Pharma-Bio Serv, Inc.
Form 10QSB/A
November 29, 2006

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

Amendment No. 1

FORM 10-QSB/A

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended January 31, 2006

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.
(Name of small business issuer as specified in its charter)

Delaware	20-0653570
(State of Incorporation)	(I.R.S. Employer Identification No.)

373 Mendez Vigo, Suite 110, Dorado, Puerto Rico 00646
(Address of principal executive offices)

787-278-2709
(Issuer's telephone number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for 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. x yes o no

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o yes x no

The number of shares outstanding of the registrant's Common Stock as of March 10, 2006 was 2,301,800.

EXPLANATORY NOTE

This quarterly report on Form 10-QSB/A ("Form 10-QSB/A") is being filed to amend our quarterly report on Form 10-QSB for the quarter ended January 31, 2006 (the "Original Form 10-QSB") which was filed with the Securities and Exchange Commission ("SEC") on March 24, 2006. Pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, as amended, the Form 10-QSB/A contains current dated certifications from the Principal Executive Officer and the Principal Financial Officer.

We have not updated the information contained herein for events occurring subsequent to March 24, 2006, the filing date of the original Form 10-QSB.

PHARMA-BIO SERV, INC.

FORM 10-QSB/A

FOR THE QUARTER ENDED JANUARY 31, 2006

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PHARMA-BIO SERV, INC.
Consolidated Balance Sheet (Unaudited)
At January 31, 2006

Assets:		
Current Assets		
Cash	$	3,084,214
Accounts receivable		3,449,022
Other		188,686
Total Current Assets		6,721,922
Property and equipment		444,006
Other assets		260,680
Total Assets	$	7,426,608
Liabilities and Stockholders' Deficiency:		
Current Liabilities		
Current portion-obligations under capital leases	$	36,875
Accounts payable and accrued expenses		1,053,726
Due to affiliate - current		2,462,089
Income taxes		21,873
Total Current Liabilities		3,574,563
Due to affiliate		4,976,299
Other Long-Term Liabilities		170,456
Total Liabilities		8,721,318
Stockholders' Deficiency:		
Preferred Stock, $0.0001 par value; authorized 2,000,000 shares; issued and outstanding 1,175,000 shares of Series A Convertible Preferred Stock		118
Common Stock,$0.0001 par value; authorized 50,000,000 shares; issued and outstanding 2,301,800 shares		230
Accumulated deficit		(1,295,058)
Total Stockholders' Deficiency		(1,294,710)
Total Liabilities and Stockholders' Deficiency	$	7,426,608

The accompanying notes are an integral part of these statements.

PHARMA-BIO SERV, INC.
Statements of Income (Unaudited)
For the Three-Month Periods Ended January 31, 2006 and 2005

	Three months ended January 31, Consolidated 2006	Three months ended January 31, Plaza-Only 2005
REVENUES	$ 3,404,182	$ 4,692,999
COST OF REVENUES	2,033,339	2,657,847
GROSS PROFIT	1,370,843	2,035,152
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	425,254	448,651
DEPRECIATION AND AMORTIZATION	30,144	19,741
INCOME BEFORE INCOME TAX	915,445	1,566,760
INCOME TAX	21,873	-
NET INCOME	$ 893,572	$ 1,566,760
BASIC EARNINGS PER COMMON SHARE	$ 0.50	$ 0.90
DILUTED EARNINGS PER COMMON SHARE	$ 0.16	$ 0.39
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC	1,791,985	1,750,000
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - DILUTED	5,417,925	4,045,752

The accompanying notes are an integral part of these statements.

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PHARMA-BIO SERV, INC.
Statements of Cash Flows (Unaudited)
For the Three-Month Periods Ended January 31, 2006 and 2005

	Three months ended January 31, Consolidated 2006	Three months ended January 31, Plaza-Only 2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income for the period	$ 893,572	$ 1,566,760
Loss on disposition of property and equipment	3,664	-
Depreciation and amortization	30,144	19,741
Bad debts expense	-	-
Decrease (increase) in accounts receivable	1,481,792	(46,352)
Decrease (increase) in other assets	(150,305)	(4,163)
Increase (decrease) in liabilities	(149,922)	(323,423)
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,108,945	1,212,563
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(87,028)	(51,720)
Cash acquired as part of the acquisition of Plaza	28,943	-
NET CASH USED IN INVESTING ACTIVITIES	(58,085)	(51,720)
CASH FLOW FROM FINANCING ACTIVITIES:		
Net proceeds from the sale of preferred stock	10,000,000	-
Payment for purchase of stock in Plaza	(9,900,000)	-
Payment for non-compete covenant	(100,000)	-
Payments on capital lease obligations	(8,649)	(9,818)
Distributions	(749,554)	(728,873)
NET CASH USED IN FINANCING ACTIVITIES	(758,203)	(738,691)
NET INCREASE IN CASH	1,292,657	422,152
CASH - BEGINNING OF PERIOD	1,791,557	3,036,725
CASH - END OF PERIOD	$ 3,084,214	$ 3,458,877
PAYMENTS OF:		
Income tax	$ -	$ -
Interest	$ 3,412	$ 2,758
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Vehicle acquired under a capital lease	$ -	$ 33,030
Income tax withheld by clients but used as a credit in the income tax return of a stockholder (noncash distribution)	$ 84,561	$ 161,256
Debt incurred in the acquisition of certain assets from a validation company	$ 200,000	$ -
Debt payable to officer originated in the acquisition of Plaza, net of $1,025,000 imputed interest	$ 7,225,000	$ -

The accompanying notes are an integral part of these statements.

PHARMA-BIO SERV, INC.
Statement of Changes in Stockholders' Equity (Deficiency) (Unaudited)
For the Three-Month Periods Ended January 31, 2006

	Common Stock		Preferred Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Total
	Shares	Amount	Shares	Amount			
BALANCE AT OCTOBER 31, 2005 (PLAZA-ONLY) - AUDITED	50,000	$ 1,000	-	$ -	$ -	$ 5,979,569	$ 5,980,569
RECLASSIFICATION OF $0.02 COMMON STOCK	(50,000)	(1,000)	-	-	1,000	-	-
ISSUANCE OF $0.0001 COMMON STOCK IN CONNECTION WITH RECLASSIFICATION OF EQUITY	275,900	28	-	-	20,947	-	20,975
TWO-FOR-ONE SHARE DISTRIBUTION	275,900	28	-	-	(28)	-	-
ISSUANCE OF $0.0001 COMMON STOCK	1,750,000	174	-	-	844,385	-	844,559
ISSUANCE OF $0.0001 PREFERRED STOCK	-	-	1,175,000	118	10,171,383	-	10,171,501
ISSUANCE OF STOCK WARRANTS TO PURCHASE 2,500,000 SHARES OF COMMON STOCK AT $0.06	-	-	-	-	1,686,000	(1,686,000)	-
ISSUANCE OF STOCK WARRANTS TO PURCHASE 1,600,000 SHARES OF COMMON STOCK AT $0.06	-	-	-	-	800	(800)	-
CAPITAL PAYMENT	-	-	-	-	(12,724,487)	(5,647,284)	(18,371,771)
NET INCOME	-	-	-	-	-	893,572	893,572
DISTRIBUTIONS	-	-	-	-	-	(834,115)	(834,115)
	2,301,800	$ 230	1,175,000	$ 118	$ -	$ (1,295,058)	$ (1,294,710)

BALANCE AT JANUARY 31, 2006 (CONSOLIDATED) - UNAUDITED

The accompanying notes are an integral part of these statements.

PHARMA-BIO SERV, INC.
Notes to Financial Statements
January 31, 2006 (Unaudited)

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

Pharma-Bio Serv, Inc. (“Pharma-Bio”) is a Delaware corporation organized on January 14, 2004, under the name Lawrence Consulting Group, Inc. ("Lawrence"). Pharma-Bio is the parent company of Plaza Consulting Group, Inc. (“Plaza”), a Puerto Rico corporation, which operates in Puerto Rico under the name of Pharma Serv and is engaged in providing technical compliance consulting services primarily to the pharmaceutical, chemical and biotechnology industries. Pharma-Bio and Plaza are collectively referred to as the “Company”.

On January 25, 2006, Pharma-Bio acquired Plaza in a transaction which is accounted for as a reverse acquisition. Although Pharma-Bio, then known as Lawrence, is the corporation that made the acquisition, for accounting purposes, Plaza is treated as the acquiring company. As a result, the financial statements reflect the financial position, results of operations and cash flows of Plaza prior to January 25, 2006 and the combined operations of Pharma-Bio and Plaza from and after January 25, 2006.

All intercompany transactions and balances have been eliminated in consolidation.

The unaudited interim financial statements for the quarters January 31, 2006 and 2005 presented herein have been prepared in accordance with accounting principles generally accepted in the United States for interim financial statements and with the instructions to Form 10-QSB and Regulation S-B pertaining to interim financial statements and reflect all adjustments, consisting of normal recurring adjustments and accruals which, in the opinion of management, are considered necessary for a fair presentation of the Company’s financial position, results of operations and cash flows. Results of operations for interim periods are not necessarily indicative of the results that may be expected for the full year.

SHARE DISTRIBUTION

On January 24, 2006, Pharma-Bio effected a two-for-one share distribution with respect to its common stock pursuant to which Pharma-Bio issued one share of common stock for each share outstanding on the record date, January 24, 2006. All share and per share information in these financial statements give retroactive effect to this share distribution.

REVERSE ACQUISITION

On January 25, 2006, pursuant to a plan and agreement of merger (the "Plaza Agreement") dated as of October 31, 2005, among Pharma-Bio, Plaza Acquisition Corp., a wholly-owned subsidiary of Pharma-Bio ("Acquisition Company"), Plaza and Elizabeth Plaza, the sole stockholder of Plaza, Pharma-Bio acquired Plaza. The acquisition was effected by the merger of Acquisition Company into Plaza. Pursuant to the Plaza Agreement, Ms. Plaza, as the sole stockholder of Plaza, received at the closing $10,000,000 plus 1,150,000 shares of Pharma-Bio's common stock. In addition, Ms. Plaza will receive three payments, each in the amount of $2,750,000, payable on January 25, 2007, 2008 and 2009.

PHARMA-BIO SERV, INC.
Notes to Financial Statements
January 31, 2006 (Unaudited)

At the closing, all of the present officers and directors of Pharma-Bio resigned from their respective positions, except that Mr. Dov Perlysky, who was president and a director of Pharma-Bio, resigned as an officer, but continued as a director. At the closing, Pharma-Bio elected four directors, including Ms. Plaza. The other three are independent directors.

Pursuant to the Plaza Agreement, at the closing, Pharma-Bio issued 600,000 shares of common stock and warrants to purchase 2,500,000 shares of common stock with an exercise price of $.06 per share to San Juan Holdings, Inc., the investment banker for Plaza and Ms. Plaza. Pharma-Bio provided certain demand and piggyback registration rights to Ms. Plaza and San Juan Holdings covering the shares of common stock issued to them at the closing and the shares issuable upon exercise of the warrants issued to San Juan Holdings.

As a condition to closing, Plaza was required to have a net tangible book value of not less than $5,500,000, of which at least $2,000,000 was in cash, as of November 30, 2005. Subject to the requirement that Plaza have at least $2,000,000 in cash as of November 30, 2005, the purchase price is to be adjusted upward or downward depending on the net tangible book value, determined as provided in the Plaza agreement. This provision will result in an additional payment to Ms. Plaza in the amount of up to $88,161, which will be paid during the third quarter of 2006.

The Plaza Agreement provides that Plaza, rather than Ms. Plaza, is responsible for the income tax from December 1, 2005 through the closing date, which was January 25, 2006. Because of the status of Plaza as an N Corporation under the Puerto Rico Internal Revenue Code, Plaza's net income from December 1, 2005 to January 24, 2006 is taxed to Ms. Plaza. The income tax payable by Ms. Plaza for Plaza's taxable income for said period amounts to $125,227. Plaza will reimburse Ms. Plaza the $125,227 during the third quarter of 2006. The $88,161 payment described in the preceding paragraph and the $125,227 payment described in this paragraph are treated as additional payments on account of the purchase price of Plaza stock from Mrs. Plaza.

Pharma-Bio raised the funds necessary to make the $10,000,000 payment due to Ms. Plaza through the private placement of units consisting of shares of a series A preferred stock and warrants to purchase 7,999,400 common stock. The series A preferred stock is automatically convertible into 15,998,800 shares of common stock upon an increase in Pharma-Bio's authorized common stock. See Note C.

The acquisition of Plaza and the private placement resulted in a change of control of Pharma-Bio. As a result of the reverse acquisition accounting treatment, Plaza is deemed to be the acquiring company for accounting purposes. The transaction was accounted for as a reverse acquisition because former owners of Plaza, together with the purchasers in the private placement who purchased the series A preferred stock and warrants in connection with the acquisition of Plaza, gained control of Pharma-Bio,. Effective on the acquisition date, Pharma-Bio's balance sheet includes the assets and liabilities of Plaza and its equity accounts have been recapitalized to reflect the equity of Pharma-Bio. The financial statements of the Company for periods prior to January 25, 2006, reflect only the financial position, results of operations and cash flows of Plaza.

PHARMA-BIO SERV, INC.
Notes to Financial Statements
January 31, 2006 (Unaudited)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Fair Value of Financial Instruments

The carrying value of the Company's financial instruments (excluding obligations under capital leases and amount due to affiliate): cash, accounts receivable, accounts payable and accrued liabilities, are considered reasonable estimates of fair value due to short period to maturity.

Management believes, based on current rates, that the fair value of its obligations under capital leases approximates the carrying amount.

Revenue Recognition

The Company recognizes revenues in the month when services are rendered to customers. Revenue is primarily derived from time and materials contracts (representing approximately 90% of total revenues), where the clients are charged for the time, materials and expenses incurred on a particular project, and to a lesser extent, from fixed-fee contracts or from "not to exceed" contracts (approximately 10% of total revenues). In the case of fixed-fee contracts, which mostly are short-term contracts, revenue is recognized based on the percentage that the services rendered bears to the estimated services to be performed over the contract. If the Company determines that a fixed-fee or “not to exceed” contract will result in a loss, the Company recognizes the estimated loss in the period in which such determination is made.

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. Bad debts are 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 the provisions of Statement of Financial Accounting Standards Board No. 109, "Accounting for Income Taxes," which requires 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.

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PHARMA-BIO SERV, INC.
Notes to Financial Statements
January 31, 2006 (Unaudited)

Plaza, from its inception until January 25, 2006, was covered under the provisions of Subchapter N of Subtitle A of the Puerto Rico Internal Revenue Code (the "Puerto Rico Code"), which is similar to Subchapter S of the Internal Revenue Code in that its taxable income is taxed to the stockholders and therefore there is no income tax liability for that period. As a result of the completion of the reverse acquisition, Plaza and Pharma-Bio are no longer eligible for treatment as a Subchapter N corporation. See Note F.

Although Ms. Plaza is responsible for the taxes on the Plaza's taxable income for the period from December 1, 2005 to January 24, 2006, pursuant to the Plaza Agreement, the Company agreed to reimburse Ms. Plaza for the income taxes applicable to said taxable income. The reimbursement amounts to $125,227 and will be paid during the third quarter of 2006.

Property and equipment

Property and equipment is stated at cost. Depreciation is provided using the straight-line basis over the estimated useful lives of the assets. Major renewals and betterments that extend the life of the assets are capitalized, while expenditures for repairs and maintenance are expensed when incurred.

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

Through the quarter ended January 31, 2006, the Company has elected to use the intrinsic value method of accounting for stock options issued to employees under its stock option plans in accordance with APB Opinion No. 25 and related interpretations whereby the amount of stock-based compensation expense is calculated as the difference between the fair market value and the exercise price on the date of issuance. For purposes of pro forma disclosures the amount of stock-based compensation is calculated using the fair value method of accounting for stock options issued to employees. The Company's pro forma information is as follows:

	Three Months Ended January 31,			
		2006		**2005**
Net income	$	893,572	$	1,566,760
Deduct: Stock-based employee compensation as determined under fair value method, net of tax effect		517,725		-
Pro forma net income attributable to common stockholders	$	375,847	$	1,566,760
Basic earnings per share of common stock:				
As reported	$	0.50	$	0.90
Pro forma	$	0.21	$	0.90

Diluted earnings per share of common stock:				
As reported	$	0.16	$	0.39
Pro forma	$	0.07	$	0.39
Weighted average number of common shares outstanding:				
Basic		1,791,985		1,750,000
Diluted		5,417,925		4,045,752

PHARMA-BIO SERV, INC.
Notes to Financial Statements
January 31, 2006 (Unaudited)

Income Per Share of Common Stock

Basic income per common share 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. Pursuant to reverse acquisition accounting treatment, the weighted average number of shares outstanding in the computation of basic income per share was derived by weighting (i) for the period prior to the reverse acquisition transaction, the 1,150,000 shares received by the former stockholder of Plaza and the shares 600,000 shares received by San Juan Holdings, Inc., and (ii) for the period after the transaction, the number of shares outstanding represented the outstanding shares of Pharma-Bio. Diluted income per share includes the dilution of common equivalents. Accordingly, in computing diluted earnings per share, the shares of common stock issuable upon conversion of the series A preferred stock and exercise of the warrants issued in January 2006 private placement (see Note C) were deemed outstanding from the date of issuance to the end of the reporting period, and the shares of common stock issuable upon exercise of the warrants issued to the investment banker for Plaza as a result of the reverse acquisition were deemed to be outstanding through all periods prior to the reverse acquisition.

The weighted average common shares outstanding (basic and diluted) were calculated using the treasury stock method for the respective periods.

NOTE B - RECENT ACCOUNTING PRONOUNCEMENTS

1. In March 2005, the FASB issued Interpretation No. 47 "Accounting for Conditional Asset Retirement Obligations" ("FIN 47"). FIN 47 clarifies that the term conditional asset retirement obligation as used in FASB Statement No. 143 "Accounting for Asset Retirement Obligations," refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Thus, the timing and (or) method of settlement may be conditional on a future event. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The fair value of a liability for the conditional asset retirement obligation should be recognized when incurred, generally upon acquisition, construction or development and (or) through the normal operation of the asset. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. FASB Statement 143 acknowledges that in some cases, sufficient information may not be available to a reasonably estimate the fair value of an asset obligation. This interpretation also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The provisions of this interpretation are effective no later than the end of fiscal years ending after December 15, 2005. Management does not expect that the application of this standard will have any effect on the Company's results of operations or its financial condition.

PHARMA-BIO SERV, INC.
Notes to Financial Statements
January 31, 2006 (Unaudited)

2. In December 2004, the FASB issued Statement No. 153 "Exchanges of Non-Monetary Transactions - an amendment of APB Opinion No. 29." The guidance in APB Opinion No. 29, "Accounting for Non-monetary Transactions," is based on the principle that exchanges of non-monetary assets should be measured based on the fair value of the assets exchanged. The guidance in that Opinion, however included certain exceptions to that principle. This Statement amends Opinion 29 to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. A non-monetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The provisions of this Statement are effective for non-monetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Earlier application is permitted for non-monetary asset exchanges occurring in fiscal periods beginning after December 16, 2004. The provisions of this Statement should be applied prospectively. The Company does not expect that the adoption of FASB Statement No.153 will have a material impact on its results of operations and financial position.

3. In December 2004, the FASB published Statement No. 123R requiring that the compensation cost relating to share-based payment transaction be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. Statement No. 123R covers a wide range of share-based compensation arrangements, including share option restricted plans, performance-based awards, share appreciation rights, and employee share purchase plans. Statement No. 123(R) replaces FASB Statement No. 123 "Accounting for Stock-Based Compensation," and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." Statement No. 123, as originally issued in 1995, established as preferable a fair-value-based method of accounting for share-based payment transactions with employees. However, that Statement permitted entities the option of continuing to apply the guidance in Opinion No. 25, as long as the footnotes to the financial statements disclosed what net income would have been had the preferable fair-value-based method been used.

This Statement is effective as of the beginning of the first interim or annual reporting period that begins after December 15, 2005. One of the effects of the application of FASB123R is to treat the value (as properly determined) of the options as compensation to the grantees, thus increasing the Company's selling, general and administrative expenses.

4. In May 2005, the FASB issued Statement No. 154 "Accounting for Changes and Errors Corrections.' This Statement replaces APB Opinion No. 20 "Accounting Changes" and FASB Statement No. 3 "Reporting Accounting Changes in Interim Financial Statements," and changes the requirements for the accounting for and reporting of a change in accounting principle.

This Statement requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. When its is impracticable to determine the period specific effects of an accounting change on one or more individual prior periods presented, this Statement requires that the new accounting principle be applied to the balances of assets and liabilities as of the beginning of the earliest period for which retroactive application is practicable and that a corresponding adjustment be made to the opening balance of retained earnings (or other appropriate components of equity or net assets in statement of financial position) for that period rather than being reported in an income statement. When it is impracticable to determine the cumulative effect of applying a change in accounting principle to all prior periods, this Statement requires that the new accounting principle be applied as if it were adopted prospectively from the earliest date practicable. This Statement shall be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company does not expect that the adoption of FASB Statement No. 154 will have a material impact on its consolidated financial statements.

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PHARMA-BIO SERV, INC.
Notes to Financial Statements
January 31, 2006 (Unaudited)

NOTE C - CAPITAL TRANSACTIONS

On January 25, 2006, contemporaneously with the consummation of the acquisition, Pharma-Bio sold, in a private placement, 47 units, each unit consisting of 25,000 shares of series A preferred stock, warrants to purchase 85,100 shares of common stock at $1.10 per share and warrants to purchase 85,100 shares of common stock at $1.65 per share. In the private placement, Pharma-Bio issued an aggregate of 1,175,000 shares of series A preferred stock (which are convertible into an aggregate of 15,998,800 shares of common stock), warrants to purchase 3,999,700 shares of common stock at $1.10 per share, and warrants to purchase 3,999,700 shares of common stock at $1.65 per share, to 42 accredited investors. The Company paid brokerage commissions of 10% of the gross purchase price and an aggregate non-accountable expense allowance of 3% of the gross purchase price with respect to the units sold. In certain cases, the broker waived the commission and non-accountable expense allowance, and the investor paid the purchase price less the commission and non-accountable expense allowance. The purchase price for the 47 units sold was $11,750,000. Broker-dealers waived commission and non-accountable expense allowance with respect to $628,750, the Company paid commissions and non-accountable expense allowances totaling $898,750, and the Company issued warrants to purchase an aggregate of 1,439,892 shares of common stock. The warrants have an exercise price of $.7344 per share and a term of three years.

Each share of series A preferred stock automatically converts into 13.616 shares of common stock, or an aggregate of 15,998,800 shares of common stock, upon the filing of a certificate of amendment to Pharma-Bio’s certificate of incorporation which increases the authorized capital stock to 10,000,000 shares of preferred stock and 50,000,000 shares of common stock. The board of directors has approved such an amendment, subject to stockholder approval.

The holders of the series A preferred stock have no dividend rights, except that, if a dividend is declared with respect to the common stock, the holders of the Series A preferred stock shall be entitled to dividends on the preferred stock on an "as if converted" basis.

The warrants issued in the private placement expire five years from the closing date and are callable by Pharma-Bio if the closing price of the common stock is at least twice the exercise price of the warrants for twenty (20) consecutive trading days.

The holders of the series A preferred stock and the warrants issued in the private placement have demand and piggyback registration rights.

PHARMA-BIO SERV, INC.
Notes to Financial Statements
January 31, 2006 (Unaudited)

NOTE D - PROPERTY & EQUIPMENT

The balance of property and equipment as of January 31, 2006 consists of:

	Useful life (years)		Amount
Vehicles	5	$	221,434
Leasehold improvements	5		64,895
Computers	3		117,156
Equipment	3-5		121,450
Furniture and fixtures	10		67,907
Total			592,842
Less: Accumulated depreciation and amortization			(148,836)
Property and equipment, net		$	444,006

NOTE E - OTHER ASSETS

At January 31, 2006, non-current other assets include the following: