BIOMERICA INC
Form 10-Q
January 14, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

# FORM 10-Q

(Mark One)

| | |
|---|---|
| [X] | QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 |
| | FOR THE QUARTERLY PERIOD ENDED NOVEMBER 30, 2015 |
| | OR |
| [ ] | TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 |

Commission File Number: 0-8765

**BIOMERICA, INC.**

(Exact name of registrant as specified in its charter)

Delaware

95-2645573

(State or other jurisdiction of

(I.R.S. Employer

incorporation or organization)
Identification No.)

17571 Von Karman Avenue, Irvine,
CA 92614

---

(Address of principal executive
offices) (Zip Code)

Registrant's telephone number including area code: (949) 645-2111

---

(Former name, former address and former fiscal year, if changed since last report.)

(TITLE OF EACH
CLASS) (NAME OF EACH
EXCHANGE ON WHICH REGISTERED)

Common, par value $.08
OTC-BULLETIN BOARD

Securities registered pursuant to Section 12(g) of the Act:

(TITLE OF EACH CLASS)
COMMON STOCK, PAR VALUE $0.08

Indicate by check whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or 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.

Yes [X] No [_]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Date File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (paragraph 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes [X] No [_]

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

| | |
|---|---|
| Large Accelerated Filer [_] | Accelerated Filer [_] |
| Non-Accelerated Filer [_] | Smaller Reporting Company [X] |

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes [_] No [X]

Indicate the number of shares outstanding of each of the registrant's common stock, as of the latest practicable date: 7,605,589 shares of common stock, par value $0.08, as of January 14, 2016.

BIOMERICA, INC.

INDEX

PART I - FINANCIAL INFORMATION

SUMMARIZED FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

BIOMERICA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

AND COMPREHENSIVE LOSS (UNAUDITED)

Six Months Ended

November 30,

Three Months Ended

November 30,

2015

2014

2015

2014

| | | | | |
|---|---|---|---|---|
| Net sales | $ 2,452,073 | $ 2,168,050 | $ 1,165,080 | $ 1,133,600 |
| Cost of sales | (1,618,611) | (1,550,896) | | |

(753,039)

(826,357)

Gross profit

833,462

617,154

412,041

307,243

Operating Expenses:

Selling, general and administrative

731,263

713,336

391,603

| | |
|---|---|
| | 375,020 |
| Research and development | |
| | 388,206 |
| | 377,794 |
| | 230,212 |
| | 182,088 |
| Total operating expenses | |
| | 1,119,469 |
| | 1,091,130 |
| | 621,815 |
| | 557,108 |
| Loss from operations | |

(286,007)

(473,976)

(209,774)

(249,865)

Other Income (Expense):

| | | | | |
|---|---|---|---|---|
| Dividend and interest income | 17,958 | 16,697 | 14,024 | 11,837 |
| Interest expense | (54) | | | |

| | |
|---|---|
| | (17) |
| | (18) |
| | -- |
| Total other income | |
| | 17,904 |
| | 16,680 |
| | 14,006 |
| | 11,837 |

Loss before income tax

(268,103)

(457,296)

(195,768)

(238,028)

| | | | | |
|---|---|---|---|---|
| Income tax benefit | (129,000) | -- | (129,000) | -- |
| Net loss | $ (139,103) | $ (457,296) | $ (66,768) | $ |

(238,028)

| | | |
|---|---|---|
| Basic net loss per common share | $ | (0.02) |
| | $ | (0.06) |
| | $ | (0.01) |
| | $ | (0.03) |
| Diluted net loss per common share | | |

| | |
|---|---|
| $ | (0.02) |
| $ | (0.06) |
| $ | (0.01) |
| $ | (0.03) |

Weighted average number of common and common equivalent shares:

| | |
|---|---|
| Basic | |
| | 7,584,333 |
| | 7,549,894 |
| | 7,586,635 |
| | 7,551,972 |
| Diluted | |
| | 7,584,333 |

7,549,894

7,586,635

7,551,972

Net loss

$

(139,103)

$

(457,296)

| | |
|---|---|
| $ | (66,768) |
| $ | (238,028) |

Other comprehensive loss, net of tax:

| | | | | |
|---|---|---|---|---|
| Foreign currency translation | (1,366) | (1,678) | (1,023) | (744) |
| Comprehensive loss | $ (140,469) | $ (458,974) | $ (67,791) | |

$

(238,772)

The accompanying notes are an integral part of these statements.

1

BIOMERICA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

November 30,

2015

(unaudited)

May 31,

2015

(audited)

Assets

Current Assets:

Cash and cash equivalents

$

642,978

$

1,088,307

Accounts receivable, less allowance for doubtful accounts of $8,815 and $17,468 as of November 30, 2015 and May 31, 2015, respectively

| | | |
|---|---|---|
| | | 1,172,585 |
| | | 1,111,570 |
| Inventories, net | | 2,237,394 |
| | | 2,027,372 |
| Prepaid expenses and other | | 105,313 |
| | | 164,352 |
| Total Current assets | | 4,158,270 |
| | | 4,391,601 |

| | |
|---|---|
| Property and Equipment, net of accumulated depreciation and amortization of $1,346,477 and $1,267,617 as of November 30, 2015 and May 31, 2015, respectively | 394,820 |
| | 445,386 |
| Deferred Tax Assets | 873,000 |
| | 744,000 |

| | |
|---|---|
| Investments | |
| | 165,324 |
| | 165,324 |
| Intangible Assets, net | |
| | 284,692 |
| | 321,304 |
| Other Assets | |

| | | |
|---|---|---|
| | | 65,891 |
| | | 56,838 |
| Total Assets | $ | 5,941,997 |
| | $ | 6,124,453 |

Liabilities and Shareholders' Equity

Current Liabilities:

Accounts payable and accrued expenses

$

315,834

$

392,139

Accrued compensation

153,253

131,794

Total Current liabilities

469,087

523,933

Commitments and Contingencies (Note 5)

Shareholders' Equity:

| | | |
|---|---|---|
| Preferred stock, no par value authorized 5,000,000 shares, none issued and none outstanding at November 30, 2015 and May 31, 2015 | -- | -- |
| Common stock, $0.08 par value authorized 25,000,000 shares, issued and outstanding 7,590,237 and 7,566,714 at November 30, 2015 and May 31, 2015, respectively | 607,217 | 605,336 |
| Additional paid-in-capital | | |

| | | |
|---|---|---|
| | 18,337,868 | 18,326,890 |
| Accumulated other comprehensive loss | (13,630) | (12,264) |
| Accumulated deficit | (13,458,545) | (13,319,442) |
| Total Shareholders' Equity | 5,472,910 | 5,600,520 |

| | | |
|---|---|---|
| Total Liabilities and Shareholders' Equity | $ | 5,941,997 |
| | $ | 6,124,453 |

The accompanying notes are an integral part of these statements.

BIOMERICA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

Six Months Ended

November 30,

2015

2014

Cash flows from operating activities:

| | | |
|---|---|---|
| Net loss | $ (139,103) | $ (457,296) |
| Adjustments to reconcile net loss to net cash (used in) provided by operating activities: | | |
| Depreciation and amortization | | |

| | |
|---|---|
| | 116,396 |
| | 126,176 |
| Stock option expense | |
| | 2,562 |
| | 1,804 |
| Change in provision for allowance for doubtful accounts | |
| | (8,653) |
| | (16,659) |
| Inventory reserve | |
| | 4,216 |
| | 7,423 |
| Gain on disposal of equipment | |
| | -- |

(665)

Decrease in deferred rent liability

(13,072)

(9,262)

Increase in deferred tax assets

(129,000)

--

Changes in assets and liabilities:

Accounts receivable

(52,362)

900,454

Inventories

(214,238)

(231,601)

Prepaid expenses and other

49,986

(56,787)

Accounts payable and accrued expenses

(63,233)

(88,082)

Accrued compensation

21,459

8,491

Net cash (used in) provided by operating activities

(425,042)

183,996

Cash flows from investing activities:

Purchases of property and equipment

(28,294)

| | |
|---|---|
| | (8,654) |
| Proceeds from sales of equipment | |
| | -- |
| | 1,900 |
| Increase in intangibles | |
| | (925) |
| | (14,136) |
| Net cash used in investing activities | |
| | (29,219) |

(20,890)

Cash flows from financing activities:

Proceeds from exercise of stock options

10,298

3,495

| | | |
|---|---|---|
| Net cash provided  financing activities | 10,298 | 3,495 |
| Effect of exchange rate changes in cash | (1,366) | (1,678) |
| Net (decrease) increase in cash and cash equivalents | (445,329) | |

164,923

Cash and cash equivalents at beginning of period

1,088,307

1,509,125

Cash and cash equivalents at end of period

$

642,978

$

1,674,048

| | | |
|---|---|---|
| Supplemental Disclosure of Cash-Flow Information: | | |
| Cash paid during the period for: | | |
| Interest | $ 54 | $ 17 |
| Income taxes | $ 0 | $ 0 |

The accompanying notes are an integral part of these statements.

BIOMERICA, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Note 1: Basis of Presentation**

The information set forth in these condensed consolidated financial statements is unaudited and reflects all adjustments which, in the opinion of management, are necessary to present a fair statement of the consolidated results of operations of Biomerica, Inc. and subsidiaries (the Company ), for the periods indicated. It does not include all information and footnotes necessary for a fair presentation of financial position, results of operations, and cash flows in conformity with generally accepted accounting principles. All adjustments that were made are of a normal recurring nature.

The unaudited Condensed Consolidated Financial Statements and Notes are presented as permitted by the requirements for Form 10-Q and do not contain certain information included in our annual financial statements and notes. The condensed consolidated balance sheet data as of May 31, 2015 was derived from audited financial statements. The accompanying interim condensed consolidated financial statements should be read in conjunction with the financial statements and related notes included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on August 29, 2015 for the fiscal year ended May 31, 2015. The results of operations for our interim periods are not necessarily indicative of results to be achieved for our full fiscal year.

**Note 2: Significant Accounting Policies**

Principles of Consolidation

The condensed consolidated financial statements include the accounts of Biomerica, Inc. as well as the Company s German subsidiary and Mexican subsidiary. The Mexican subsidiary has not begun operations. All significant intercompany accounts and transactions have been eliminated in consolidation.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ( GAAP ) 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 reported period. Actual results could materially differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits and money market accounts with original maturities of less than three months.

Accounts Receivable

The Company extends unsecured credit to its customers on a regular basis. International accounts are required to prepay until they establish a history with the Company and at that time, they are extended credit at levels based on a number of criteria. Credit levels are approved by designated upper level management. Domestic customers are extended initial credit limits until they establish a history with the Company or submit credit information. All increases in credit limits are also approved by designated upper level management. Management evaluates receivables on a quarterly basis and adjusts the reserve for bad debt accordingly. Balances over ninety days old are usually reserved for unless collection is reasonably assured. Management evaluates quarterly what items to charge off.

Occasionally certain long-standing customers, who routinely place large orders, will have unusually large accounts receivables balances relative to the total gross accounts receivables. Management monitors the payments for these large balances closely and very often requires payment of existing invoices before shipping new sales orders.

Inventories

The Company values inventory at the lower of cost (determined using a combination of specific lot identification and the first-in, first-out methods) or market. Management periodically reviews inventory for excess quantities and obsolescence. Management evaluates quantities on hand, physical condition, and technical functionality as these characteristics may be impacted by anticipated customer demand for current products and new product introductions. The reserve is adjusted based on such evaluation, with a corresponding provision included in cost of sales. Abnormal amounts of idle facility expenses, freight, handling costs and wasted material are recognized as current period charges and the allocation of fixed production overhead is based on the normal capacity of the Company s production facilities.

The approximate balances of inventories are the following at:

| | November 30, 2015 | May 31, 2015 |
|---|---|---|
| Raw materials | $ 1,071,000 | $ 958,000 |
| Work in progress | 842,000 | 831,000 |
| Finished products | 324,000 | 238,000 |
| Total | $ 2,237,000 | $ 2,027,000 |

Reserves for inventory obsolescence are increased as necessary to reduce obsolete inventory to estimated realizable value or to specifically reserve for obsolete inventory that the Company intends to dispose of.

Property and Equipment

Property and equipment are stated at cost. Expenditures for additions and major improvements are capitalized. Repairs and maintenance costs are charged to operations as incurred. When property and equipment are retired or otherwise disposed of, the related cost and accumulated depreciation or amortization is removed from the accounts, and gains or losses from retirements and dispositions are credited or charged to income.

Depreciation and amortization are provided over the estimated useful lives of the related assets, ranging from 5 to 10 years, using the straight-line method. Leasehold improvements are amortized over the lesser of the estimated useful life of the asset or the term of the lease. Depreciation and amortization expense on property and equipment and leasehold improvements amounted to $38,709 and $44,276 for the three months ended November 30, 2015 and 2014, and $78,860 and $89,516 for the six months ended November 30, 2015 and 2014, respectively.

Intangible Assets

Intangible assets include trademarks, product rights, licenses, technology rights and patents, and are accounted for based on Accounting Standards Codification ( ASC ) 350 *Intangibles Goodwill and Other* (ASC 350). In that regard, intangible assets that have indefinite useful lives are not amortized but are tested at least annually for impairment or more frequently if events or changes in circumstances indicate that the asset might be impaired. Intangible assets are being amortized using the straight-line method over the useful life; not to exceed 18 years for marketing and distribution rights, 10 years for purchased technology use rights, licenses, and 17 years for patents. Amortization amounted to $18,813 and $18,479 for the three months ended November 30, 2015 and 2014, respectively, and $37,536 and $36,660 for the six months ended November 30, 2015 and 2014, respectively.

Stock-Based Compensation

The Company follows the guidance of the accounting provisions of ASC 718 *Share-based Compensation* (ASC 718), which requires the use of the fair-value based method to determine compensation for all arrangements under which employees and others receive shares of stock or equity instruments (options). The fair value of each option award is estimated on the date of grant using the Black-Scholes valuation model that uses assumptions for expected volatility, expected dividends, expected forfeiture rate, expected term, and the risk-free interest rate.

Expected volatilities are based on weighted averages of the historical volatility of the Company s stock and other factors estimated over the expected term of the options. The expected forfeiture rate is based on historical forfeitures experienced. The expected term of options granted is derived using the simplified method which computes expected term as the average of the sum of the vesting term plus the contract term as historically the Company had limited activity surrounding its options. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for the period of the expected term.

The following summary presents the options granted, exercised, expired, cancelled and outstanding as of November 30, 2015:

| | Option Shares | | Exercise Price Weighted Average |
|---|---|---|---|
| Outstanding May 31, 2015 | 1,148,000 | $ | 0.60 |
| Exercised | (23,523) | | 0.44 |
| Cancelled or expired | (21,375) | | 0.70 |
| Outstanding November 30, 2015 | 1,103,102 | $ | 0.58 |

Revenue Recognition

Revenues from product sales are recognized at the time the product is shipped, customarily FOB shipping point, at which point title passes. An allowance is established when necessary for estimated returns as revenue is recognized. In conjunction with sales to certain customers, the Company provides free products upon attaining certain levels of purchases by the customer. The Company accounts for these free products in accordance with ASC 605-50 *Revenue Recognition Customer Payments and Incentives* and recognizes the cost of the product as part of cost of sales.

Investments

From time-to-time, the Company makes investments in privately-held companies.  The Company determines whether the fair values of any investments in privately-held entities have declined below their carrying value whenever adverse events or changes in circumstances indicate that recorded values may not be recoverable.  If the Company considers any such decline to be other than temporary (based on various factors, including historical financial results, and the overall health of the investee s industry), a write-down to estimated fair value is recorded.  The Company currently has not written down the investment and no events have occurred which could indicate the carrying value to be less than the fair value. Investments represent the Company s investment in a Polish distributor which is primarily engaged in distributing medical devices.  The Company owns approximately 6% of the investee, and accordingly, applies the cost method to account for the investment.  Under the cost method, investments are recorded at cost, with gains and losses recognized as of the sale date, and income recorded when received.

Shipping and Handling Fees and Costs

The Company included shipping and handling fees billed to customers in net sales. The Company included shipping and handling costs associated with inbound freight and unreimbursed shipping to customers in cost of sales.

Research and Development

Research and development costs are expensed as incurred.

Income Taxes

The Company has provided a valuation allowance of approximately $0 as of November 30, 2015 and May 31, 2015.

Foreign Currency Translation

The subsidiary located in Germany is accounted for primarily using local functional currency. Accordingly, assets and liabilities of this subsidiary are translated using exchange rates in effect at the end of the period, and revenues and costs are translated using average exchange rates for the period. The resulting adjustments are presented as a separate component of accumulated other comprehensive loss.

Reclassification

Certain amounts on the May 31, 2015 condensed consolidated balance sheet have been reclassified to conform to the current period presentation.

Deferred Rent

Incentive payments received from landlords are recorded as deferred lease incentives and are amortized over the underlying lease term on a straight-line basis as a reduction of rent expense. When the terms of an operating lease provide for periods of free rent, rent concessions, and/or rent escalations, the Company establishes a deferred rent liability for the difference between the scheduled rent payment and the straight-line rent expense recognized. This deferred rent liability is amortized over the underlying lease term on a straight-line basis as a reduction of rent expense.

Net Loss Per Share

Basic earnings (loss) per share are computed as net loss or income divided by the weighted average number of common shares outstanding for the period. Diluted (loss) income per share reflects the potential dilution that could occur from common shares issuable through stock options using the treasury stock method. The total amount of anti-dilutive options not included in the earnings per share calculation for the three and six months ended November 30, 2014 was 344,024 and 371,731, respectively. The total amount of anti-dilutive options not included in the earnings per share calculation for the three and six months ended November 30, 2015 was 321,669 and 401,914, respectively.

The following table illustrates the required disclosure of the reconciliation of the numerators and denominators of the basic and diluted earnings per share computations.

| | Six Months Ended November 30, 2015 | | Six Months Ended November 30, 2014 | | Three Months Ended November 30, 2015 | | Three Months Ended November 30, 2014 |
|---|---|---|---|---|---|---|---|
| Numerator: | | | | | | | |
| Loss from continuing operations | $ | (139,103) | $ | (457,296) | $ | (66,768) | $ | (238,028) |
| Denominator for basic net loss | | | | | | | | |
| Per common share | | 7,584,333 | | 7,549,894 | | 7,586,635 | | 7,551,972 |
| Effect of dilutive securities: | | | | | | | | |
| Options | | -- | | -- | | -- | | -- |
| Denominator for diluted net loss | | | | | | | | |
| per common share | | 7,584,333 | | 7,549,894 | | 7,586,635 | | 7,551,972 |
| Basic net loss per common share | $ | (0.02) | $ | (0.06) | $ | (0.01) | $ | (0.03) |
| Diluted net loss per common share | $ | (0.02) | $ | (0.06) | $ | (0.01) | $ | (0.03) |

New Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-04, Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date ( ASU 2013-04 ). The amendments in ASU 2013-04 provide guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this update is fixed at the reporting date, except for obligations addressed within existing guidance in generally accepted accounting principles in the United States of America. The guidance requires an entity to measure those obligations as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance in this update also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. The amendments in this standard are effective retrospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013, which corresponds to the Company s first quarter of fiscal 2015. The adoption of ASU 2013-04 did not have a material impact on the Company s consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers ( ASU 2014-09 ). ASU 2014-09 is a comprehensive new revenue recognition model requiring a company to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. In adopting, ASU 2014-09, companies may use either a full retrospective or a modified retrospective approach. ASU 2014-09 is effective for the first interim period within annual reporting periods beginning December 15, 2016, and early adoption is not permitted. Management is evaluating the provisions of this statement and has not determined what impact the adoption of ASU 2014-09 will have on the Company s financial position or results of operations. During August 2015, the FASB voted to defer the effective date of the above mentioned revenue recognition guidance by one year to December 15, 2017 for interim and annual reporting periods beginning after that date and permitted early adoption of the standard, but not before the original effective date of December 15, 2016.

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory ( ASU-2015-11 ). ASU 2015-11 applies to inventory that is measured using first-in, first-out ( FIFO ) or average cost. An entity should measure inventory within the scope of ASU 2015-11 at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The amendments in ASU 2015-11 more closely align the measurement of inventory in general accepted accounting principles of the United States of America with the measurement of inventory in International Financial Reporting Standards ( IFRS ). ASU 2015-11 is effective for fiscal years beginning after December 31, 2016. Management is evaluating the provisions of this statement and has not determined what impact the adoption of ASU 2015-11 will have on the Company s financial position or results of operations.

On November 20, 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes ( ASU-2015-17 ). The update eliminates the requirement to classify deferred tax assets and liabilities on a classified statement of financial position. ASU 2015-17 is effective for fiscal years beginning after December 15, 2015, and interim periods within those annual periods. Early adoption is permitted for financial statements as of the beginning of an interim or annual reporting period. The Company chose to adopt ASU 2015-17 as of the fiscal quarter ended November 30, 2015.

Other recent ASU's issued by the FASB and guidance issued by the Securities and Exchange Commission did not, or are not believed by management to, have a material effect on the Company s present or future consolidated financial statements.

**Note 3: Accounts Payable and Accrued Expenses**

The Company s accounts payable and accrued expense balances consist of the following at:

| | | November 30, 2015 | | May 31, 2015 |
|---|---|---|---|---|
| Accounts payable | $ | 293,332 | $ | 356,565 |
| Deferred rent | | 22,502 | | 35,574 |
| Total | $ | 315,834 | $ | 392,139 |

**Note 4: Geographic Information**

Financial information about foreign and domestic operations and export sales is as follows:

| | Six Months Ended | | Three Months Ended | |
|---|---|---|---|---|
| | November 30, | | November 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| Revenues from sales to unaffiliated customers: | | | | |
| United States | $ 405,000 | $ 473,000 | $ 218,000 | $ 220,000 |
| Asia | 852,000 | 118,000 | 419,000 | 102,000 |
| Europe | 1,092,000 | 1,444,000 | 473,000 | 693,000 |
| South America | 49,000 | 6,000 | 32,000 | 3,000 |
| Middle East | 54,000 | 113,000 | 23,000 | 111,000 |
| Other | -- | 14,000 | -- | 5,000 |
| | $ 2,452,000 | $ 2,168,000 | $ 1,165,000 | $ 1,134,000 |

No other geographic concentrations exist where net sales exceed 10% of total net sales.

As of November 30, 2015 and May 31,2015,approximately $777,000 and $530,000 of Biomerica's gross inventory and approximately $30,000 and $35,000, of Biomerica's property and equipment,net of accumulated depreciation and amortization, was located in Mexicali,Mexico,respectively.

**Note 5: Commitments and Contingencies**

On June 18, 2009, the Company entered into an agreement to lease a building in Irvine, California. The lease commenced September 1, 2009 and ends August 31, 2016. The initial base rent was set at $18,490 per month with scheduled annual increases through the end of the lease term. The rent is currently set at $22,080 per month.

On November 30, 2015, the Company entered into a First Amendment to Lease whereby the lease for the above mentioned property is extended until August 31, 2021. The initial rent for the period of the extension commencing September 1, 2016 is set at $21,000 per month with scheduled annual increases through the end of the lease term.

During July 2015,the Board of Directors approved the execution of an agreement with an investment banker to raise up to $3.0 million through the sale of restricted common stock of the Company.

**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

CERTAIN INFORMATION CONTAINED HEREIN (AS WELL AS INFORMATION INCLUDED IN ORAL STATEMENTS OR OTHER WRITTEN STATEMENTS MADE OR TO BE MADE BY BIOMERICA) CONTAINS STATEMENTS THAT ARE FORWARD-LOOKING, SUCH AS STATEMENTS RELATING TO ANTICIPATED FUTURE REVENUES OF THE COMPANY AND SUCCESS OR CURRENT PRODUCT OFFERINGS. SUCH FORWARD-LOOKING INFORMATION INVOLVES IMPORTANT RISKS AND UNCERTAINTIES THAT COULD SIGNIFICANTLY AFFECT ANTICIPATED RESULTS IN THE FUTURE, AND ACCORDINGLY, SUCH RESULTS MAY DIFFER MATERIALLY FROM THOSE EXPRESSED IN ANY FORWARD-LOOKING STATEMENTS MADE BY OR ON BEHALF OF BIOMERICA. THE POTENTIAL RISKS AND UNCERTAINTIES INCLUDE, AMONG OTHERS, FLUCTUATIONS IN THE COMPANY'S OPERATING RESULTS. THESE RISKS AND UNCERTAINTIES ALSO INCLUDE THE SUCCESS OF THE COMPANY IN RAISING NEEDED CAPITAL, THE CONTINUAL DEMAND FOR THE COMPANY'S PRODUCTS, COMPETITIVE AND ECONOMIC FACTORS OF THE MARKETPLACE, AVAILABILITY OF RAW MATERIALS, HEALTH CARE REGULATIONS AND THE STATE OF THE ECONOMY. READERS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS, WHICH SPEAK ONLY AS OF THE DATE HEREOF, AND THE COMPANY UNDERTAKES NO OBLIGATION TO UPDATE THESE FORWARD-LOOKING STATEMENTS.

**OVERVIEW**

Biomerica, Inc. and Subsidiaries ("Biomerica", the "Company", "we" or "our") develops, manufactures, and markets medical diagnostic products designed for the early detection and monitoring of chronic diseases and medical conditions. Our medical diagnostic products are sold worldwide in two markets: 1) clinical laboratories and 2) point of care (physicians' offices and over-the-counter drugstores). Our diagnostic test kits are used to analyze blood, urine or stool samples from patients in the diagnosis of various diseases and other medical complications, or to measure the level of specific hormones, antibodies, antigens or other substances, which may exist in the human body in extremely small concentrations.

**RESULTS OF OPERATIONS**

Consolidated net sales for Biomerica were $1,165,080 for the three months ended November 30, 2015 as compared to $1,133,600 for the same period in the previous year. This represents an increase of $31,480 or 2.8%. For the six month period ended November 30, 2015 as compared to 2014, net sales were $2,452,073 as compared to $2,168,050.  This represents an increase of $284,023 or 13.1%. The increase was primarily due to the increase sales in Asia, which were offset by decreased sales in Europe due to a combination of order timing and weaker sales for the periods.

For the three months ended November 30, 2015 as compared to November 30, 2014, cost of sales decreased as a percentage of sales from 72.9% of sales, or $826,357, to 64.6% of sales, or $753,039. For the six months ended November 30, 2015 as compared to 2014, cost of sales decreased as a percentage of sales from 71.5% of sales, or $1,550,896, to 66.0% of sales, or $1,618,611.  The decrease in the three and six month periods was primarily due to more costs capitalized into inventory during fiscal 2016 due to inventory levels at that time and a higher volume of sales which contributed more towards covering fixed expenses.

For the three months ended November 30, 2015 compared to 2014, selling, general and administrative costs increased by $16,583, or 4.4%. For the six month period ended November 30, 2015 as compared to 2014, these expenses increased by $17,927, or 2.5%. The overall increase in selling, general and administrative costs was primarily due to quarter specific expenses such as trade show attendance in Germany and Spain, annual meeting expenses and regulatory fees in order to comply with the CE mark.

For the three months ended November 30, 2015 compared to 2014, research and development expenses increased by $48,124 or 26.4%. For the six month period ended November 30, 2015 as compared to 2014, these expenses increased by $10,410, or 2.8%.  The increases were primarily due to research being done related to new products, regulatory approvals and patent application preparation.

For the three months ended November 30, 2015 as compared to November 30, 2014, other income increased from $11,837 to $14,006 and for the six month period from $16,680 to $17,904, primarily due to dividends received from the investment in our Polish distributor.

For the six months ended November 30, 2015, the Company recorded an income tax benefit of $129,000 which is a result of an increase in the deferred tax asset which resulted from losses incurred during the first six months of the current fiscal year.

**LIQUIDITY AND CAPITAL RESOURCES**

As of November 30, 2015 and May 31, 2015, the Company had cash and cash equivalents in the amount of $642,978 and $1,088,307 and working capital of $3,689,183 and $3,867,668, respectively. During the month of December 2015 the Company collected significant funds owed on accounts receivable and as of the end of that month had approximately $1,081,000 in cash.

During the six months ended November 30, 2015 the Company s operations used cash of $425,042 as compared to cash provided of $183,996 in the same period of the prior fiscal year. Cash used by operations in fiscal 2016 was primarily a result of increased inventories of $214,238, payment of accounts payable of $63,233 and a net loss of $139,103, which was offset by depreciation and amortization of $116,396. Cash provided by operations in the six months ended November 30, 2014 resulted from $231,601 in increased inventories, payment of $88,082 of accounts payable and a net loss of $457,296, which was offset by collection of accounts receivable of $900,454 and depreciation and amortization of $126,176. Cash used in investing activities in the six months ended November 30, 2015 was $29,219, $28,294 of which was for purchases of property and equipment as compared to cash used of $20,890, of which $8,654 was for purchases of property and equipment and $14,136 for increased intangibles in the six months ended November 30, 2014. Cash provided by financing activities for the six months ended November 30, 2015 was a result of the exercise of stock options of $10,298. Cash provided of $3,495 in the prior fiscal year was due to the exercise of stock options.

The Company has been working on a new product for the gastroenterology market. Patent applications for the new product have already been filed and additional patent costs are expected. In addition, the Company is investigating the possibility of U.S. regulatory approval. Should the Company decide to seek such regulatory approval in the U.S., the costs could be substantial.

During July 2015, the Board of Directors approved the execution of an agreement with an investment banker to raise up to $3.0 million through the sale of restricted common stock of the company.

**OFF BALANCE SHEET ARRANGEMENTS** - None.

**CRITICAL ACCOUNTING POLICIES**

The preparation of condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make a number of 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. Such estimates and assumptions affect the reported amounts of revenues and expenses during the reporting period. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ materially from these estimates under different assumptions or conditions. We continue to monitor significant estimates made during the preparation of our financial statements. On an ongoing basis, we evaluate estimates and assumptions based upon historical experience and various other factors and circumstances. We believe our estimates and assumptions are reasonable in the circumstances; however, actual results may differ from these estimates under different future conditions.

We believe that the estimates and assumptions that are most important to the portrayal of our financial condition and results of operations, in that they require subjective or complex judgments, form the basis for the accounting policies deemed to be most critical to us. These relate to revenue recognition, bad debts, inventory overhead application, and inventory reserve. We believe estimates and assumptions related to these critical accounting policies are appropriate under the circumstances; however, should future events or occurrences result in unanticipated consequences, there could be a material impact on our future financial conditions or results of operations. We suggest that our significant accounting policies be read in conjunction with this Management s Discussion and Analysis of Financial Condition and Results of Operations.

**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

**Item 4. CONTROLS AND PROCEDURES**

Our management evaluated the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, as of the end of the period covered by this report. Our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The disclosure controls and procedures have been designed to provide reasonable assurance of achieving their objectives and the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective at the "reasonable assurance" level. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports that we file and submit under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms; and (2) accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In making this assessment, the Company used the framework established in Internal Control Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

There have been no changes in our internal control over financial reporting identified in connection with the evaluation that occurred during our last fiscal quarter that has materially affected, or that is reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. LEGAL PROCEEDINGS.** None.

**Item 1A. RISKS FACTORS.**

You should read the following factors in conjunction with the factors discussed elsewhere in this and our other filings with the Securities and Exchange Commission and in materials incorporated by reference in these filings. The following is intended to highlight certain factors that may affect the financial condition and results of operations of Biomerica, Inc. and are not meant to be an exhaustive discussion of risks that apply to companies such as Biomerica, Inc. Like other businesses, Biomerica, Inc. is susceptible to macroeconomic downturns in the United States or abroad, as were experienced in recent history that may affect the general economic climate and performance of Biomerica, Inc. or its customers.

Aside from general macroeconomic downturns, the additional material factors that could affect future financial results include, but are not limited to: Terrorist attacks and the impact of such events; diminished access to raw materials that directly enter into our manufacturing process; shipping labor disruption or other major degradation of the ability to ship out products to end users; inability to successfully control our margins which are affected by many factors including competition and product mix; protracted shutdown of the U.S. border due to an escalation of terrorist or counter terrorist activity; any changes in our business relationships with international distributors or the economic climate they operate in; any event that has a material adverse impact on our foreign manufacturing operations may adversely affect our operations as a whole; failure to manage the future expansion of our business could have a material adverse effect on our revenues and profitability; possible costs or difficulty in complying with government regulations and the delays in receiving required regulatory approvals or the enactment of new adverse regulations or regulatory requirements; numerous competitors, some of which have substantially greater financial and other resources than we do; potential claims and litigation brought by patients or medical professionals alleging harm caused by the use of or exposure to our products; quarterly variations in operating results caused by a number of factors, including business and industry conditions; concentrations of sales with certain distributors, which have been increasing, could adversely affect the results of the Company if the Company were to lose the sales of that distributor and other factors beyond our control; high balances carried on accounts receivables from concentrated customers; and the costs of recalls, should such occasion arise. All these factors make it difficult to predict operating results for any particular period.

**Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.** None.

**Item 3. DEFAULTS UPON SENIOR SECURITIES.** None.

**Item 4. MINE SAFETY DISCLOSURES.** None**.**

**Item 5. OTHER INFORMATION.**

We held our Annual Meeting of Stockholders on December 16, 2015, to consider and vote on the matters listed below. The proposals are described in detail in the Proxy Statement filed with the Securities and Exchange Commission on September 28, 2015. The final voting results from the meeting are set forth below.

**Proposal 1: Election of Directors**

Based on the following votes, the individuals named below were each elected to serve as our directors until our next Annual Meeting of Stockholders.

| Name | Votes For | Votes Withheld |
|---|---|---|
| Zackary Irani | 3,859,986 | 106,395 |
| Janet Moore | 3,861,967 | 104,414 |
| Allen Barbieri | 3,870,879 | 95,502 |
| Dr. Francis Cano | 3,869,174 | 97,207 |
| Dr. Jane Emerson | 3,845,279 | 121,102 |

**Proposal 2: Ratification of Selection of Independent Auditors**

Based on the following votes, the selection of PKF Certified Public Accountants, A Professional Corporation, as our independent registered public accounting firm for the 2016 fiscal year was ratified.

| Votes For | Votes Against | Abstentions |
|---|---|---|
| 6,167,529 | 54,396 | 33,878 |

**Item 6.**
**EXHIBITS.**

The following exhibits are filed or furnished as part of this quarterly report on Form 10-Q:

| Exhibit No. | Description |
|---|---|
| 31.1* | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act Zackary S. Irani |
| 31.2* | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act Janet Moore |
| 32.1* | Certification Pursuant to Section 906 of the Sarbanes-Oxley Act Zackary S. Irani |
| 32.2* | Certification Pursuant to Section 906 of the Sarbanes-Oxley Act Janet Moore |
| 101 | Interactive data files pursuant to Rule 405 Regulation S-T, as follows: |

101.INS-XBRL Instance Document
101.SCH-XBRL Taxonomy Extension Schema Document

101.CAL-XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB-XBRL Taxonomy Extension Label Linkbase Document

101.PRE-XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has fully caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BIOMERICA, INC.

| | | | |
|---|---|---|---|
| Date: January 14, 2016 | | | |
| | By: | /S/ Zackary S. Irani<br>Zackary S. Irani<br>Director, Chief Executive Officer<br>(Principal Executive Officer) | |
| Date: January 14, 2016 | | | |
| | By: | /S/ Janet Moore<br>Janet Moore<br>Secretary, Director, Chief Financial Officer<br>(Principal Financial Officer) | |