 27,680	\$ 32,188
Accounts payable and accrued expenses	1,844,385	2,825,532
Income taxes payable	419,238	322,731
<b>Total current liabilities</b>	<b>2,291,303</b>	<b>3,180,451</b>
Obligations under capital leases	45,873	51,724
<b>Total liabilities</b>	<b>2,337,176</b>	<b>3,232,175</b>
<b>Stockholders' equity:</b>		
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 23,043,094 and 22,702,186 shares at January 31, 2014 and October 31, 2013, respectively	2,304	2,271
Additional paid-in capital	978,136	931,039
Retained earnings	17,855,106	17,193,203
Accumulated other comprehensive loss	(94,383 )	(76,752 )
<b>Total stockholders' equity</b>	<b>18,741,163</b>	<b>18,049,761</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 21,078,339</b>	<b>\$ 21,281,936</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 January 31,	
	2014	2013
REVENUES	\$7,007,652	\$7,654,392
COST OF SERVICES	4,635,451	5,087,624
GROSS PROFIT	2,372,201	2,566,768
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,544,581	1,276,464
INCOME FROM OPERATIONS	827,620	1,290,304
OTHER INCOME, NET	-	229
INCOME BEFORE INCOME TAXES	827,620	1,290,533
INCOME TAX EXPENSE	165,687	237,288
NET INCOME	\$661,933	\$1,053,245
BASIC EARNINGS PER COMMON SHARE	\$0.029	\$0.051
DILUTED EARNINGS PER COMMON SHARE	\$0.028	\$0.046
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – BASIC	22,776,093	20,785,934
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – DILUTED	23,725,279	22,818,031

See notes to condensed consolidated financial statements.

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

	Three months ended January 31,	
	2014	2013
NET INCOME	\$661,933	\$1,053,245
<b>OTHER COMPREHENSIVE (LOSS) INCOME, NET OF RECLASSIFICATION ADJUSTMENTS AND TAXES:</b>		
Foreign currency translation (loss) gain	(10,495 )	28,360
Net unrealized losses on available-for-sale securities	(7,136 )	-
<b>TOTAL OTHER COMPREHENSIVE (LOSS) INCOME</b>	<b>(17,631 )</b>	<b>28,360</b>
<b>COMPREHENSIVE INCOME</b>	<b>\$644,302</b>	<b>\$1,081,605</b>

See notes to condensed consolidated financial statements.

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

	Three months ended January 31,	
	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$661,933	\$1,053,245
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	17,100	2,166
Depreciation and amortization	91,655	81,078
Decrease (increase) in accounts receivable	1,731,636	(66,693 )
Decrease (increase) in other assets	108,691	(57,849 )
Decrease in liabilities	(859,363 )	(568,961 )
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>1,751,652</b>	<b>442,986</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of property and equipment	-	(81,455 )
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>-</b>	<b>(81,455 )</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of common stock	-	109,859
Payments on obligations under capital lease	(10,359 )	(9,563 )
<b>NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES</b>	<b>(10,359 )</b>	<b>100,296</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	<b>(4,441 )</b>	<b>12,011</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>1,736,852</b>	<b>473,838</b>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD</b>	<b>12,045,923</b>	<b>6,538,113</b>
<b>CASH AND CASH EQUIVALENTS – END OF PERIOD</b>	<b>\$13,782,775</b>	<b>\$7,011,951</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION:</b>		
Cash paid during the period for:		
Income taxes	\$69,180	\$146,224
Interest	\$1,305	\$2,100
<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	\$9,070	\$-
Conversion of cashless exercise of warrants and options to shares of common stock	\$30	\$-
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  
January 31, 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 three months ended January 31, 2014 are not necessarily indicative of expected results for the full 2014 fiscal year.

The accompanying financial data as of January 31, 2014, and for the three-month period ended January 31, 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 and majority-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods.

Actual results may differ from these estimates.

#### Fair Value of Financial Instruments

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

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

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

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

Marketable securities 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 93% 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 6% 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 January 31, 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 January 31, 2014 and October 31, 2013, the accumulated depreciation and amortization amounted to \$1,972,001 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 January 31, 2013 condensed consolidated financial statements to conform them to the January 31, 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 January 31, 2014 and October 31, 2013:

Type of security as of January 31, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities	\$ 4,500,000	\$		