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Zacks Small-Cap Research

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Pharma-Bio Serv (PBSV-OTC)

PBSV: Weathers The Storm, Quick Operational Rebound Bodes Well For Full Recovery

We look for revenue to grow at a 4 year CAGR of approximately 11% through 2021. We use an industry PE/G ratio of 1.9x to value PBSV. We look for 2020 EPS of $0.06 which values the company at approximately $1.25/share. The stock currently trades at about $0.50, indicating the shares are trading cheaper than fair value.

Current Price (02/09/18)	$0.50
Valuation	**$1.25**

OUTLOOK

On January 29, 2018 PBSV filed their 10-K for the fiscal year ending October 31, 2017 and, in a related earnings release, provided an update on their operational status as well as the estimated financial impact of the Hurricanes. The status update clearly supports what the company communicated in late-September – specifically that their facilities suffered relatively minor damage and that while their Puerto Rico consulting and lab (located in P.R.) business were impacted by the hurricanes, that they were able to restore operations relatively quickly. Diesel generators allowed for a portion of operations to resume within just days of the storms' landfall until November 22, 2017 when electrical-grid power was back online.

While we may not know the full extent of the damage to the company's facilities or financial impact due to lost sales for another quarter or two, the 10-K/earnings release indicates that it might end up being relatively benign. In addition, any net financial impact to PBSV may be even less meaningful given that most of any losses may be covered by insurance.

SUMMARY DATA

52-Week High	**$0.83**
52-Week Low	**$0.32**
One-Year Return (%)	**-39.76**
Beta	**0.25**
Average Daily Volume (sh)	**6,824**
Shares Outstanding (mil)	**23**
Market Capitalization ($mil)	**$12**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**51**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**-14.7**
Earnings Per Share (%)	**-38.3**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2018 Estimate	**N/A**
P/E using 2019 Estimate	**N/A**
Zacks Rank	**N/A**

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

ZACKS ESTIMATES

Revenue
(in millions)

	Q1 (Jan)	**Q2** (Apr)	**Q3** (Jul)	**Q4** (Oct)	**Year** (Oct)
2017	$4.1 A	$3.9 A	$4.0 A	$3.6 A	$15.6 A
2018	$3.2 E	$3.4 E	$3.8 E	$4.0 E	$14.4 E
2019					$18.2 E
2020					$20.8 E

Earnings per Share

	Q1 (Jan)	**Q2** (Apr)	**Q3** (Jul)	**Q4** (Oct)	**Year** (Oct)
2017	-$0.02 A	-$0.01 A	-$0.01 A	-$0.02 A	-$0.06 A
2018	-$0.03 E	-$0.02 E	-$0.00 E	-$0.01 E	-$0.06 E
2019					-$0.02 E
2020					$0.06 E

Zacks Projected EPS Growth Rate - Next 5 Years % **N/A**

Update on Hurricane Impact, Q4 2017 Financial Results…

Hurricane Maria Causes Widespread, Devastating Destruction Across Puerto Rico…
Over the span of two weeks in September 2017, Puerto Rico sustained damage from two hurricanes; Irma skirted the northern part of the island and caused an estimated $1B in damage. On September 20th Maria made landfall as a strong category 4 hurricane and caused devastating destruction, estimated at almost $100B. The storm left the electrical grid and communications infrastructure in tatters, knocking out power to all 3.4M residents and wiping out about 95% of cell networks and 85% of above-ground land-lines. At that time, local officials had estimated that it would take up to six months to fully restore power throughout the island. While many businesses including hospitals, PBSV's facilities and pharmaceutical manufacturing, were able to quickly resume operations with the use of back-up power, the lack of consistent and easily accessible supply of fuel and the fact that generators could not restore all electrical needs (such as air conditioning in some instances), meant that life among much of the islands population and smaller business was severely impacted.

For context of the devastation, per a government of Puerto Rico website (http://status.pr/?lng=en) providing updates on the status of critical services and facilities, as of October 10th (i.e. 3 weeks after Maria made landfall);

- 16% of the electrical grid was functioning
- 40% of residents had potable water
- 78% of gas stations were operating
- 33% of cell towers were operable
- while all 70 hospitals were operating, only 25% had grid electricity

In addition, only about 392 miles (or 8%) of the total ~5,100 miles of roads were open at that time – which created a major challenge in delivering supplies and restoring infrastructure. While **the island is in much better shape now,** with almost all residents having access to potable water and telecommunications services nearly completely restored, challenges remain. This includes almost 20% of Puerto Rico still without electrical power – restoration of which has been hampered by the utility's old age and poor condition as well repair crews' difficulty accessing certain areas of the island due to its rough terrain.

But while the island as a whole was devastated by the hurricanes, it appears that **PBSV's facilities and operations fared relatively very well**. In a 9/28/17 press release (and 8-K) and a related post on the company's Facebook page the following day, the company provided a status update – including that operations (at least some level of) resumed on 9/26 (i.e. just six days after the storm made landfall). We have copied both communique below, which are also available here (https://yhoo.it/2i10AjE) and here (http://bit.ly/2yW2u8y).

9/28/17 Press Release:
First and foremost, our personnel have been safely accounted for and many have returned to work in our Dorado office as we work towards resuming normal operations.
Pharma-Bio Serv's corporate offices, assets, and laboratory in Puerto Rico appear to have not suffered any structural damage during Hurricane Maria and the Company expects minimal cleanup and recovery costs. Our laboratory is running on our diesel dependent generator, which was designed to support our lab systems and personnel. Resources are being acquired to provide additional backup capabilities and we are evaluating additional alternatives for power supply and access to diesel, which are the primary challenges for all Puerto Rico businesses during this recovery. We are also utilizing our recovery location in San Juan to quickly respond in the aftermath of the hurricane. In addition, our US, Spain, Ireland and South American divisions are fully operational and are providing assistance to the workforce in Puerto Rico. We are also evaluating the use of remote facilities in the US.
Most of our customers in Puerto Rico have been contacted and are in various stages of recovery. Although we likely will continue to feel the effects of the hurricane for the next few months, we believe we will begin placing some of our resources in customer locations as early as next week.
While Puerto Rico has clearly suffered tremendously from Hurricane Maria and much of the island's infrastructure and communication networks are still greatly impaired, we will continue working aggressively on your behalf.

9/29/17 Facebook Post:
An important message to our customers:
First of all, we hope that you and your loved ones are safe and well after the passage of hurricanes Irma and Maria. Puerto Rico has been certainly challenged with an unprecedented cause of nature that has created

massive destruction and disruption, but at the same time, this experience has allowed us to come together to rebuild our communities and our industries.
We are glad to inform that our facilities in Dorado did not sustain any major damages and we have diligently restored our operations since 09-26-2017. We have also been able to locate all our personnel, including consultants serving our customers, and although there are material losses, all of us are safe and we are fully supporting each other with immediate needs. We have been welcoming employees to our main facilities and laboratory, and also providing redundant facilities in San Juan to save gasoline. Some others closer to Dorado have been working from our Headquarters. Our telephone lines and internet connections are fully operational from both locations.
We are aware that most of our customers' facilities are working on cleaning and restoring of operations. We have been contacting as many as possible to offer our support and availability to help in any way you need from us. This is a time of coming together, of building together.
Overall, we have faith that our island will flourish once again soon enough. The resiliency and adaptability of our people will help us shine once again. To us at PharmaBioServ PR, this is a time to lend a helping hand and show the world that in Puerto Rico we have the courage to face any and all challenges. We will build a stronger Puerto Rico and a more competitive industry after this.
With warm regards, Elizabeth Plaza and the PharmaBioServ PR and Scienza Labs teams

PBSV Current Status Update…
On January 29, 2018 PBSV filed their 10-K for the fiscal year ending October 31, 2017 and, in a related earnings release, provided an update on their operational status as well as the estimated financial impact of the Hurricanes. The status update clearly supports what the company communicated in late-September – specifically that their facilities suffered relatively minor damage and that while their Puerto Rico consulting and lab (located in P.R.) business were impacted by the hurricanes, that they were able to restore operations relatively quickly. Diesel generators allowed for a portion of operations to resume within just days of the storms' landfall until November 22, 2017 when electrical-grid power was back online.

While we may not know the full extent of the damage to the company's facilities or financial impact due to lost sales for another quarter or two, the 10-K/earnings release indicates that it might end up being relatively benign. In addition, any net financial impact to PBSV may be even less meaningful given that most of any losses may be covered by insurance. As of the end of fiscal Q4 (i.e. October 31) approximately \$50k in property damage-mitigation repairs were made and Q4 gross profit was negatively impacted (from lost sales) by ~\$275k. PBSV further notes, as it relates to potential insurance recoveries, that the "Company carries insurance to mitigate these losses, as well as for property damages. The Company's insurance provider is currently assessing the extent of the damages to the facilities, as well as the business interruption losses and additional expenses incurred by the Company until electrical power and other basic utilities were restored on November 22, 2017. Based on current accounting guidance, the insurance proceeds will be recognized upon collection, as a gain contingency."

Relative to their ability to quickly get operations back up and running, Victor Sanchez, CEO, notes in the FY2017 earnings release, "As of the end of fiscal year 2017, we have quickly recovered from the Hurricanes, focused our attention back to our strategies, including the US consulting services strategy, with a more streamlined business development approach, and started benefiting from incoming consulting opportunities in Europe," said Victor Sanchez, CEO of Pharma-Bio Serv. "We remain confident that our strong presence and experience in the Puerto Rico market will yield results that allow us to maintain our share of the consulting and Lab operations", he added.

Fiscal Q4 2017 Results:
We include a discussion of financial results through the first three quarters of 2017 (ending July 31st) as we think it provides important context of operational performance prior to the disruptions caused by the hurricanes, which hit Puerto Rico at approximately the mid-point of fiscal Q4 2017. As a quick summary of what follows, while quarterly revenue was flattish through Q3, operating loss showed regular improvement as a result of improvements to gross margin and/or lower operating expenses – a testament to the company's variable cost structure. Then the hurricanes hit – revenue fell in Q4, although rather benignly and likely representative of the resources and capabilities to restart operations. While clearly disruptive, the hurricanes' impact may prove to be relatively mild and short-lived.

Revenue was sequentially flat through the first nine months of fiscal 2017 (ending 7/31/17), hovering right around the \$4.0M per quarter level and down an average of 20% from the comparable periods in 2016. Revenue then dipped almost 9% sequentially to \$3.6M in Q4. Given the size and strength of the hurricanes, the direct hit on the island (particularly Maria) and overall massive destruction that they caused (which, again, included completely wiping out electrical power), we were surprised that revenue declined by only ~\$350k from Q3. The reason, in large part, is likely related to not only PBSV's ability to quickly resume operations (via generator power) but also of their P.R.-located clients' ability to do the same.

And the revenue impact may be even lower, given (as noted above) that it may be reimbursable via insurance claims. But, regardless of potential insurance coverage, we think the implications of the relatively minor impact to revenue bodes well for a fairly rapid rebound in P.R. consulting and lab activity and related revenue. And, as we discuss below, there could be a bright spot in Europe which may represent meaningful growth opportunity.

P.R. consulting revenue was $8.4M in the nine months ending 7/31/17 (i.e. through Q3 2017), down 25% yoy and representing approximately 70% of total revenue. While P.R. consulting revenue fell 9% sequentially to $2.6M in Q4, essentially all of the $238k decrease (per 10-K footnotes) was hurricane-related. We think the Puerto Rican consulting business should be able to quickly fully recover from the hurricanes given that PBSV remains one of the top validation companies to the pharmaceutical industry and counts many of the pharma "majors" as clients.

A more significant unknown, however, is if the U.S. income tax reform act (which we discuss in greater detail below) will have meaningful negative implications for certain of PBSV's clients given that it may reduce the tax benefits of operating in Puerto Rico. Among other changes, the new tax law requires foreign subsidiaries (including those located in P.R.) to pay a 12.5% tax on income generated from patents and licenses used for their foreign operations. Under the prior law, foreign subsidiaries located in Puerto Rico were not subject to this tax. But while this tax law change introduces risk that certain companies will relocate their Puerto Rican operations, given that the alternative is either moving to the U.S. and paying a higher corporate rate (of 21%) or moving to another foreign country (and still be subject to the 12.5% rate), we think that the risk is largely muted (particularly considering additional costs related to the move).

U.S. consulting revenue was down 11% yoy through the first nine months of 2017 and averaged $338k per quarter. U.S. sales then fell 45% sequentially from $366k in Q3 to $202k in Q4. While we do not have specific insight into the more significant weakness, we do not think the hurricanes (which also hit parts of the U.S. mainland) are to blame and think it may be mostly project-timing related.

As a reminder, the company recently shuttered two U.S. based offices (in PA and CA) as part of its recently implemented "streamlined business development approach". Importantly, these were leased (sales-oriented) offices and PBSV's business model and time-and-material contracts means opportunistically re-ramping can be achieved on a relatively short time frame. But, it may be too early to predict a sustained recovery in U.S. sales, particularly given our lack of any detailed project-related insight. However, PBSV has been opportunistic in the past and we expect they will continue to be so. Additionally, PBSV has been considering the use of remote facilities in the U.S., which could provide the benefits of lower cost and even greater flexibility. The company notes in the Q4 earnings release that, having recovered from the hurricanes, that they can now focus more attention on the U.S. consulting strategy.

Clearly encouraging was management's mention shortly after Maria passed that their European and Americas-based operations were fully operational. **European operations** recently began providing assistance to the workforce in Puerto Rico, which we think reflects the relatively massive jump in revenue from that territory. Europe revenue jumped from $215k in Q3 to $512k in Q4 – which is up 114% from Q4 2016. This was also the strongest revenue contribution from Europe since Q1 2014 ($683k). Indications are that Europe could remain strong, with the Q4 earnings release mentioning that the company is benefitting from new consulting opportunities there – which we think will offset (at least some) hurricane headwind hangover that Puerto Rico consulting and the lab may experience over the near term.

The **lab segment has been one of the brighter spots** with revenue through Q3 running at an annualized rate that was just shy of the record $2.5M achieved during 2016. Lab revenue fell from $528k in Q3 to $311k in Q4 – with about half the decline attributed to the hurricanes. PBSV indicated that while some property damage repairs were required, that their lab (and other facilities in Puerto Rico) did not suffer any structural damage. While we think that the lab business may experience some hurricane-related hangover over the next quarter or two, the quick recovery in getting the business back online should mute the longer-term impact.

We also believe that the critical nature of Puerto Rico's pharmaceutical industry on the mainland U.S. and PBSV's reputation as one of the industry's top service providers should also help facilitate a rapid recovery in the company's operations and revenue. The importance of Puerto Rico's medical manufacturing-related organizations and facilities to the U.S. received particularly acute attention from FDA's Commissioner Scott

Gottlieb who published a statement on October 6th noting, among other things, that FDA is taking "extensive efforts… to help Puerto Rico recover its medical product manufacturing base" given that securing "this manufacturing base is vital to maintaining access to many important medical products". Mr. Gottlieb's statement, in its entirety, is available here (http://bit.ly/2i5xQGw).

Relative to expenses and operating income…while there was no material upward quarter-to-quarter movement in revenue through Q3 2017, improvement in gross margin and/or operating expenses over that period meant consecutive reduction in operating loss through Q3. The use of time-and-materials contracts and the company's inherent ability to control expense levels in times of need has helped to preserve margins (or at least avoid larger losses) and reduce negative cash flows. Gross margin in Q4, at 16.8%, was relatively very soft and significantly impacted by the hurricane. 10-K footnotes imply that the hurricanes effected Q4 GM by 570 basis points (i.e. ex-hurricanes, Q4 GM would have been ~22.5%). Q4 operating loss was $522k but excluding the hurricane impact, would have been approximately $250k – or better than both Q1 and Q2 2017.

PBSV continues to maintain **a very healthy cash balance**, which was $11.8M at the close of fiscal 2017 (October 31st). And despite operating income running in the red throughout the year, cash burn (excluding working capital) was just $926k (with $401k related to Q4, much of which related to the hurricane effects). Any insurance recoveries could further benefit cash balance.

Recent reform to the U.S. income tax code looks like it will affect PBSV. While the company should benefit from the maximum U.S. statutory corporate income tax rate falling from 35% to 21%, that benefit will likely be more than offset by the acts' provision requiring PBSV to repatriate foreign accumulated (i.e. prior years') undistributed earnings and profits of their Puerto Rican subsidiaries. Those profits, which had been shielded from U.S income tax, will require the company to pay an estimated $2.7M – fortunately the tax law provides for payment to be made over 8 years (starting in February 2019). Going forward, repatriated profits of foreign subsidiaries will be taxed at a maximum of 15.5%.

Outlook / Valuation:

Hurricane Caused Disruption But PBSV Quickly Back Operating…
PBSV's updates indicate that they were able to resume operations in Puerto Rico within about one week after Maria came ashore and that they did not suffer significant damage to their facilities or to personnel. Given the size and strength of the hurricanes, the direct hit on the island and overall massive destruction that they caused, we were surprised by the relatively minor impact to Q4 financial results. The reason, in large part, is likely related to not only PBSV's ability to quickly resume operations (via generator power) but also of their P.R.-located clients' ability to do the same. We also think the quick recovery bodes well for a fairly rapid rebound in P.R. consulting and lab activity and related revenue.

Additional Opportunities…
In terms of additional opportunities, PBSV continues to allocate resources where they see the greatest potential for growth. Recently this has included additional investments to expand their lab facilities in Puerto Rico (i.e. the only major segment posting revenue growth in 2016 (+22%), opening of a lab facility in Spain and formation of a new Calibrations division ("Metrologix") in Puerto Rico. The Calibrations division contributed an increase of approximately $200k of revenue through the first half of 2017. Investments such as these, as well as recent investments in human capital, are expected to benefit sales in future periods.

Europe is where we think the bulk of the very near-term growth opportunity lies. Indications are that Europe could remain strong, with the Q4 earnings release mentioning that the company is benefitting from new consulting opportunities there – which we think will offset (at least some) hurricane headwind hangover that Puerto Rico consulting and the lab may experience over the near term.

And while U.S. consulting has been soft as of late, indications are that PBSV is now able to dedicate a greater focus on finding new opportunities there. Shuttering their two U.S.-based offices has helped with cost-control and the use of remote facilities should allow greater flexibility.

Other **potential growth-related opportunities** include Pharma-Brazil and, possibly, entry into Cuba. Pharma-Brazil is a wholly-owned subsidiary which PBSV registered in 2015 in order to provide consulting services to the Brazilian market. Given the historical strength (until recently) in Latin America-related project demand and revenue, this area of the world, including Brazil, could offer meaningful growth opportunity for PBSV.

Relative to Cuba, in December 2016 PBSV obtained a license from the U.S. Dept of Treasury Office of Foreign Assets Control (OFAC) authorizing the company to perform certain services and transactions with a Cuban state-run organization. While too early for us to hypothesize the significance of this (PBSV's has yet to generate meaningful revenue from Cuba), the OFAC license may provide PBSV with (at least) foot-in-the-door opportunity to a country that has been largely off-limits to most American companies (with some exceptions). And the recently restored (at least formally restored) diplomatic relations between the U.S. and Cuba and potential that sanctions are reduced in the future may mean that this foot-in-the-door could eventually result in even greater opportunity for PBSV (this is wait-and-see status, however, given indications by President Trump that he may reinstate limited access to Cuba).

Model Update…
We have updated our model following Q4 2017 results. We think there may be some hurricane related revenue impact, although the relatively muted disruption to Q4 results and the company's recovery leads us to believe that this should be fairly short-lived. For now, we are modeling $300k - $500k per quarter revenue impact (to P.R. consulting and lab) through 1H 2018 and look for nearly complete recover in Q3. We also note that insurance may reimburse a portion of any lost revenue.

We model a much more sustained recovery in all segments through 2019 and point to PBSV's status as one of the top validation companies to the pharmaceutical industry and client base encompassing many of the pharma "majors" as the foundations for catalyzing growth.

We think gross margin may incrementally contract in 1H 2018 and, with a lower level of revenue also modeled in 2018, believe that gross margin also may tick down slightly from 2017 – 2018. But with a sustained recovery in revenue throughout 2019, gross margin will widen. PBSV's variable-cost business model should mean that expenses are more highly correlated to revenue and, as a result, should come down if revenue does continue to fall. As such, the impact to income and cash flow should be somewhat softened – as we have witnessed over the last few quarters.

We look for revenue to grow at a 4-year CAGR of approximately 11% through 2021. We use an industry PE/G ratio of 1.9x to value PBSV. We look for 2020 EPS of $0.06 which values the company at approximately $1.25/share. The stock currently trades at about $0.50, indicating the shares are trading cheaper than fair value.

We also note that the shares are currently trading well below book value. Book value (as of October 31, 2017) is ~$20.8 million or $0.90/share. Cash balance currently sits at $11.8M, or ~$0.51/share. We think book value should provide a floor on the stock.

FINANCIAL MODEL

Pharma-Bio Serv, Inc

	2017 A	Q1E	Q2E	Q3E	Q4E	2018 E	2019 E	2020 E	2021 E
Total Revenues	$15,579.3	$3,197.4	$3,387.7	$3,796.0	$4,001.2	$14,382.2	$18,191.3	$20,767.1	$23,751.2
YOY Growth	-20.3%	-21.0%	-13.6%	-4.6%	10.2%	-7.7%	26.5%	14.2%	14.4%
Cost of Services	$11,968.1	$2,647.5	$2,720.3	$2,953.3	$2,932.9	$11,253.9	$12,770.3	$13,602.5	$15,082.0
Gross Income	$3,611.1	$550.0	$667.4	$842.7	$1,068.3	$3,128.4	$5,421.0	$7,164.7	$8,669.2
Gross Margin	23.2%	17.2%	19.7%	22.2%	26.7%	21.8%	29.8%	34.5%	36.5%
SG&A	$5,036.3	$1,122.3	$1,145.0	$1,191.9	$1,232.4	$4,691.6	$5,639.3	$5,814.8	$6,531.6
% SG&A	32.3%	35.1%	33.8%	31.4%	30.8%	32.6%	31.0%	28.0%	27.5%
Operating Income	($1,425.1)	($572.3)	($477.7)	($349.2)	($164.0)	($1,563.3)	($218.3)	$1,349.9	$2,137.6
Operating Margin	-9.1%	-17.9%	-14.1%	-9.2%	-4.1%	-10.9%	-1.2%	6.5%	9.0%
Total Other Income (Expense)	$14.1	$0.0	$0.0	$280.0	$0.0	$280.0	$18.0	$35.0	$44.0
Pre-Tax Income	($1,411.0)	($572.3)	($477.7)	($69.2)	($164.0)	($1,283.3)	($200.3)	$1,384.9	$2,181.6
Tax expense (benefit)	$3.9	$6.3	$11.5	$1.7	$4.1	$23.6	$122.0	$161.0	$312.0
Tax Rate	-0.3%	-1.1%	-2.4%	-2.5%	-2.5%	-1.8%	-60.9%	11.6%	14.3%
Net Income	($1,414.9)	($578.6)	($489.1)	($71.0)	($168.2)	($1,306.9)	($322.3)	$1,223.9	$1,869.6
YOY Growth	451.5%	51.4%	51.5%	-56.5%	-69.3%	-7.6%	-75.3%	-479.7%	52.8%
Net Margin	-9.1%	-18.1%	-14.4%	-1.9%	-4.2%	-9.1%	-1.8%	5.9%	7.9%
EPS	($0.06)	($0.03)	($0.02)	($0.00)	($0.01)	($0.06)	($0.02)	$0.06	$0.09
YOY Growth	453.7%	51.2%	51.9%	-56.4%	-69.2%	-7.5%	-73.1%	-491.8%	52.8%
Diluted Shares O/S	23,097	23,092	23,062	23,062	23,062	23,070	21,150	20,500	20,500

Brian Marckx, CFA

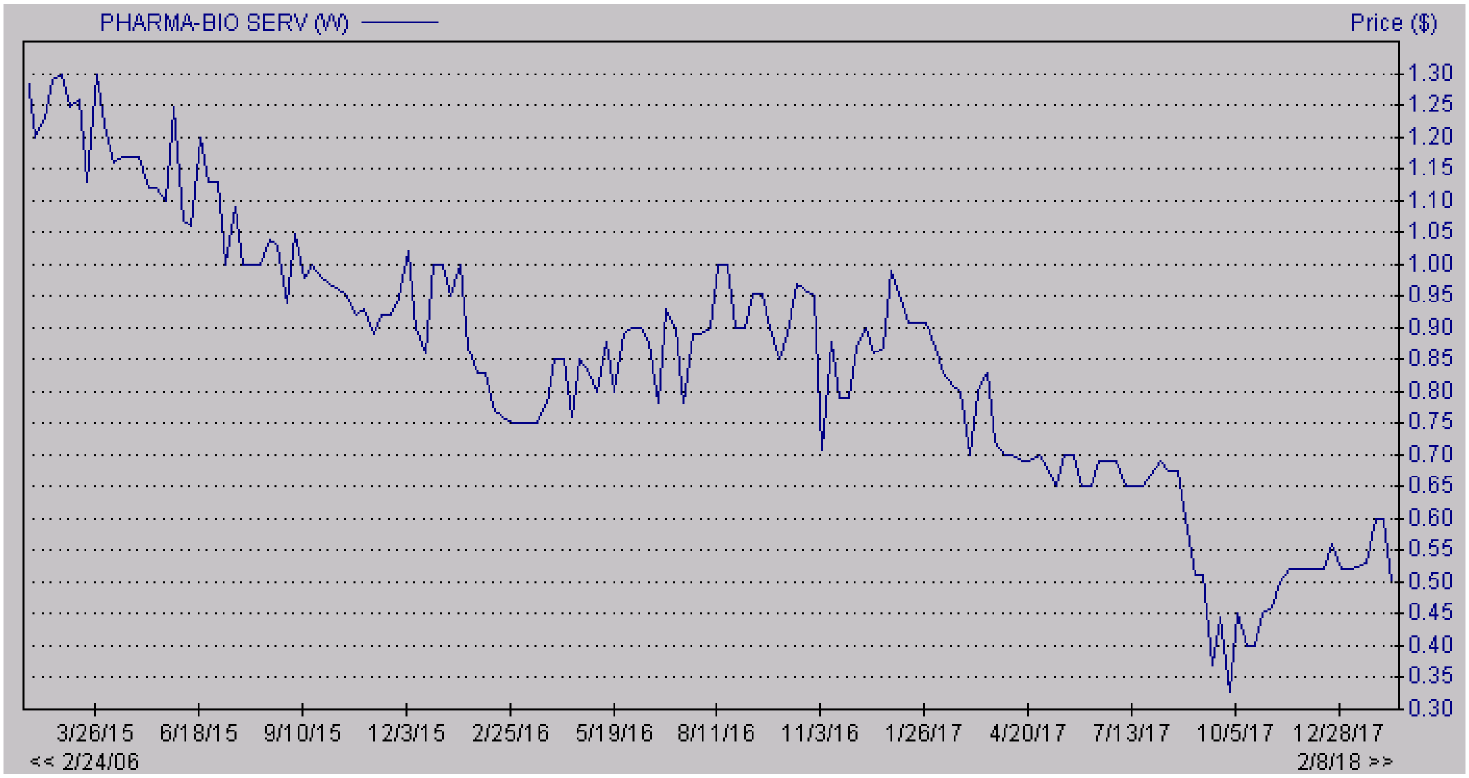
BALANCE SHEET

		October 31, 2017		October 31, 2016
ASSETS				
Current assets:				
Cash and cash equivalents	$	11,752	$	13,774
Marketable Securities		27		20
Accounts Receivable		7,208		6,853
Other		550		981
Total current assets		19,537		21,628
Property and equipment, net		2,391		2,334
Other assets		423		36
Total assets	$	22,350	$	23,998
LIABILITIES				
Current liabilities:				
Current portion-obligations under capital lease	$	14	$	23
Accounts payable and accrued expenses		1,527		2,091
Income taxes payable		2		45
Total current liabilities		1,543		2,159
Obligations under capital leases		60		29
Total liabilites		1,603		2,188
STOCKHOLDERS' EQUITY				
Preferred Stock		-		-
Common stock		2		2
Additional paid-in capital		1,295		1,231
Retained earnings		19,560		20,975
Accumulated other comprehensive loss		138		(166)
Total stockholders' equity		20,995		21,810
Total liabilities and stockholders' equity	$	22,350	$	23,998

CASH FLOW STATEMENT

		October 31, 2017		2016
Cash flows from operating activities:				
Net income	$	(1,415)	$	(257)
Adjustments to reconcile net income to net cash provided by operating activities:				
Gain on disposition of P&E		(19)		(14)
Stock-based compensation		64		89
Depreciation and amortization		444		313
Impairment of avail-for-sale securities		-		55
Changes in operating assets and liabilities:				
Accounts receivable		(19)		647
Other assets		48		(108)
Liabilities		(651)		(16)
Net cash provided by operating activities		(1,548)		710
Cash flows from investing activities:				
Acquisition of P&E		(452)		(1,809)
Proceeds from disposition of P&E		48		30
Net cash used in investing activities		(404)		(1,779)
Cash flows from financing activities:				
Proceeds from common stock issuance				
Repurchase of common stock		(15)		(46)
Payments on obligations under capital lease		(56)		(23)
Net cash provided by (used in) financing activities		(71)		(69)
Effect of exchange rate changes on cash		1		18
Net increase (decrease) in cash and cash equivalents		(2,022)		(1,120)
Cash and cash equivalents, beginning of period		13,774		14,893
Cash and cash equivalents, end of period		11,752	$	13,774

HISTORICAL STOCK PRICE



DISCLOSURES

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