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

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

FORM 10-Q

(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIESEXCHANGE ACT OF 1934

For the quarterly period ended July 31, 2011

o 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<br>(State or Other Jurisdiction of Incorporation or Organization) | 20-0653570<br>(IRS Employer Identification No.) |
| Pharma-Bio Serv Building, # 6 Road 696<br>Dorado, Puerto Rico<br>(Address of Principal Executive Offices) | 00646<br>(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 þ No o

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 þ No o

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

| | | | |
|---|---|---|---|
| Large accelerated filer | o | Accelerated filer | o |
| Non-accelerated filer | o | Smaller reporting company | þ |

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

The number of shares of the registrant's common stock outstanding as of September 9, 2011 was 20,758,695.

PHARMA-BIO SERV, INC.

FORM 10-Q
FOR THE QUARTER ENDED JULY 31, 2011

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

| | July 31, 2011* | October 31, 2010** |
|---|---|---|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | $ 3,588,049 | $ 2,317,168 |
| Marketable securities | 95,000 | 95,000 |
| Accounts receivable | 4,117,647 | 2,520,407 |
| Other | 414,085 | 270,827 |
| Total current assets | 8,214,781 | 5,203,402 |
| | | |
| Property and equipment | 1,240,514 | 1,321,258 |
| Other assets | 20,207 | 33,364 |
| Total assets | $ 9,475,502 | $ 6,558,024 |
| | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities | | |
| Current portion-obligations under capital leases | $ 30,477 | $ 18,227 |
| Accounts payable and accrued expenses | 1,474,259 | 1,205,576 |
| Income taxes payable | 449,191 | 210,911 |
| Total current liabilities | 1,953,927 | 1,434,714 |
| | | |
| Obligations under capital leases | 100,273 | 53,839 |
| Total liabilities | 2,054,200 | 1,488,553 |
| | | |
| Stockholders' equity: | | |
| Preferred Stock, $0.0001 par value; authorized 10,000,000 shares; none outstanding | - | - |
| Common Stock, $0.0001 par value; authorized 50,000,000 shares; issued and outstanding 20,758,695 and 20,751,215 shares at July 31, 2011 and October 31, 2010, respectively | 2,076 | 2,075 |
| Additional paid-in capital | 652,384 | 645,886 |
| Retained earnings | 6,775,281 | 4,440,728 |
| Accumulated other comprehensive loss | (8,439) | (19,218) |
| Total stockholders' equity | 7,421,302 | 5,069,471 |
| Total liabilities and stockholders' equity | $ 9,475,502 | $ 6,558,024 |

* Unaudited.
** Condensed from audited financial statements.

See notes to condensed consolidated financial statements.

PHARMA-BIO SERV, INC.

Condensed Consolidated Statements of Income
(Unaudited)

| | Three months ended July 31, 2011 | Three months ended July 31, 2010 | Nine months ended July 31, 2011 | Nine months ended July 31, 2010 |
|---|---|---|---|---|
| REVENUES | $5,517,832 | $2,926,207 | $13,697,307 | $8,256,550 |
| COST OF SERVICES | 3,518,328 | 2,037,708 | 8,976,795 | 5,860,133 |
| GROSS PROFIT | 1,999,504 | 888,499 | 4,720,512 | 2,396,417 |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES | 831,925 | 683,470 | 2,298,651 | 2,064,029 |
| INCOME FROM OPERATIONS | 1,167,579 | 204,759 | 2,421,861 | 332,388 |
| OTHER INCOME (EXPENSE): | | | | |
| Interest expense | (2,575) | (1,497) | (5,916) | (4,194) |
| Interest income | 5,330 | 2,969 | 14,449 | 11,933 |
| Gain on disposition of property and equipment | - | - | - | 1,920 |
| | 2,755 | 1,472 | 8,533 | 9,659 |
| INCOME BEFORE TAXES | 1,170,334 | 206,231 | 2,430,394 | 342,047 |
| INCOME TAXES EXPENSE (BENEFIT) | (328,268) | 84,822 | 95,840 | 153,299 |
| NET INCOME | $1,498,602 | $121,409 | $2,334,554 | $188,748 |
| BASIC EARNINGS PER COMMON SHARE | $0.072 | $0.006 | $0.112 | $0.009 |
| DILUTED EARNINGS PER COMMON SHARE | $0.067 | $0.005 | $0.104 | $0.008 |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – BASIC | 20,754,954 | 20,751,215 | 20,752,475 | 20,751,215 |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – DILUTED | 22,515,391 | 22,442,800 | 22,500,875 | 22,371,847 |

See notes to condensed consolidated financial statements.

PHARMA-BIO SERV, INC.

Condensed Consolidated Statements of Cash Flows
(Unaudited)

| | Three months ended July 31, 2011 | 2010 | Nine months ended July 31, 2011 | 2010 |
|---|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | |
| Net income | $1,498,602 | $121,409 | $2,334,554 | $188,748 |
| Adjustments to reconcile net income to net cash provided (used) by operating activities: | | | | |
| Gain on disposition of property and equipment | - | - | - | (1,920) |
| Stock-based compensation | 2,166 | 4,830 | 6,498 | 33,548 |
| Depreciation and amortization | 77,895 | 79,523 | 226,736 | 242,312 |
| (Increase) decrease in accounts receivable | (145,283) | (849,220) | (1,566,249) | (701,547) |
| (Increase) decrease in other assets | (198,165) | (65,840) | (131,547) | 26,759 |
| (Decrease) increase in liabilities | (180,935) | 123,108 | 477,433 | 186,656 |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | 1,054,280 | (586,190) | 1,347,425 | (25,444) |
| | | | | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | |
| Acquisition of property and equipment | (2,549) | (7,562) | (68,764) | (27,617) |
| NET CASH USED IN INVESTING ACTIVITIES | (2,549) | (7,562) | (68,764) | (27,617) |
| | | | | |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | | |
| Payments on obligations under capital lease | (7,976) | (11,751) | (17,791) | (38,378) |
| NET CASH USED IN FINANCING ACTIVITIES | (7,976) | (11,751) | (17,791) | (38,378) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH | (8,695) | (14,653) | 10,011 | (31,309) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 1,035,060 | (620,156) | 1,270,881 | (122,748) |
| CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD | 2,552,989 | 2,549,282 | 2,317,168 | 2,051,874 |
| CASH AND CASH EQUIVALENTS – END OF PERIOD | $3,588,049 | $1,929,126 | $3,588,049 | $1,929,126 |
| SUPPLEMENTAL DISCLOURES OF CASH FLOWS INFORMATION: | | | | |
| Cash paid during the period for: | | | | |
| Income taxes | $- | $52,200 | $6,025 | $67,668 |
| Interest | $2,575 | $1,497 | $5,628 | $4,194 |
| SUPPLEMENTARY SCHEDULES OF NON-CASH INVESTING AND FINANCING ACTIVITIES: | | | | |
| Income tax withheld by clients to be used as a credit in the Company’s income tax return | $49,128 | $576 | $73,799 | $4,030 |
| | $- | $- | $76,475 | $31,918 |

| | | | | |
|---|---|---|---|---|
| Obligations under capital lease incurred for the acquisition of a vehicle | | | | |
| Property and equipment with accumulated depreciation of $12,355 disposed during the nine month period ended in July 31, 2010 | $- | $- | $- | $33,695 |

See notes to condensed consolidated financial statements.

PHARMA-BIO SERV, INC.
Notes To Condensed Consolidated Financial Statements
July 31, 2011
(Unaudited)

## NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### ORGANIZATION

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

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The accompanying financial data as of July 31, 2011, and for the three-month and nine-month periods ended July 31, 2011 and 2010 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, 2010.

#### Consolidation

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

#### Use of Estimates

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

Fair Value of Financial Instruments

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

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

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

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

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

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

Revenue Recognition

Revenue is primarily derived from: (1) time and materials contracts (representing approximately 90% 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 6% 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 4% of total revenues) is mainly recognized as the testing is completed and certified (normally within days of sample receipt from customer). If the Company determines that a contract will result in a loss, the Company recognizes the estimated loss in the period in which such determination is made.

Cash Equivalents

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

Marketable Securities

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

Accounts Receivable

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

Income Taxes

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

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 July 31, 2011, the Company had no significant uncertain tax positions that would be reduced as a result of a lapse of the applicable statute of limitations.

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 July 31, 2011 and October 31, 2010, the accumulated depreciation and amortization amounted to $1,175,177 and $950,107, respectively.

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

Intangible assets

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

Stock-based Compensation

Stock-based compensation expense is recognized in the consolidated financial statements based on the fair value of the awards granted. Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period, which generally represents the vesting period, and includes an estimate of awards that will be forfeited. The Company calculates the fair value of stock options using the Black-Scholes option-pricing model at 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 July 31, 2010 condensed consolidated financial statements to conform them to the July 31, 2011 condensed consolidated financial statements presentation. Such reclassifications do not affect net income as previously reported.

Recently issued and adopted accounting standards

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

NOTE B – MARKETABLE SECURITIES AVAILABLE FOR SALE

At July 31, 2011, the marketable securities of $95,000 consisted of a 5.4% Puerto Rico Commonwealth Government Development Bank Bond, purchased at par and maturing in August 2019. The bond balance approximates its fair market value, therefore no realized or unrealized gains or losses have been recorded.

The primary objectives of the Company's investment portfolio are liquidity and safety of principal. Investments are made with the objective of achieving the highest rate of return consistent with these two objectives. 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 July 31, 2011, the Company believes that the cost base for its available-for-sale securities is recoverable in all material respects.

NOTE C - INCOME TAXES

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 is effective as of the Company's Fiscal Year 2010 (November 1, 2009) and covers a fifteen year period. As a condition to obtaining the new grant, the Company surrendered its prior grant obtained on July 2008 for Pharma-Bio and Pharma-PR, which was granted under Act No. 135 of December 2, 1997 ("Act 135 Grant"). 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. Both grants established a threshold ("Baseline") on the Industrial Development Income subject to the favorable income tax rates. The Baselines of activities covered under the old Act 135 Grant were reduced with the new Act 73 Grant; also the new Baselines are now gradually reduced to zero within a four year term. In addition, income tax rates "under" and "above" the new Baselines were significantly reduced in the Act 73 Grant. New activities covered under the new Act 73 Grant are not subject to a Baseline and are allowed a four year gradual phase-in to the favorable fixed Act 73 income tax rate. For the three-month and nine-month periods ended in July 31, 2011, the adoption of the Act 73 Grant triggered favorable adjustments to income tax expense in the aggregate amount of approximately $513,000 ($204,000 attributable to Fiscal Year 2010 and $309,000 attributable to Fiscal Year 2011).

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

Deferred income tax assets and liabilities are computed for differences between the consolidated financial statements and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income.

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

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

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

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

NOTE D – WARRANTS

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

| | Exercise Price | Expiration Date | July 31, 2011 | October 31, 2010 |
|---|---|---|---|---|
| Investor Warrants A | $ 1.1000 | January 25, 2011 | - | 3,999,700 |
| Investor Warrants B | $ 1.6500 | January 25, 2011 | - | 3,999,700 |
| Other Warrants A | $ 0.0600 | January 16, 2014 | 240,800 | 249,600 |
| Other Warrants B | $ 0.0600 | January 24, 2014 | 1,830,991 | 1,830,991 |
| Warrants Total | | | 2,071,791 | 10,079,991 |

In July 2011, a total of 8,800 "Other Warrants A" to purchase shares of common stock were converted to 7,480 shares of common stock pursuant to the cashless exercise provisions of the warrants.

NOTE E – EARNINGS PER SHARE

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

| | Three months ended July 31, | | Nine months ended July 31, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Net income available to common equity holders - used to compute basic and diluted earning per share | $1,498,602 | $121,409 | $2,334,554 | $188,748 |
| Weighted average number of common shares - used to compute basic earning per share | 20,754,954 | 20,751,215 | 20,752,475 | 20,751,215 |
| Effect of warrants to purchase common stock | 1,743,768 | 1,691,585 | 1,733,679 | 1,620,632 |
| Effect of options to purchase common stock | 16,669 | - | 14,721 | - |
| Weighted average number of shares - used to compute diluted earnings per share | 22,515,391 | 22,442,800 | 22,500,875 | 22,371,847 |

Options for the purchase of 374,885 shares of common stock for the three-month and nine-month periods ended in July 31, 2011 and 2010, were not included in computing diluted earnings per share because their effects were antidilutive.

In June 2011, the Company obtained a new tax grant from PRIDCO which generated favorable adjustments to income tax expense, and accordingly to net income. These non-recurring adjustments had the aggregate effect of increasing net income for the three and nine month periods ended in July 31, 2011 by approximately $513,000 ($204,000 attributable to Fiscal Year 2010 and $309,000 attributable to Fiscal Year 2011), and increased earnings per share basic and diluted by $0.025 and $0.023, respectively.

NOTE F - CONCENTRATIONS OF RISK

Cash and cash equivalents

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

Accounts receivable and revenues

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

The Company's revenues, and the related receivables, are concentrated in the pharmaceutical industry in Puerto Rico, the United States 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 and two customers in the three-month and nine-month periods ended July 31, 2011 and 2010, respectively, which accounted for 10% or more of its revenues during these periods. During the three months ended July 31, 2011, revenues from these customers were 16.1%, 15.9%, and 11.9%, or a total of 43.9%, as compared to the same period last year for 0.0%, 21.4%, and 16.4%, or a total of 37.8%, respectively. For the nine months ended July 31, 2011, revenues from these customers were 19.0%, 16.3%, and 13.5%, or a total of 48.8%, as compared to the same period last year for 0.0%, 21.4%, and 14.2%, or a total of 35.6%, respectively. At July 31, 2011, amounts due from these customers represented 39.8% of the Company’s total accounts receivable balance.

NOTE G - SEGMENT DISCLOSURES

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

The following table presents information about the reported revenue from services and earnings from operations of the Company for the three and nine month periods ended in July 31, 2011 and 2010. There is no intersegment revenue for the mentioned periods. Corporate expenses that support the operating units have been allocated to the segments. Asset information by reportable segment is not presented, since the Company does not produce such information internally, nor does it use such data to manage its business.

| | Three months ended July 31, | | Nine months ended July 31, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| REVENUES: | | | | |
| Puerto Rico and United States consulting | $4,051,197 | $2,043,428 | $9,994,805 | $ 5,829,619 |
| Ireland consulting | 859,601 | 600,616 | 2,305,136 | &#1 |