Zacks Small-Cap Research

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Pharma-Bio Serv (PBSV-OTC)

PBSV: Results Remains Soft, Continue to Look For Growth in 2015

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	09/15/2013
Current Price (06/17/14)	$1.60
Target Price	**$3.00**

OUTLOOK

Regularly recognized as one of the top validation companies in Puerto Rico, PBSV is principally engaged in providing compliance consulting to the pharmaceutical industry. Serving customers in the U.S., Europe, and Puerto Rico, PBSV counts many of the pharma "majors" as clients. The company's small size, high levels of expertise in various disciplines and reputation as an eminent life sciences consulting firm has allowed it to adapt to and capitalize on the changing regulatory landscape. This has helped push revenue up 75% in 2011, 47% in 2012 and 13% in 2013. The industry remains ripe for continued growth and PBSV is sitting in the cat-bird's seat ready to take advantage of it. PBSV is generating net profits, significant cash flow, has a stellar balance sheet, and trades cheap. Despite all their success, mgmt has remained focused on running the business and running it the right way.

SUMMARY DATA

52-Week High	**$2.50**
52-Week Low	**$1.20**
One-Year Return (%)	**N/A**
Beta	**N/A**
Average Daily Volume (sh)	**7,875**
Shares Outstanding (mil)	**24**
Market Capitalization ($mil)	**$37**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**43**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**32.4**
Earnings Per Share (%)	**86.6**
Dividend (%)	**N/A**
P/E using TTM EPS	**7.6**
P/E using 2014 Estimate	**17.8**
P/E using 2015 Estimate	**11.4**
Zacks Rank	**N/A**

Risk Level	**Above Avg.,**
Type of Stock	**Small-Blend**
Industry	**Consulting**

ZACKS ESTIMATES

Revenue
(in millions)

	Q1 (Jan)	Q2 (Apr)	Q3 (Jul)	Q4 (Oct)	Year (Oct)
2013	$7.7 A	$8.3 A	$8.4 A	$8.8 A	$33.1 A
2014	$7.0 A	$6.6 A	$7.4 E	$7.4 E	$28.3 E
2015					$31.8 E
2016					$35.7 E

Earnings per Share

	Q1 (Jan)	Q2 (Apr)	Q3 (Jul)	Q4 (Oct)	Year (Oct)
2013	$0.05 A	$0.06 A	$0.05 A	$0.05 A	$0.21 A
2014	$0.03 A	$0.01 A	$0.02 E	$0.02 E	$0.09 E
2015					$0.14 E
2016					$0.19 E

Zacks Projected EPS Growth Rate - Next 4 Years % **8**

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Fiscal Q2 2014 Results: *Revenue, EPS Miss For Second Straight Quarter. Stock Buyback Authorized…*

PBSV reported financial results for the fiscal second quarter ending April 30th. For the second straight period both revenue and EPS missed our respective estimates, this is despite us making meaningful downward revisions to our model following Q1 results in late March. PBSV noted that worldwide economic weakness and certain challenges (Obamacare, Puerto Rico Act 154) are effecting their pharmaceutical industry clients which have put downward pressure on the company's revenue. And while the language in the 10-Q indicates that management expects these issues to continue to persist for at least the near-term, PBSV continues to invest in the business in anticipation that these headwinds will subside and return the company to positive revenue growth. In the meantime, however, the increased investments in headcount and certain infrastructure, coupled with the recent slide in revenue, have significantly crimped net income and EPS (although both remain in positive territory).

But while we now model fiscal 2014 revenue and EPS to fall 14% and 57% respectively, we continue to think 2015 will show meaningful increases in both the top and bottom lines. The company just announced a stock buyback program was authorized by the board for up to two million shares - which could also incrementally bolster EPS. And as PBSV's balance sheet remains flush with cash, their ability to fund the buyback is a non-issue.

Q2 revenue of $6.6M was down 20% from the prior year comparable period and fell 6% from Q1 2014. Revenue was more than $900k lower than our $7.5M estimate. Similar to Q1 of this year, U.S. and European consulting revenue (which were catalysts in driving the 13% top-line growth in 2013), were the biggest laggards in the most recent quarter - falling 30% and 45% respectively.

Q2 net income and EPS were $328k and $0.01, compared to our $1.2M and $0.05 estimates. The miss on EPS was a result of a combination of the lower than expected revenue and higher than expected SG&A expense. SG&A expense of $1.7M equaled 25% of revenue while we modeled 18% of revenue. As noted, PBSV has been increasing spending on business development and operational activities to support anticipated increased demand in the U.S. and Puerto Rican markets. While we have again made downward revisions to revenue and upward revisions to SG&A expense, we continue to expect increasing demand for the company’s services to result in revenue growth within the next several quarters.

Importantly, the company maintains a very healthy balance sheet, ending the quarter with $12.8M in cash and equivalents and no debt or preferred stock. Cash flow from operating activities was an outflow of $882k in Q2 but, excluding changes in working capital, cash flow from operating activities was an inflow of $440k. In the event that PBSV repurchases the entire two million authorized shares, the company would likely continue to carry a sizeable cash balance.

The most recent adjustments to our model resulted in a revision to our per share price target, from $3.50 to $3.00. Our valuation methodology is at the end of this report. We are maintaining our Outperform rating.

BACKGROUND

Pharma-Bio Serv, Inc (PBSV), headquartered in Dorado, Puerto Rico and with other offices in the U.S., Ireland and Spain, is principally engaged in providing compliance consulting to the pharmaceutical industry including to pharmaceutical, biotech, medical device and chemical manufacturing companies located in Puerto Rico, the United States and Europe. The company has regularly been recognized as one of the top validation companies in Puerto Rico.

Compliance consulting, which encompasses a broad range of services including regulatory (FDA and international regulatory agencies) compliance, validation, technology transfer, and project management, accounts for approximately 93% of the company's revenue. PBSV also provides information technology services and technical training (~2% of total revenue) and the company has a laboratory in Puerto Rico which provides microbiological and chemical testing services (~5% of total revenue). The company employs about 300 people, many of whom are highly-skilled engineers and quality assurance professionals with advanced degrees in their

respective fields of expertise. The company counts many of the pharma "majors" as clients. Their clients include eight of the top ten global bio-pharma companies and seven of the top ten global medical technology companies.

PBSV has grown revenues from a combination of organic growth as well as through acquisitions over the last several years. Increasing awareness among many of the major pharma and medical device companies of the company's reputation as an eminent life sciences consulting firm without the relatively high cost of larger competitors has facilitated organic revenue growth. This has been complemented by small acquisitions since 2006 which has expanded the company's service offerings as well as their geographic footprint.

PBSV's small size has also been an asset, allowing the company to be very nimble and to rapidly adapt to regulatory, industry, market and competitive changes, affording the chance to quickly capitalize on new opportunities. When pharmaceutical activity in PBSV's homeland, Puerto Rico, began to stagnate they were able to quickly focus resources elsewhere which held greater opportunities. This meant entering the European market, initially in Ireland and then branching out to Spain. The U.S. market has been a particular boon for the company, accounting for over 40% of the revenue growth from 2010 to 2013.

A major focus for continuing their recent rapid growth (42% revenue CAGR over last three years) is to take their current capabilities and further expand geographically, in particular to areas of the world that hold the most promise - those with a high concentration of life sciences manufacturing and, preferably which are highly regulated. The U.S. market, with ever-increasing demand for compliance consulting services and where PBSV has already demonstrated early success, is likely where the bulk of the near-to-mid term growth opportunity lies for the company.

Focus Is Running The Biz With Integrity, Not On Investor Relations…

PBSV is somewhat of a rare-bird in terms of their lack investor-awareness activities and borderline shyness of the investment community. There's little question that management's focus is well directed given the company's double-digit revenue growth, double-digit net margins and a rock-solid balance sheet. PBSV's leadership has also placed significant importance on high ethics, integrity, honesty and values - which while maybe not explicitly shown in the income statement columns, almost certainly has contributed to the company's financial performance (via customer retention, repeat business, employee satisfaction, etc). Comb through the corporate website and, based on the amount of space dedicated to ethics, morals, trust and integrity versus that dedicated towards investor relations, it offers a glimpse of where management's priorities lie. Trust, honesty and integrity are characteristics not always present with micro-cap company managements and, coupled with PBSV's impressive financial performance and prospects for continued growth, offers what we believe is a very attractive investment.

PBSV also enjoys a lower tax rate than if they were domiciled in the U.S. As a result of a tax grant awarded PBSV by the government of Puerto Rico, the company is partially exempt from various taxes including Puerto Rico income tax.

Management's efforts have been rewarded with recognition from customers and other industry organizations, which have included;

> **Puerto Rico Ernst & Young Entrepreneur of the Year 2003 for the Health Services Category**

> **Casiano Communications: Puerto Rico's Leading Validation Co. Ranking #1 (2003,'04,'05,'06 & '07)**

> **20 Best Employers of PR 2006: Price Waterhouse**

> **2007 People to Watch: Caribbean Business**

> **2007 Top Puerto Rico Validation Company: Caribbean Business**

> **Johnson & Johnson: Service Partner of the Year 2008**

> **Johnson & Johnson: Consulting Labor and Professional Services Partner of the Year 2008, 2009**

> **Federal Minority Business Enterprise Center (MBEC) with the Exporter of the Year Award 2009**

SERVICES

PBSV's core business is FDA and international agencies regulatory compliance and related services, although they also offer other integrated services that affords them the ability to be a full-service solution provider.

The vast majority of the company's services are provided through time and materials contracts where clients are charged for the time, materials and expenses incurred on a particular project or service. Time and material contracts, which account for approximately 94% of the company's revenue, have somewhat of a built-in margin to PBSV.

Laboratory testing, which is usually completed and certified within days of sample receipt, represents about 5% of total revenue.

Compliance Consulting
PBSV has over 20 years of compliance consulting experience. Their consulting business caters to some of the largest life sciences organizations in the world including eight of the top ten pharmaceutical companies and seven of the top ten medical technology companies. The company believes their competitive advantages relative to compliance consulting include their two decades of experience, ability to offer a wide range and depth of services with very high levels of expertise, accomplished track record of exceptional performance that consistently meets or exceeds client's expectations, and being able to provide their services at a significantly lower cost. PBSV also puts considerable effort into maintaining close and trusting relationships with their client companies, which provides clear benefits in terms of repeat business. Compliance consulting services accounts for approximately 93% of the company's total revenue.

PBSV's compliance consulting spans a large menu of services under a variety categories.

Scienza Labs
Per the company's website and company filings, Scienza Labs is a state of the art microbiological testing facility with the latest equipment and technology and test methodologies available, harmonized with the current pharmacopeias. The labs are designed to exceed customers' expectations with an excellent organization, on time delivery, and shorter testing cycle times. The lab provides services to the company's core industry (life sciences) as well as to the cosmetic and food industries. Microbiology and chemical testing services accounts for approximately 5% of the company's total revenue.

> State of the Art New Facilities with fully Validated Equipment

> FDA Registered and compliant with current regulations. Inspected by SJ District Office with zero observations

> ISO 9001:2008 Certified

> Certified Minority Controlled Company

> Excellent Organization

> On-Site Pick-up 24 hours a day / 7 days a week

> On time delivery



SOURCE: pharmabioserv.com

Integratek
Per the company's website and company filings, Integratek, their Puerto Rico based information technology services and consulting division, provides a variety of information technology services such as web pages and portals development, digital art design, intranets, extranets, software development including database integration, Windows and web applications development, software technical training and learning management systems, technology project management, and compliance consulting services, among others. Integratek is a Microsoft Certified Partner and a reseller for technology products from leading vendors in the market. IT services and the company's Pharma Serv Academy (technical training) account for approximately 2% of PBSV's total revenue.

> **Application Development / Systems Integration**
> **Art Design / Web Pages and Portals**
> **Document Digitalization / Process Automation**
> **Networking / Help Desk / Virtualization**
> **Computer System Validation**
> **Project Management**
> **Systems Integration**
> **Temporary Staffing Services**
> **E-Learning / Learning Mngmt Systems / Classroom & Webinar Courses**
> **Mobile Application Development**

Pharma Serv Academy
Pharma Serv Academy (per company filings and website), through a network of leading industry professional experts in their field, including those from PBSV, provides technical seminars/training that incorporate the latest regulatory trends and standards as well as other related areas. These services are provided in the markets that PBSV currently serves, as well as other industries.

> **Project Management**
> **Risk Management Program**
> **Regulatory Guidance Documents**
> **Regulatory Enforcement**
> **ICH Guidelines for Product Life Cycle**
> **Computer Systems**
> **Validation Courses**
> **Safety**
> **cGMPs**
> **Microbiology**
> **Quality Systems**
> **Other Seminars**
> **Lean Six Sigma / Process Excellence and Continuous Improvement Series**

FINANCIAL CONDITION / FINANCIAL PERFORMANCE

Solid, Spotless Balance Sheet and Significant Positive Cash Flow
PBSV maintains a stellar balance sheet, which is particularly impressive for a micro-cap company. At the most recent quarter-end (April 30, 2014) cash balance stood at $12.8 million. The company has zero debt, zero preferred stock, and just under 24 million fully-diluted common shares outstanding. Quality of assets appears to be strong with an immaterial amount of intangibles, cash and securities accounting for about 60% of total assets, and no indication that all of A/R is anything other than collectible.

PBSV also has a history of positive cash flow generation. Cash flow from operating activities was $2.1 million in fiscal 2011, $2.5 million in fiscal 2012 and was $5.6 million in fiscal 2013. The business is also not very capital intensive, with CapEx of just $123k in 2011, $169k in 2012 and $205k in 2013.

Impressive Performance: Revenue Grows 76% in 2011, 47% in 2012, 13% in 2013 and Mid-Teen Net Margins
PBSV has grown revenues from $11.4 million in fiscal 2010 to $19.9 million (+76%) in 2011 to $29.2 million (+47%) in 2012 and to $33.0 million (+13%) in 2013. Almost all of this revenue growth is organic, with little contribution from any acquisitions over these periods.

The company points to a few factors that have attributed to this impressive revenue growth including some contraction in the pharmaceutical industry which has eliminated some competition as well as recent regulatory changes that have increased demand for their services. As we indicated earlier, PBSV's relatively small size coupled with their high levels of expertise in various disciplines allows them to quickly shift resources when opportunities present themselves and to capitalize on changes within the regulatory environment and the industry. This appears to have been a significant benefit to PBSV over the recent past.

The company has done an excellent job with not just growing revenue but also with keeping expenses in check. The combination has resulted in EPS growing from $0.02 in fiscal 2010 to $0.14 in 2011 to $0.20 in 2012 and $0.21 in 2013.

Recent Softness Not Expected To Be a Long-Term Trend. Cash Flow Continues…
While revenue and EPS have disappointed in the first six months of fiscal 2014 relative to our estimates, PBSV continues to generate positive cash flow and maintains an ultra-healthy balance sheet. Cash flow from operating activities during the first six months of fiscal 2014 was an inflow of $870k ($1.2M ex-changes in working capital).

This follows $5.6M ($5.3M ex-changes in working capital) of cash generated in fiscal 2013. The company exited Q2 with $12.8M in cash and securities. The balance sheet remains debt-free.

But while we expect a return to meaningful and sustained revenue growth within the next 18 months, we think the relative softness in the first half of fiscal 2014 may be indicative of the roll-off of certain contracts that may also impact the next two the three quarters. PBSV has also noted that worldwide economic weakness and certain challenges (Obamacare, Puerto Rico Act 154) are effecting their pharmaceutical industry clients which have put downward pressure on the company's revenue. And while the language in the most recent 10-Q indicates that management expects these issues to continue to persist for at least the near-term, PBSV continues to invest in the business in anticipation that these headwinds will subside and return the company to positive revenue growth.

As such, following recent results we have made some meaningful downward revisions to our revenue estimates for the remainder of the current fiscal year. Important to remember, however, is that most contracts are relatively short-term in nature, meaning short-term weakness is not indicative of future performance. PBSV has recently dedicated more resources towards investments in the business, a sign that indicates they expect resurgence in demand to materialize in the near-term. In addition, aside from the most recent two quarters, PBSV has not experienced a yoy decline in revenues – perhaps lending more support that the recent revenue weakness is more anomaly than trend.

Beneficial Income Tax Status…
One somewhat unique advantage that PBSV enjoys and helps maximize the amount of revenue that flows to the bottom line is that they are subject to a lower than normal statutory Puerto Rico income tax rate. In June 2011 the company obtained a Grant of Industrial Tax Exemption from the Puerto Rico Industrial Development Company. The grant was effective November 2009. 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, which is effective through 2024, significantly reduces PBSV's Puerto Rico income tax liability from what would have been a tax rate of 30% to what was an effective rate of 5.5% in fiscal 2011, 5.4% in 2012 and 4% in fiscal 2013 (and should remain at 4% until expiration).

This grant only covers operations in Puerto Rico. Operations carried out in the United States are taxed at a maximum regular federal income tax rate of 35%.

PBSV's total effective tax rate in 2012 and 2013 were 18.6% and 19.3% which is significantly favorable relative to the 35% U.S. federal statutory rate and PBSV's 2010 effective rate of 40.1% (which was prior to obtaining the grant).

OUTLOOK

The company is in the process of making a more deliberate effort to communicate with the investing public which we expect will provide more insight into the current status of operations and their near-term plans for continued growth. We also think it will confirm that management's lack of investor-awareness activities had everything to do with them spending their energies focused on running the company and running it in the right way, something that we think speaks highly of where their priorities lie and which should provide investors comfort.

Our current financial model, which is subject change, is largely based on recent trends along with some very general "guidance" that the company has publicly disclosed. This guidance includes that the bulk of PBSV's near-term growth opportunity lies with the U.S. market, that growth in Puerto Rico will likely be limited for the foreseeable future and that growth in Europe, while having meaningful potential over the longer-term, may be constrained for a period of time due to the widespread economic weakness.

Our modeled revenue growth (-% 2014, +12% 2015, +12% 2016) is arguably conservative given PBSV's recent historical financial performance (revenue growth of 76% 2011, 47% 2012, 13% in 2013). We reiterate that our estimates are subject to change. The majority of our modeled revenue growth is driven by growth in the U.S., with Puerto Rico revenue growth in the mid-single digits and European revenue starting to pick up more meaningfully towards the 2015 - 2016 timeframe. We have incorporated only modest expansion in gross margin from current levels - which is also potentially conservative. During 2013 the company intentionally dedicated

more resources towards beefing up their U.S. related capabilities in order to meet the anticipated increase in demand, which resulted in SG&A spend materially increasing during the year. We now look for SG&A spend to increase by about 14% in the current year compared to 2013 but for the company to start to see some leverage from SG&A on a % of sales basis in 2015.

With U.S. revenue increasing as a % of total sales and Puerto Rico revenue growth more modest, the benefit from the low Puerto Rico income tax rate will be lessened. As a result, we model the effective tax rate to increase throughout our modeled periods.

Valuation / Recommendation

Based on our model we look for EPS to grow at a CAGR of about 8% through 2017. We use an industry PE/G ratio of 2.5x (which increased from 1.9x since our last update) to value PBSV. We look for 2015 EPS of $0.14 which values the company at approximately $3.00/share (down from $3.50 in our last update). The stock currently trades at about $1.60, indicating the shares are trading cheaper than fair value. As such we recommend accumulating up to our $3.00 price target. We are maintaining our Outperform rating.

FINANCIAL MODEL

Pharma-Bio Serv, Inc

	2013 A	Q1A	Q2A	Q3E	Q4E	2014 E	2015 E	2016 E	2017 E
Puerto Rico Consulting	$15,833.2	$3,521.2	$3,508.4	$3,601.5	$3,729.3	$14,360.3	$15,250.7	$16,394.5	$17,558.5
YOY Growth	*4.1%*	*-0.7%*	*-7.6%*	*-12.0%*	*-15.2%*	*-9.3%*	*6.2%*	*7.5%*	*7.1%*
% of total sales	47.9%	50.2%	53.4%	48.9%	50.4%	50.7%	48.0%	45.9%	43.9%
U.S. Consulting	$11,334.1	$2,321.3	$2,013.1	$2,435.1	$2,436.0	$9,205.6	$11,175.6	$13,287.8	$15,613.1
YOY Growth	*23.7%*	*-15.6%*	*-29.7%*	*-11.4%*	*-18.1%*	*-18.8%*	*21.4%*	*18.9%*	*17.5%*
% of total sales	34.3%	33.1%	30.6%	33.0%	32.9%	32.5%	35.2%	37.2%	39.1%
Europe Consulting	$3,596.6	$683.3	$467.6	$767.6	$706.5	$2,625.0	$2,848.1	$3,110.2	$3,414.9
YOY Growth	*12.0%*	*-20.1%*	*-44.9%*	*-14.9%*	*-28.7%*	*-27.0%*	*8.5%*	*9.2%*	*9.8%*
% of total sales	10.9%	9.8%	7.1%	10.4%	9.6%	9.3%	9.0%	8.7%	8.5%
Lab (microbiological & chemical testing)	$1,866.9	$453.1	$440.2	$461.9	$427.1	$1,782.3	$2,076.4	$2,406.5	$2,755.5
YOY Growth	*117.6%*	*23.6%*	*-31.4%*	*-12.0%*	*28.0%*	*-4.5%*	*16.5%*	*15.9%*	*14.5%*
% of total sales	5.6%	6.5%	6.7%	6.3%	5.8%	6.3%	6.5%	6.7%	6.9%
Other segments	$431.1	$28.7	$145.7	$101.9	$98.0	$374.3	$438.0	$538.3	$637.8
YOY Growth	*-45.0%*	*-79.3%*	*38.4%*	*6.4%*	*7.1%*	*-13.2%*	*17.0%*	*22.9%*	*18.5%*
% of total sales	1.3%	0.4%	2.2%	1.4%	1.3%	1.3%	1.4%	1.5%	1.6%
Total Revenues	$33,062.0	$7,007.7	$6,575.0	$7,368.0	$7,396.9	$28,347.6	$31,788.7	$35,737.2	$39,979.9
YOY Growth	*13.1%*	*-8.4%*	*-20.4%*	*-11.9%*	*-15.8%*	*-14.3%*	*12.1%*	*12.4%*	*11.9%*
Cost of Services	$21,228.6	$4,635.5	$4,485.0	$4,980.8	$4,978.1	$19,079.4	$20,758.0	$23,050.5	$25,227.3
Gross Income	$11,833.5	$2,372.2	$2,089.9	$2,387.2	$2,418.8	$9,268.1	$11,030.7	$12,686.7	$14,752.6
Gross Margin	*35.8%*	*33.9%*	*31.8%*	*32.4%*	*32.7%*	*32.7%*	*34.7%*	*35.5%*	*36.9%*
SG&A	$5,761.7	$1,544.6	$1,670.7	$1,702.0	$1,701.3	$6,618.5	$6,929.9	$7,040.2	$7,236.4
% SG&A	*17.4%*	*22.0%*	*25.4%*	*23.1%*	*23.0%*	*23.3%*	*21.8%*	*19.7%*	*18.1%*
Operating Income	$6,071.7	$827.6	$419.3	$685.2	$717.5	$2,649.6	$4,100.7	$5,646.5	$7,516.2
Operating Margin	*18.4%*	*11.8%*	*6.4%*	*9.3%*	*9.7%*	*9.3%*	*12.9%*	*15.8%*	*18.8%*
Total Other Income (Expense)	$4.6	$0.0	($0.9)	($1.0)	$0.0	$0.0	$4.0	$6.0	$8.0
Pre-Tax Income	$6,076.3	$827.6	$418.4	$684.2	$717.5	$2,649.6	$4,104.7	$5,652.5	$7,524.2
Tax expense (benefit)	$1,169.8	$165.7	$90.6	$133.4	$139.9	$529.7	$919.5	$1,294.4	$1,745.6
Tax Rate	*19.3%*	*20.0%*	*21.7%*	*19.5%*	*19.5%*	*20.0%*	*22.4%*	*22.9%*	*23.2%*
Net Income	$4,906.5	$661.9	$327.8	$550.8	$577.6	$2,120.0	$3,185.3	$4,358.1	$5,778.6
YOY Growth	*4.7%*	*-37.2%*	*-76.4%*	*-55.8%*	*-52.6%*	*-56.8%*	*50.3%*	*36.8%*	*32.6%*
Net Margin	*14.8%*	*9.4%*	*5.0%*	*7.5%*	*7.8%*	*7.5%*	*10.0%*	*12.2%*	*14.5%*
EPS	$0.21	$0.03	$0.01	$0.02	$0.02	$0.09	$0.14	$0.19	$0.27
YOY Growth	*1.5%*	*-39.6%*	*-76.8%*	*-56.8%*	*-49.8%*	*-57.0%*	*53.9%*	*40.5%*	*37.5%*
Diluted Shares O/S	23,660	23,725	23,788	23,850	23,720	23,771	23,200	22,600	21,800

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BALANCE SHEET

	April 30, 2014	January 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 12,829	$ 13,783
Marketable Securities	68	64
Accounts Receivable	7,039	5,671
Other	712	659
Total current assets	20,648	20,177
Property and equipment, net	941	884
Other assets	17	17
Total assets	$ 21,606	$ 21,078
LIABILITIES		
Current liabilities:		
Current portion-obligations under capital lease	$ 39	$ 28
Accounts payable and accrued expenses	2,277	1,844
Income taxes payable	103	419
Total current liabilities	2,420	2,291
Obligations under capital leases	110	46
Total liabilites	2,530	2,337
STOCKHOLDERS' EQUITY		
Preferred Stock	-	-
Common stock	2	2
Additional paid-in capital	965	978
Retained earnings	18,183	17,855
Accumulated other comprehensive loss	(75)	(94)
Total stockholders' equity	19,076	18,741
Total liabilities and stockholders' equity	$ 21,606	$ 21,078

CASH FLOW STATEMENT

	Three months April 30, 2014	2013
Cash flows from operating activities:		
Net income	$ 328	$ 1,387
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on disposition of P&E	-	-
Stock-based compensation	17	2
Depreciation and amortization	96	83
Changes in operating assets and liabilities:		
Accounts receivable	(1,325)	77
Other assets	(53)	(16)
Liabilities	55	(14)
Net cash provided by operating activities		
Cash flows from investing activities:		
Acquisition of P&E	(66)	(18)
Proceeds from disposition of P&E	-	-
Net cash used in investing activities	(66)	(18)
Cash flows from financing activities:		
Proceeds from common stock issuance	-	-
Payments on obligations under capital lease	(10)	(10)
Net cash provided by (used in) financing activities	(10)	(10)
Effect of exchange rate changes on cash	4	(11)
Net increase (decrease) in cash and cash equivalents	(954)	1,481
Cash and cash equivalents, beginning of period	13,783	7,012
Cash and cash equivalents, end of period	$ 12,829	$ 8,493

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Elizabeth Plaza

Senior Strategic Consultant

Elizabeth Plaza has served as the Chairman of the Board since January 2006 and our Principal Executive Officer since January 1, 2014. Also, Ms. E. Plaza assumed the role of Senior Strategic Consultant of the Company on January 1, 2013. Ms. E. Plaza served as our president and chief executive officer from January 2006 to December 2012. Ms. E. Plaza holds a B.S. in Pharmaceutical Sciences, magna cum laude, from the School of Pharmacy of the University of Puerto Rico. She was a 40 under 40 Caribbean Business Award recipient in 2002, the 2003 recipient of Ernst & Young's Entrepreneur of the Year Award in Health Science, one of the 2003 recipients of the Puerto Rico Powerful Business Women Award, elected as Puerto Rico Manufacturers Association 2004 (Metropolitan-West Region) Executive of the Year, and Puerto Rico 2008 Executive of the Year. She is member of the US Department of Commerce National Advisory Council on Minority Business Enterprise and is also member of the Puerto Rico Manufacturer's Association Board of Directors.

Nélida Plaza

President and Chief Executive Officer

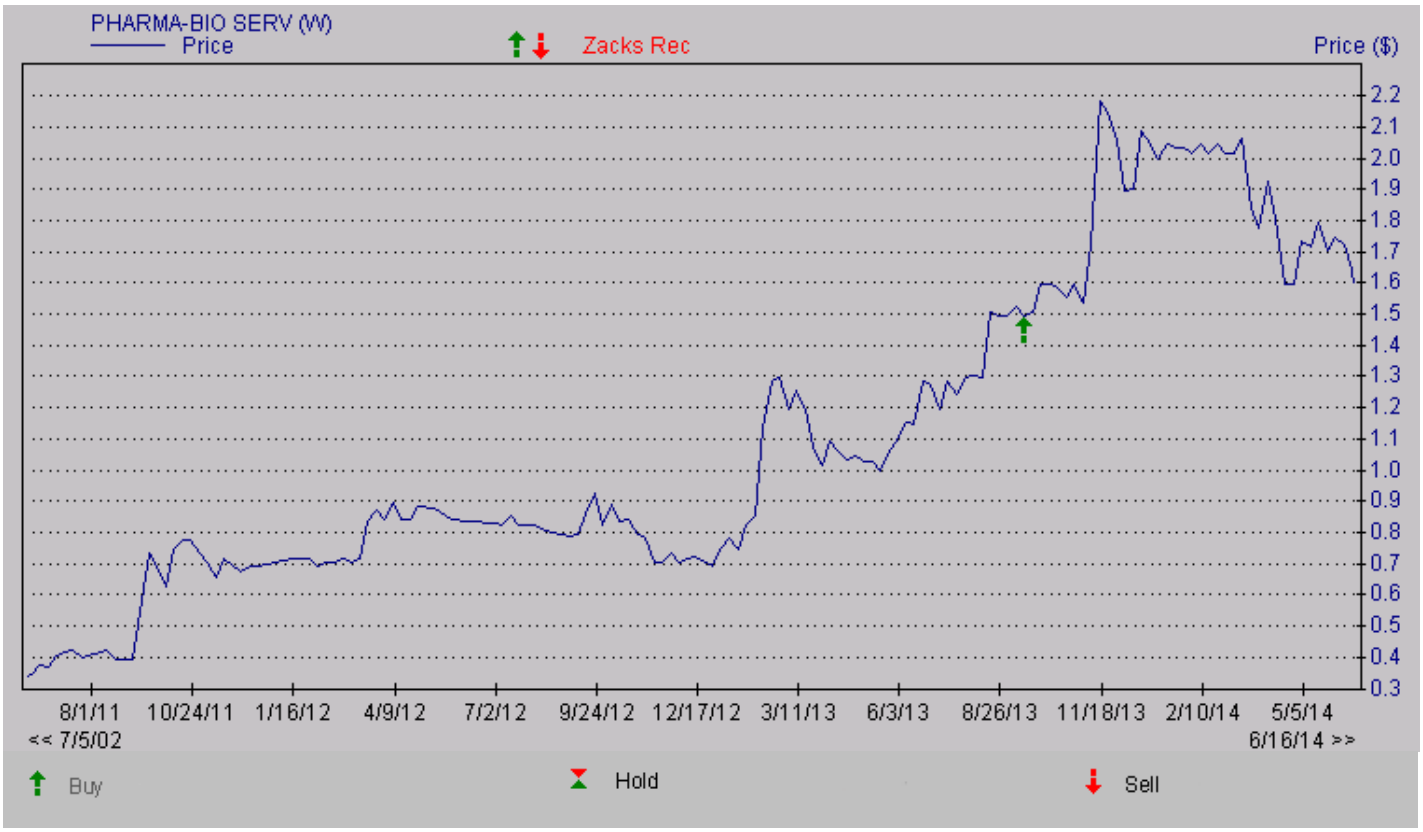
Nélida Plaza has served as our Chief Operating Officer since January 1, 2014 and our Secretary since January 2006. Ms. N. Plaza previously served as the Company's Acting President and Chief Executive Officer from January 2013 until December 31, 2013, Vice President of Operations of Pharma-Bio Serv PR, Inc. from January 2004 until December 31, 2013, and the Company's President of Puerto Rico Operations from December 2009 until December 31, 2013. In July 2000, Ms. N. Plaza joined Pharma-PR as a project management consultant. In the past, Ms. N. Plaza was a Unit Operations Leader and Safety Manager at E.I. DuPont De Nemours where she was in charge of all manufacturing operations and was involved with the development, support and audit of environmental, safety and occupational health programs. Ms. N. Plaza holds a M.S. in Environmental Management from the University of Houston in Clear Lake and a B.S. in Chemical Engineering from the University of Puerto Rico. Ms. N. was recognized by Casiano Communications as one of the 40 under 40 distinguished executives in Puerto Rico. Ms. N. and Elizabeth Plaza are sisters.

Pedro J. Lasanta

Chief Financial Officer and Vice President - finance and administration

Pedro J. Lasanta has served as our Chief Financial Officer and Vice President - Finance and Administration since November 2007. From 2006 until October 2007, Mr. Lasanta was in private practice as an accountant, tax and business counselor. From 1999 until 2006, Mr. Lasanta was the Chief Financial Officer for Pearle Vision Center PR, Inc. In the past, Mr. Lasanta was also an audit manager for Ernst & Young, formerly Arthur Young & Company. He is a cum laude graduate in business administration (accounting) from the University of Puerto Rico. Mr. Lasanta is a Certified Public Accountant. In 2012, he was awarded the Puerto Rico Manufacturers Association (North Region) Service Manager of the Year.

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Hold/Neutral: The analyst expects that the company will perform in line with the broader U.S. equity market over the next one to two quarters.
Sell/Underperform: The analyst expects the company will underperform the broader U.S. Equity market over the next one to two quarters.

The current distribution is as follows: Buy/Outperform- 15.9%, Hold/Neutral- 78.4%, Sell/Underperform – 5.1%. Data is as of midnight on the business day immediately prior to this publication.