

Pharma-Bio Serv, Inc.
Form 424B3
November 09, 2006

[Back to Table of Contents](#)
[Index to Financial Statements](#)

PROSPECTUS

24,012,601 Shares
PHARMA-BIO SERV, INC.
Common Stock

The selling stockholders may offer and sell from time to time up to an aggregate of 24,012,601 shares of our common stock that they own or that they may acquire from us upon exercise of warrants. For information concerning the selling stockholders and the manner in which they may offer and sell shares of our common stock, see “Selling Stockholders” and “Plan of Distribution” in this prospectus.

We will not receive any proceeds from the sale by the selling stockholders of their shares of common stock other than the exercise price of the warrants if and when the warrants are exercised. We will pay the cost of the preparation of this prospectus, which is estimated at \$40,000.

Investing in shares of our common stock involves a high degree of risk. You should purchase our common stock only if you can afford to lose your entire investment. See “Risk Factors,” which begins on page 6.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined whether this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The selling stockholders have not engaged any underwriter in connection with the sale of their shares of common stock. Because there is no trading market in our common stock as of the date of this prospectus, the selling stockholders will sell shares at \$1.25 per share until a public market develops for the common stock. Once a public market develops for the common stock, the selling stockholders may sell their shares of common stock in the public market based on the market price at the time of sale or at negotiated prices. The selling stockholders may also sell their shares in transaction that are not in the public market in the manner set forth under “Plan of Distribution.”

The date of this Prospectus is November 8, 2006.

Back to Table of Contents
Index to Financial Statements

You should rely only on the information contained in this prospectus. We have not authorized any dealer, salesperson or other person to provide you with information concerning us, except for the information contained in this prospectus. The information contained in this prospectus is complete and accurate only as of the date on the front cover page of this prospectus, regardless when the time of delivery of this prospectus or the sale of any common stock. This prospectus is not an offer to sell these securities and we are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

TABLE OF CONTENTS

	<u>Page</u>
<u>Prospectus Summary</u>	3
<u>Risk Factors</u>	6
<u>Forward-Looking Statements</u>	14
<u>Use of Proceeds</u>	14
<u>Selling Stockholders</u>	15
<u>Plan of Distribution</u>	17
<u>Market for Common Stock and Stockholder Matters</u>	19
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
<u>Business</u>	27
<u>Management</u>	30
<u>Principal Stockholders</u>	34
<u>Certain Relationships and Related Transactions</u>	36
<u>Description of Capital Stock</u>	36
<u>Experts</u>	39
<u>Legal Matters</u>	39
<u>How to Get More Information</u>	39
<u>Financial Statements</u>	F-1

[Back to Table of Contents](#)
[Index to Financial Statements](#)

PROSPECTUS SUMMARY

This summary does not contain all of the information that is important to you. You should read the entire prospectus, including the Risk Factors and our consolidated financial statements and related notes appearing elsewhere in this prospectus before making an investment decision.

Our Business

We are a Puerto Rico based company established by Elizabeth Plaza in 1997 to offer consulting services to the pharmaceutical industry. We have successfully grown our business operation by providing quality, value-added consulting services to the major pharmaceutical, biotechnology and chemical manufacturing companies principally in Puerto Rico.

Our mission is to provide high quality services to the pharmaceutical and related industries to maintain or improve their quality standards and competitive value. We assist our clients in complying with government regulations by offering a full range of consulting services in the areas relating to compliance with the regulations of the Food and Drug Administration (the "FDA") and matters relating to the introduction of new pharmaceutical products, environmental safety and occupational health, project management, training services and computer systems. We provide validation, regulatory compliance and value-added consulting services as problem solving solutions to its customers in the pharmaceutical, chemical (bulk manufacturing), biotechnology and medical devices industries in Puerto Rico.

Our engineering and life science professionals include former quality assurance managers or directors from pharmaceutical companies, and experienced and well-trained professionals with masters and doctorates in health sciences and engineering. Our objective is to offer a flexible, common sense and cost effective approach to meet our clients' needs, strategies and budget objectives.

Prior to its acquisition of Plaza, Lawrence offered consulting and business advisory services to companies to help them provide business solutions for interacting with their customers. In this connection, Lawrence worked with companies to develop business and information technology strategies, technology solutions and integrated marketing programs. As of December 31, 2005, Lawrence had entered into consulting agreements with three clients. We are no longer engaged in this business and we have no continuing obligations under any contracts to which Lawrence is a party.

Organization; Merger

Plaza Consulting Group, Inc. ("Plaza") is a Puerto Rico corporation founded in 1997. Pharm-Bio Serv, Inc. is a Delaware corporation, organized in 2004 under the name Lawrence Consulting Group, Inc. The corporate name was changed to Pharma-Bio Serv, Inc. in February 2006. Our executive offices are located at Sardinera Beach Building Suite 2, Marginal Costa de Oro, Dorado, Puerto Rico 00646, (787) 278-2709. Our website is www.pharmaservpr.com. Information on our website or any other website is not part of this prospectus.

On January 25, 2006, pursuant to the an agreement and plan of merger among Lawrence, Plaza Acquisition Corp., Plaza, and Elizabeth Plaza, the sole stockholder of Plaza, Plaza Acquisition Corp. was merged into Plaza, with the result that Plaza became our wholly-owned subsidiary and our sole business became the business of Plaza. The acquisition of Plaza is accounted for as a reverse acquisition, with Plaza being the accounting acquiring party. The accounting rules for reverse acquisitions require that beginning with the date of the merger, January 25, 2006, our balance sheet includes the assets and liabilities of Plaza and our equity accounts were recapitalized to reflect the net

equity of Pharma-Bio. In addition, our historical operating results will be the operating results of Plaza.

Plaza Acquisition Corp. was formed as a wholly-owned subsidiary for the purpose of acquiring Plaza. Pursuant to the agreement and plan of merger, Plaza Acquisition Corp. was merged into Plaza and the outstanding stock in Plaza, which was held by Elizabeth Plaza, became converted into:

\$10,000,000;

Back to Table of Contents
Index to Financial Statements

1,150,000 shares of common stock; and

· deferred payments totaling \$8,250,000, payable in three equal installments of \$2,750,000 on each of the first three anniversaries of the closing date.

The \$10,000,000 payment made at closing to Ms. Plaza was funded by the sale of the shares of series A preferred stock and warrants issued in the private placement under “Sale of Securities to the Selling Stockholders.”

In connection with the acquisition of Plaza, we entered into employment agreements with Elizabeth Plaza, who was president, chief executive officer and sole stockholder of Plaza, and Nélide Plaza, who was vice president of Plaza, and a consulting agreement with Dov Perlysky, who was the sole director and officer of Lawrence prior to the acquisition of Plaza. See “Management - Employment Agreements” and “Management - Consulting Agreement” for information concerning these agreements.

References to “we,” “us,” “our” and similar words refer to Pharma-Bio Serv, commencing with the acquisition of Plaza and the consummation of the private placement which occurred contemporaneously with the acquisition, and, with respect to historical information, these terms refer solely to Plaza.

Stock Distribution

On January 24, 2006, Pharma-Bio Serv effected a share distribution with respect to our common stock pursuant to which we issued one additional share of common stock for each share of common stock outstanding on the record date, January 24, 2006. All share and per share information in this prospectus retroactively reflects such stock distribution.

Sale of Securities to the Selling Stockholders

On January 25, 2006, contemporaneously with the consummation of the acquisition of Plaza, we 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, we issued an aggregate of 1,175,000 shares of series A preferred 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 warrants issued to the investors in the private placement are sometimes referred to as the “investor warrants”

We 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, we paid commissions and non-accountable expense allowances totaling \$898,750, and we issued to the brokers in the private placement warrants to purchase an aggregate of 1,439,892 shares of common stock. These warrants, which constitute compensation to the brokers, have an exercise price of \$.7344 per share and a term of three years.

The certificate of designation setting forth the rights of the holders of the series A preferred stock provides that at such time as our certificate of incorporation is amended to increase the authorized capital stock to 10,000,000 of preferred stock and 50,000,000 shares of common stock, the series A preferred stock is automatically converted into common stock at the conversion ratio of 13.616 shares of common stock for each share of series A preferred stock. The

warrants provide that they become exercisable upon the filing of such an amendment to our certificate of incorporation. On April 25, 2006, we amended and restated our certificate of incorporation to increase our authorized capital stock to 10,000,000 shares of preferred stock and 50,000,000 shares of common stock, at which time all of the outstanding shares of series A preferred stock were automatically converted into a total of 15,998,800 shares of common stock and the warrants became exercisable. The subscription agreement pursuant to which the series A preferred stock and warrants were issued required us to file a registration statement within 60 days after the effective date of the merger between Plaza and Plaza

-4-

Back to Table of Contents
Index to Financial Statements

Acquisition Corp., which was January 25, 2006, which was March 26, 2006. If we failed to file the registration statement by that date, we were required to issue .0003 shares of common stock for each share of common stock issued upon conversion of the series A preferred stock for each day we are late. Since we were three days late, we issued 14,401 shares of common stock to the former holders of the series A preferred stock.

The warrants issued in the private placement expire five years from the closing date and are callable by us 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 OFFERING

Common Stock Offered:	The selling stockholders are offering a total of 24,012,601 shares of common stock, of which 16,013,201 shares are outstanding and 7,999,400 shares are issuable upon exercise of warrants
Outstanding Shares of Common Stock:	18,315,001 shares ^{1,2}
Common Stock to be Outstanding After Exercise of Investor Warrants:	26,314,401 shares ¹
Use of Proceeds:	We will receive no proceeds from the sale of any shares by the selling stockholders. In the event that any selling stockholders exercise their warrants, we would receive the exercise price. If all warrants are exercised, we would receive approximately \$11.0 million, all of which, if and when received, would be used for working capital and other corporate purposes.

(1) Does not include a total of 8,056,392 shares of common stock, of which 2,500,000 shares are reserved for options, stock grants or other equity-based incentives under our 2005 long-term incentive plan, 5,539,892 shares are reserved for outstanding warrants other than the warrants held by the selling stockholders, and 16,500 shares are reserved for issuance as stock grants to employees.

(2) Does not include the 7,999,400 shares of common stock issuable upon exercise of warrants held by the selling stockholders.

SUMMARY FINANCIAL INFORMATION

(in thousands, except per share amounts)

The following information as at October 31, 2005 and for the years ended October 31, 2005 and 2004 has been derived from our audited financial statements, which appear elsewhere in this prospectus. The following information as at July 31, 2006 and for the nine months ended July 31, 2006 and 2005 has been derived from our unaudited financial statements, which appear elsewhere in this prospectus.

Back to Table of Contents
Index to Financial Statements

Statement of Operations Information:

	Nine Months Ended July 31,		Year Ended October 31,	
	2006	2005	2005	2004
Revenues	\$ 10,426	\$ 13,618	\$ 17,413	\$ 16,930
Gross profit	4,326	6,373	8,011	7,568
Income before income taxes	2,423	4,981	6,390	5,743
Net income ¹	1,722	4,981	6,390	5,743
Net income per share of common stock, (basic)	\$.22	\$ 2.85	\$ 3.65	\$ 3.28
Weighted average shares of common stock outstanding (basic)	7,878	1,750	1,750	1,750
Net income per share of common stock, (diluted)	\$.10	\$ 1.23	\$ 1.58	\$ 1.42
Weighted average shares of common stock outstanding (diluted)	16,465	4,046	4,046	4,046

(1) Because we were treated as an N Corporation under the Puerto Rico Internal Revenue Code during the years ended October 31, 2005 and 2004 and the period from November 1, 2005 through January 24, 2006, our income was taxed to our stockholder during those periods, and we did not pay income tax. If income tax were paid at the statutory rate, our net income would have been \$1,363, or \$0.17 per share (basic) and \$0.08 per share (diluted), for the nine months ended July 31, 2006; \$3,038, or \$1.74 per share (basic) and \$0.75 per share (diluted), for the nine months ended July 31, 2005; \$3,898, or \$2.23 per share (basic) and \$0.96 per share (diluted), for the year ended October 31, 2005; and \$3,503, or \$2.00 per share (basic) and \$0.87 per share (diluted), for the year ended October 31, 2004.

Consolidated Balance Sheet Information:

	July 31, 2006	October 31, 2005
Working capital	\$ 4,189	\$ 5,808
Total assets	8,077	7,218
Total liabilities	8,543	1,237
Retained earnings (accumulated deficit)	(468)	5,980
Stockholders' equity (deficiency)	(467)	5,981

RISK FACTORS

An investment in our securities involves a high degree of risk. In determining whether to purchase our securities, you should carefully consider all of the material risks described below, together with the other information contained in this prospectus before making a decision to purchase our securities. You should only purchase our securities if you can afford to suffer the loss of your entire investment.

Risks That Relate to our Business

Because our business is concentrated in the pharmaceutical industry in Puerto Rico, any changes in that industry could impair our ability to generate business.

Since substantially all of our business is performed in Puerto Rico for pharmaceutical, biotechnology and chemical manufacturing companies, our ability to generate revenue and profit would be impaired by such factors as changes in taxes in Puerto Rico, or regulatory, tax or economic conditions which discourage these businesses from operating in Puerto Rico and changes in U.S. government regulations which affect the need for services such as those provided by Plaza.

-6-

Back to Table of Contents
Index to Financial Statements

Because our business is dependent upon a small number of clients, the loss of a major client could impair our ability to operate profitably.

Our business has been dependent upon a small number of clients. During the nine months ended July 31, 2006 and the years ended October 31, 2005 and 2004, a very small number of clients accounted for a disproportionately large percentage of our revenue. For the nine months ended July 31, 2006, four customers accounted for approximately 76.3% of revenue. For the year ended October 31, 2005, two of these four customers accounted for approximately 62.2% of revenue, and for the year ended October 31, 2004, these two customers accounted for approximately 64.9% of revenue. The loss of or significant reduction in the scope of work performed for any major customer could impair our ability to operate profitably. The scope of work for our largest customer has declined significantly in the nine months ended July 31, 2006, and we cannot assure we will not sustain significant decreases in revenue from our major customers or that we will be able to replace any decline in revenue. In June 2006, our largest customer announced that it is closing one of its two facilities in Puerto Rico and reducing the personnel level at the second facility. As a result, we expect that our revenue from this client will continue to decline.

We may be unable to pass on increased labor cost to our clients.

The principal components of our costs of revenue are employee compensation (salaries, wages, taxes and benefits) and expenses relating to the performance of the services. We face increasing labor costs which we seek to pass on to our customers through increases in our rates. We may not be able to pass these cost increases to our clients, and, to the extent that we are not able to pass these increases to our clients, our gross margin will be reduced.

Our cash requirements include payments totaling \$8.25 million due to Elizabeth Plaza, which may impair our ability to develop our business.

Pursuant to the merger agreement, we are required to make three payments, each in the amount of \$2.75 million, on January 25, 2007, 2008 and 2009. These payments are not contingent upon our earnings, earnings before interest, taxes, depreciation and amortization or any other financial criteria. We may not have resources other than our operations from which to make the payments. We cannot assure you that we will have available cash from which we can make these payments and, even if we do have the available cash, our growth may be impaired if we use our cash for that purpose.

Because the pharmaceutical industry is subject to government regulations, changes in government regulations relating to this industry may affect the need for our services.

Because government regulations affect all aspects of the pharmaceutical, biotechnology and chemical manufacturing industries, including regulations relating to the testing and manufacturing of pharmaceutical products and the disposal of materials which are or may be considered toxic, any change in government regulations could have a profound effect upon not only these companies but companies, such as us, that provide services to these industries. If we are not able to adapt and provide necessary services to meet the requirements of these companies in response to changes in government regulations, our ability to generate business may be impaired.

The willingness of companies in the pharmaceutical and related industries to conduct business in Puerto Rico could significantly impair our business by reducing the need for our services.

Since our business is presently conducted almost exclusively in Puerto Rico, our ability to generate revenue and income is dependent upon the willingness of our clients and potential clients to maintain or increase their operations in Puerto Rico. Our clients may consider factors such as tax benefits, Puerto Rico's economy and other economic factors.

Back to Table of Contents
Index to Financial Statements

Changes in tax benefits may affect the willingness of companies to continue or expand their operations in Puerto Rico.

Until 1996, the Internal Revenue Code provided certain tax benefits to pharmaceutical companies operating in Puerto Rico by enabling their Puerto Rico operations to operate free from federal income taxes. Partly as a result of the tax benefits, numerous pharmaceutical companies established facilities in Puerto Rico. In 1996, this tax benefit was eliminated, although companies that had facilities in Puerto Rico could continue to receive these benefits for ten years, at which time the benefits expire. Although some tax benefits remain, the change in the tax law may affect the willingness of pharmaceutical companies to continue or to expand their Puerto Rico operations, and we are aware of one pharmaceutical company that has decided to close its Puerto Rico operations as a result of the change in the tax laws. To the extent that pharmaceutical companies choose to develop and manufacture products outside of Puerto Rico, our ability to generate new business may be impaired.

Puerto Rico's economy, including its recent governmental financial crisis, may affect the willingness of businesses to commence or expand operations in Puerto Rico.

As a result of Puerto Rico's recent governmental financial crisis, which resulted in the closing of government offices, businesses may be reluctant to commence or expand their operations in Puerto Rico. Further, since Puerto Rico's economy is petroleum-based, the high price of oil, combined with Puerto Rico's high level of debt, may make Puerto Rico a less attractive place to expand existing operations or commence new business activities. To the extent that companies in the pharmaceutical and related industries decide not to commence new operations or contract or not to expand their existing operations in Puerto Rico, the market for our services may decline.

Other factors, including economic factors, may affect the decision of businesses to continue or expand their operations in Puerto Rico.

Companies in the pharmaceutical and related industries for which we perform service are subject to economic pressures which affect their global operations and which may influence the decision to reduce or increase the scope of their operations in Puerto Rico. These companies consider a wide range of factors in making such a decision, and may be influenced by a need to consolidate operations, to reduce expenses, to increase their business in geographical regions where there are large customer bases, to tax, regulatory and political considerations and many other factors. In June 2006, the client that was our largest client in the year ended October 31, 2005 announced that it is significantly reducing the scope of its operations in Puerto Rico by closing one of its two facilities in Puerto Rico and reducing its staff at the remaining facility. As a result, our revenue from this client has significantly declined in the nine months ended July 31, 2006 from the comparable period of 2005, and we anticipate that another major pharmaceutical company may reduce its operations in Puerto Rico. We can not assure you that other customers and potential customers will not make similar or more extensive reductions or terminate their operations in Puerto Rico entirely, which could significantly impair our ability to generate revenue.

If we are unable to protect our clients' intellectual property, our ability to generate business will be impaired.

Our services either require us to develop intellectual property for clients or provide our personnel with access to our clients' intellectual property. Because of the highly competitive nature of the pharmaceutical, biotechnology and chemical manufacturing industries and the sensitivity of our clients' intellectual property rights, our ability to generate business would be impaired if we fail to protect those rights. Although all of our employees are required to sign non-disclosure agreements, any disclosure of a client's intellectual property by an employee may subject us to litigation and may impair our ability to generate business either from the affected client or other potential clients.

We may be subject to liability if our services or solutions for our clients infringe upon the intellectual property rights of others.

It is possible that in performing services for our clients, we may inadvertently infringe upon the intellectual property rights of others. In such event, the owner of the intellectual property may commence

-8-

[Back to Table of Contents](#)
[Index to Financial Statements](#)

litigation seeking damages and an injunction against both us and our client, and the client may bring a claim against us. Any infringement litigation would be costly, regardless of whether we ultimately prevail. Even if we prevail, we will incur significant expenses and our reputation would be hurt, which would affect our ability to generate business and the terms on which we would be engaged, if at all.

We may be held liable for the actions of our employees when on assignment.

We may be exposed to liability for actions taken by our employees while on assignment, such as damages caused by their errors, misuse of client proprietary information or theft of client property. Due to the nature of our assignments, we cannot assure you that we will not be exposed to liability as a result of our employees being on assignment.

To the extent that we perform services pursuant to fixed-price or incentive-based contracts, our cost of services may exceed our revenue on the contract.

Some of our revenue is derived from fixed price contracts. Our costs of services may exceed revenue of these contracts if we do not accurately estimate the time and complexity of an engagement. Further, we are seeking contracts by which our compensation is based on specified performance objectives, such as the realization of cost savings or specified performance objectives. Our failure to achieve these objectives would reduce our revenue and could impair our ability to operate profitably.

Our profit margin is largely a function of the rates we are able to recover for our services and the utilization rate of our professionals. Accordingly, if we are not able to maintain our pricing for our services or an appropriate utilization rate for our professionals without corresponding cost reductions, our profit margin and profitability will suffer. The rates we are able to recover for our services are affected by a number of factors, including:

- Our clients' perception of our ability to add value through our services;
- Our ability to complete projects on time;
- Pricing policies of competitors;
- Our ability to accurately estimate, attain and sustain engagement revenues, margins and cash flows over increasingly longer contract periods; and
- General economic and political conditions.

Our utilization rates are also affected by a number of factors, including:

- Seasonal trends, primarily as a result of our hiring cycle;
- Our ability to move employees from completed projects to new engagements; and
- Our ability to manage attrition of our employees.

Because most of our contracts may be terminated on little or no advance notice, our failure to generate new business could impair our ability to operate profitably.

Our contracts can be terminated by our clients with short notice. Our clients typically retain us on a non-exclusive, engagement-by-engagement basis, and the client may terminate, cancel or delay any engagement or the project for which we are engaged, at any time and on short notice. As a result, we need to develop new business on an ongoing basis. Since our operations are generally limited to companies operating in Puerto Rico and, to a lesser extent, Puerto Rico businesses that operate elsewhere, the termination, cancellation, expiration or delay of contracts could have a significant impact on our ability to operate profitable.

-9-

[Back to Table of Contents](#)
[Index to Financial Statements](#)

Because of the competitive nature of the pharmaceutical, biotechnology and chemical manufacturing consulting market, we may not be able to compete effectively if we cannot efficiently respond to changes in the structure of the market and developments in technology.

Because of recent consolidations in the pharmaceutical, biotechnology and chemical manufacturing consulting business, we are faced with an increasing number of larger companies that offer a wider range of services and have better access to capital than we have. We believe that larger and better-capitalized competitors have enhanced abilities to compete for both clients and skilled professionals. In addition, one or more of our competitors may develop and implement methodologies that result in superior productivity and price reductions without adversely affecting their profit margins. We cannot assure you that we will be able to compete effectively in an increasingly competitive market.

Because we are dependent upon our management, our ability to develop our business may be impaired if we are not able to engage skilled personnel.

Our success to date has depended in large part on the skills and efforts of Elizabeth Plaza, our president, chief executive officer and founder. The loss of the services of Ms. Plaza could have a material adverse effect on the development and success of our business. Although we entered into a three-year contract with Ms. Plaza, the agreement only requires her to continue as an employee for 18 months and as a consultant for the remaining 18 months, and it does not guarantee that she will continue to be employed by us. During the term of her employment, we will have to identify and hire a person to serve as president and chief executive officer upon Ms. Plaza's retirement. Our failure to hire a qualified person in a timely manner will impair our ability to grow. In addition, because of the highly technical nature of the work that we perform for our clients in the pharmaceutical, biotechnology and chemical manufacturing industries, we need to hire highly skilled personnel who are familiar with the needs of these companies in order to perform the services which we provide. Our future success will depend in part upon our ability to attract and retain additional qualified management and technical personnel. Competition for such personnel is intense and we compete for qualified personnel with numerous other employers, including consulting firms, some of which have greater resources than we have, as well as pharmaceutical companies, all of which have significantly greater financial and other resources than we. We may experience increased costs in order to retain and attract skilled employees. Our failure to attract additional personnel or to retain the services of key personnel and independent contractors could have a material adverse effect on our ability to operate profitably.

We may not be able to continue to grow unless we consummate acquisitions or enter markets outside of Puerto Rico.

An important part of our growth strategy is both to acquire other businesses which can increase the range of services and products that we can offer and to establish offices in countries where we do not presently operate, either by acquisition or by internal growth. If we fail to make any acquisitions or otherwise expand our business, our future growth may be limited. As of the date of this prospectus, we do not have any agreement or understanding, either formal or informal, as to any acquisition.

Because we are now required to pay income tax, our past operations, which do not reflect income tax, may not be indicative of our future results.

Prior to January 25, 2006, we operated as an N Corporation under the Puerto Rico Internal Revenue Code. An N corporation is similar to an S corporation under the Internal Revenue Code in that the corporation itself is not subject to tax and all taxable income is taxed to the stockholder. Upon the completion of the reverse acquisition on January 25, 2006, we became subject to Puerto Rico income tax, which provides for corporate income tax at our tax bracket at

the rates ranging from 39% to 41.5%. If we had been subject to income tax for the nine months ended July 31, 2006 and 2005 and the years ended October 31, 2005 and 2004, our net income would have been approximately \$1.4 million for the nine months ended July 31, 2006; \$3.0 million for the nine months ended July 31, 2005; \$4.0 million for the year ended October 31, 2005; and \$3.5 million for the year ended October 31, 2004.

If we identify a proposed acquisition, we may require substantial cash to fund the cost of the acquisition.

Any acquisitions we make may be made with cash or our securities or a combination of cash and securities. To the extent that we require cash, we may have to borrow the funds or sell equity securities. We have no commitments from any financing source and we may not be able to raise any cash necessary to complete an acquisition. If we seek to expand our business internally, we will incur significant start-up expenses without any assurance of our ability to penetrate the market.

The issuance of securities, whether in connection with an acquisition or otherwise, may result in significant dilution to our stockholders.

If we are required to issue securities either as payment of all or a portion of the purchase price of an acquisition or in order to obtain financing for the acquisition or for other corporate purposes could result in dilution to our stockholders. The amount of such dilution will be

Back to Table of Contents
Index to Financial Statements

dependent upon the terms on which we issue securities. The issuance of securities at a price which is less than the exercise price of warrants or the conversion price of securities could result in additional dilution if we are required to reduce the exercise price or conversion price of the then outstanding options or warrants or other convertible securities.

If we make any acquisitions, they may disrupt or have a negative impact on our business.

If we make acquisitions or establish operations in countries outside of Puerto Rico, we could have difficulty integrating the acquired companies' personnel and operations with our own. In addition, the key personnel of the acquired business may not be willing to work for us. We cannot predict the effect expansion may have on our core business. Regardless of whether we are successful in making an acquisition, the negotiations could disrupt our ongoing business, distract our management and employees and increase our expenses. In addition to the risks described above, acquisitions are accompanied by a number of inherent risks, including, without limitation, the following:

- the difficulty of integrating acquired products, services or operations;
- the potential disruption of the ongoing businesses and distraction of our management and the management of acquired companies;
- the potential loss of contracts from clients of acquired companies.
- the difficulty of maintaining profitability due to increased labor and expenses from acquired company.
- difficulties in complying with regulations in other countries that relate to both the pharmaceutical or other industry to which we provide services as well as our own operations;
- difficulties in maintaining uniform standards, controls, procedures and policies;
- the potential impairment of relationships with employees and customers as a result of any integration of new management personnel;
- the potential inability or failure to achieve additional sales and enhance our customer base through cross-marketing of the products to new and existing customers;
- the effect of any government regulations which relate to the business acquired;
- potential unknown liabilities associated with acquired businesses or product lines, or the need to spend significant amounts to retool, reposition or modify the marketing and sales of acquired products or the defense of any litigation, whether of not successful, resulting from actions of the acquired company prior to our acquisition;
- difficulties in disposing of the excess or idle facilities of an acquired company or business and expenses in maintaining such facilities; and
- potential expenses under the labor, environmental and other laws of other countries.

Our business could be severely impaired if and to the extent that we are unable to succeed in addressing any of these risks or other problems encountered in connection with an acquisition, many of which cannot be presently identified.

Further, the commencement of business in other countries may be subject to significant risks in areas which we are not able to prepare for in advance.

Our quarterly revenues, operating results and profitability will vary from quarter to quarter, which may result in increased volatility of our stock price.

-11-

Back to Table of Contents
Index to Financial Statements

Our quarterly revenues, operating results and profitability have varied in the past and are likely to vary significantly from quarter to quarter, making them difficult to predict. This may lead to volatility in our share price. The factors that are likely to cause these variations are:

- Seasonality, including number of workdays and holiday and summer vacations;
- The business decisions of clients regarding the use of our services;
- Periodic differences between clients' estimated and actual levels of business activity associated with ongoing engagements, including the delay, reduction in scope and cancellation of projects;
- The stage of completion of existing projects and/or their termination;
- Our ability to move employees quickly from completed projects to new engagements and our ability to replace completed contracts with new contracts with the same clients or other clients.
- The introduction of new services by us or our competitors;
- Changes in pricing policies by us or our competitors;
- Our ability to manage costs, including personnel costs, support-services costs and severance costs;
- Acquisition and integration costs related to possible acquisitions of other businesses.
- Changes in estimates, accruals and payments of variable compensation to our employees; and
- Global economic and political conditions and related risks, including acts of terrorism.

If we are unable to raise additional funds that we require may impair our ability to grow.

We may, in the future, require funds to expand our business or to make acquisitions. We have no commitment by any person to provide us with funds if we require funds. We cannot assure you that we will be able to raise any funds that we may require, and, if we are able to raise funds, the terms on which we raise funds may result in significant dilution to you.

Because of our cash requirements, we may be unable to pay dividends.

Except for payments to Elizabeth Plaza during the period when she was our sole stockholder, including \$8.0 million paid in the year ended October 31, 2005, we have not paid any dividends on our common stock and do not anticipate paying cash dividends in the foreseeable future. We intend to retain any earnings to finance the growth of our business and to pay the deferred payments of \$8.25 million owed to Elizabeth Plaza, and we may never pay cash dividends.

Risks Concerning our Securities.

Because our stock is not currently traded, we cannot predict when or whether an active market for our common stock will develop.

Our common stock is not traded on any trading market, and we do not have a significant public float. If our common stock were to trade on the OTC Bulletin Board or the Pink Sheets, we cannot assure you that any significant market for our stock would develop. In the absence of an active trading market, you may have difficulty buying and selling or obtaining market quotations for our stock; the market visibility for our stock may be limited, and the lack of visibility for our common stock may have a depressive effect on the market price for our common stock.

-12-

[Back to Table of Contents](#)
[Index to Financial Statements](#)

Our stock price may be affected by our failure to meet projections and estimates of earnings developed either by us or by independent securities analysts.

Our operating results may fall below the expectations of securities analysts and investors as well as our own projections. In this event, the market price of our common stock would likely be materially adversely affected.

The registration and sales of common stock being sold pursuant to this prospectus may have a depressive effect upon the market for our common stock.

We have a nominal public float, and the shares of common stock being offered by this prospectus constitute substantially all of the outstanding shares of our common stock. If the selling stockholders sell a significant number of shares of common stock, the market price of our common stock may decline. Accordingly, the mere filing of the registration statement of which this prospectus is part could have a significant depressive effect on our stock price which could make it difficult both for us to raise funds from other sources and for the public stockholders to sell their shares.

Because we may be subject to the “penny stock” rules, you may have difficulty in selling our common stock.

If a public market develops for our common stock and if our stock price is less than \$5.00 per share, our stock may be subject to the SEC’s penny stock rules, which impose additional sales practice requirements and restrictions on broker-dealers that sell our stock to persons other than established customers and institutional accredited investors. The application of these rules may affect the ability of broker-dealers to sell our common stock and may affect your ability to sell any common stock you may own.

According to the SEC, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include:

- Control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer;
- Manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases;
- “Boiler room” practices involving high pressure sales tactics and unrealistic price projections by inexperienced sales persons;
- Excessive and undisclosed bid-ask differentials and markups by selling broker-dealers; and
- The wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, along with the inevitable collapse of those prices with consequent investor losses.

As an issuer of “penny stock” the protection provided by the federal securities laws relating to forward looking statements does not apply to us.

Although the federal securities law provide a safe harbor for forward-looking statements made by a public company that files reports under the federal securities laws, this safe harbor is not available to issuers of penny stocks. As a result, if we are a penny stock we will not have the benefit of this safe harbor protection in the event of any based upon a claim that the material provided by us, including this prospectus, contained a material misstatement of fact or was misleading in any material respect because of our failure to include any statements necessary to make the statements not misleading.

[Back to Table of Contents](#)
[Index to Financial Statements](#)

The exercise of outstanding options and warrants may have a dilutive effect on the price of our common stock.

To the extent that outstanding stock options and warrants are exercised, dilution to our stockholders will occur. Moreover, the terms upon which we will be able to obtain additional equity capital may be adversely affected, since the holders of the outstanding options and warrants can be expected to exercise them at a time when we would, in all likelihood, be able to obtain any needed capital on terms more favorable to us than the exercise terms provided by the outstanding options and warrants.

Because we are not subject to compliance with rules requiring the adoption of certain corporate governance measures, our stockholders have limited protections against interested director transactions, conflicts of interest and similar matters.

The Sarbanes-Oxley Act of 2002, as well as rule changes proposed and enacted by the Commission, the New York and American Stock Exchanges and the Nasdaq Stock Market as a result of Sarbanes-Oxley, require the implementation of various measures relating to corporate governance. These measures are designed to enhance the integrity of corporate management and the securities markets and apply to securities which are listed on those exchanges or the Nasdaq Stock Market. Because we are not presently required to comply with many of the corporate governance provisions and because we chose to avoid incurring the substantial additional costs associated with such compliance any sooner than necessary, we have not yet adopted all of these measures. As of the date of this prospectus, we are not in compliance with requirements relating to the distribution of annual and interim reports, the holding of stockholders meetings and solicitation of proxies for such meeting and requirements for stockholder approval for certain corporate actions. Until we comply with such corporate governance measures, regardless of whether such compliance is required, the absence of such standards of corporate governance may leave our stockholders without protections against interested director transactions, conflicts of interest and similar matters and investors may be reluctant to provide us with funds necessary to expand our operations.

FORWARD-LOOKING STATEMENTS

Statements in this prospectus may be “forward-looking statements.” Forward-looking statements include, but are not limited to, statements that express our intentions, beliefs, expectations, strategies, predictions or any other statements relating to our future activities or other future events or conditions. These statements are based on current expectations, estimates and projections about our business based, in part, on assumptions made by management. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may, and are likely to, differ materially from what is expressed or forecasted in the forward-looking statements due to numerous factors, including those described above and those risks discussed from time to time in this prospectus, including the risks described under “Risk Factors,” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this prospectus and in other documents which we file with the Securities and Exchange Commission. In addition, such statements could be affected by risks and uncertainties related to demand for our services, our ability to diversify our client base and enter new markets for our services, market and customer acceptance, our ability to raise any financing which we may require for our operations, competition, government regulations and requirements, pricing and development difficulties, our ability to make acquisitions and successfully integrate those acquisitions with our business, as well as general industry and market conditions and growth rates, and general economic conditions. Any forward-looking statements speak only as of the date on which they are made, and we do not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date of this prospectus.

USE OF PROCEEDS

We will not receive any proceeds from the sale by the selling stockholders of their common stock. If the selling stockholders exercise any warrants, we will receive the amount of the exercise price. The maximum total exercise price is approximately \$11 million, which we would receive only if all of the warrants were exercised at their present exercise price. Any proceeds which we receive from the exercise of the warrants would be used for working capital and general corporate purposes.

-14-

Back to Table of Contents
Index to Financial Statements

SELLING STOCKHOLDERS

The following table sets forth the names of the selling stockholders, the number of shares of common stock owned beneficially by the selling stockholders as of June 30, 2006, the number of shares of our common stock that may be offered by the selling stockholders pursuant to this prospectus, the number of shares owned by the selling stockholders after completion of the offering. Except for San Juan Holdings, Inc., which will beneficially own 3,375,724 shares after completion of this offering (representing 600,000 shares of common stock and warrants to purchase 2,757,724 shares of common stock), no selling stockholder will own more than 1% of our outstanding common stock after the sale of shares owned by such selling stockholder. After completion of the sale of the shares owned by San Juan Holdings and offered by this prospectus, San Juan Holdings would beneficially own 3,375,724 shares of common stock, representing 15.6% of our outstanding common stock, assuming no warrants are exercised by the selling stockholders, and 11.4% of the common stock, assuming all of the warrants held by the selling stockholders are exercised. The table and the other information contained under the captions "Selling Stockholders" and "Plan of Distribution" has been prepared based upon information furnished to us by or on behalf of the selling stockholders.

Name	Shares Beneficially Owned	Shares Being Sold	Shares owned after offering
Venturetek LP (1)	4,697,990	4,697,990	—
Barron Partners LP(2)	4,087,251	4,087,251	—
Fame Associates(3)	1,532,719	1,532,719	—
Pentland U.S.A. Inc.(4)	1,532,719	1,532,719	—
San Juan Holdings, Inc.(5)	4,908,443	1,532,719	3,375,724
LDP Family Partnership LP (6)	1,398,839	1,158,839	240,000
Ruki Renov (7)	884,873	880,873	4,000
Lakeside Partners LLC (8)	587,248	587,248	—
Esther Stahler (9)	577,591	571,591	6,000
Academia Nuestra Senora de la Providencia (10)	510,906	510,906	—
Fernando Lopez	510,906	510,906	—
Harry Edelson	510,906	510,906	—
Juan H. Vidal	510,906	510,906	—
Kema Advisors, Inc. (11)	510,906		