

BIOMERICA INC
Form 10-Q
January 17, 2017

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

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED NOVEMBER 30, 2016

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)

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Delaware

95-2645573

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
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

NASDAQ Capital Market

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

(TITLE OF EACH CLASS)

COMMON STOCK, PAR VALUE \$0.08

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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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data 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 ☒ 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 ☒

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

Yes ☐ No ☒

Indicate the number of shares outstanding of each of the registrant's common stock, as of the latest practicable date: 8,459,423 shares of common stock, par value \$0.08, as of January 11, 2017.

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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		Three Months Ended	
	November 30, 2016	November 30, 2015	November 30, 2016	November 30, 2015
Net sales	\$ 2,842,317	\$ 2,452,073	\$ 1,432,206	\$ 1,165,080
Cost of sales	(1,708,666)	(1,618,611)	(875,522)	(753,039)
Gross profit	1,133,651	833,462	556,684	412,041
Operating Expenses:				
Selling, general and administrative	893,906	731,263	475,257	391,603
Research and development	525,208	388,206	300,963	230,212
Total operating expenses	1,419,114	1,119,469	776,220	621,815
Loss from operations	(285,463)	(286,007)	(219,536)	(209,774)
Other Income (Expense):				
Dividend and interest income	27,043	17,958	16,829	14,024
Interest expense	(180)	(54)	(180)	(18)
Total other income	26,863	17,904	16,649	14,006
Loss before income tax	(258,600)	(268,103)	(202,887)	(195,768)
Income tax benefit	--	(129,000)	--	(129,000)
Net loss	\$ (258,600)	\$ (139,103)	\$ (202,887)	\$ (66,768)
Basic net loss per common share	\$ (0.03)	\$ (0.02)	\$ (0.02)	\$ (0.01)
Diluted net loss per common share	\$ (0.03)	\$ (0.02)	\$ (0.02)	\$ (0.01)
Weighted average number of common and common equivalent shares:				
Basic	8,208,672	7,584,333	8,189,066	7,586,635
Diluted	8,208,672	7,584,333	8,189,066	7,586,635
Net loss	\$ (258,600)	\$ (139,103)	\$ (202,887)	\$ (66,768)
Other comprehensive loss, net of tax:				
Foreign currency translation	(760)	(1,366)	(786)	(1,023)
Comprehensive loss	\$ (259,360)	\$ (140,469)	\$ (203,673)	\$ (67,791)

The accompanying notes are an integral part of these statements.

BIOMERICA, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

sets:

ash equivalents

receivable, less allowance for doubtful accounts of \$30,326 and \$8,405

ember 30, 2016 and May 31, 2016, respectively

, net

penses and other

ent Assets

and Equipment, net of accumulated depreciation and amortization of \$1,479,082 and 3,900 as of November 30, 2016 and May 31, 2016, respectively

ax Assets

S

Assets, net

ts

ts

and Shareholders' Equity

abilities:

payable and accrued expenses

compensation

ent Liabilities

nts and Contingencies (Note 5)

ers' Equity:

stock, no par value authorized 5,000,000 shares , none issued and none outstanding at
r 30, 2016 and May 31, 2016

stock, \$0.08 par value authorized 25,000,000 shares, issued and outstanding 8,300,548 and 8,169,673 at Nover

paid-in-capital

ed other comprehensive loss

ed deficit

holders' Equity

lities and Shareholders' Equity

The accompanying notes are an integral part of these statements.

BIOMERICA, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

Six Months Ended

	2016	November 30, 2015	
Cash flows from operating activities:			
Net loss	\$ (258,600)	\$	(139,103)
Adjustments to reconcile net loss to net cash used in		Depreciation and amortization	
operating activities			110,994
			116,396
		Stock option expense	
			1,237
			2,562
		Change in provision for allowance for doubtful accounts	
			21,921
			(8,653)
		Inventory reserve	
			(9,842)
			4,216

Decrease in deferred rent liability

(3,604)

(13,072)

Increase in deferred tax assets

--

(129,000)

Changes in assets and liabilities:

Accounts receivable

(193,134)

(52,362)

Inventories

(8,188)

(214,238)

Prepaid expenses and other

(32,768)

Cash flows from investing activities:

Purchases of property and equipment

(25,682)

(28,294)

Increase in intangibles

--

(925)

Net cash used in investing activities

(25,682)

(29,219)

Cash flows from financing activities:

Proceeds from exercise of stock options

56,556

10,298

Net cash provided by financing activities

56,556

10,298

Effect of exchange rate changes on cash

(760)

(1,366)

Net decrease in cash and cash equivalents

(277,777)

(445,329)

Cash and cash equivalents at beginning of period

1,888,925

1,088,307

Cash and cash equivalents at end of period

\$

1,611,148

\$

642,978

Supplemental Disclosure of Cash-Flow Information:

Cash paid during the period for:

Interest

\$

180

\$

54

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 accounting principles generally accepted in the United States of America. 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, 2016 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, 2016 for the fiscal year ended May 31, 2016. 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. To date the Mexican subsidiary has had limited activity. 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 allowance for doubtful accounts 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, 2016	May 31, 2016
	Raw materials
	\$
	821,000
	\$
	942,000
	Work in progress
	735,000
	690,000
	Finished products
	325,000

	231,000
Total	
\$	
	1,881,000
\$	
	1,863,000

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. As of November 30, 2016 and May 31, 2016 inventory reserves were approximately \$42,000 and \$52,000, respectively.

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 \$37,501 and \$38,709 for the three months ended November 30, 2016 and 2015, and \$74,472 and \$78,860 for the six months ended November 30, 2016 and 2015, 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 \$20,515 and \$18,813 for the three months ended November 30, 2016 and 2015, respectively, and \$36,522 and \$37,536 for the six months ended November 30, 2016 and 2015, 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, 2016:

	Option	Exercise Price	Weighted Average
	Shares		
Outstanding May 31, 2016	1,199,000	\$	0.81
Exercised	(130,875)		0.43
Cancelled or expired	(5,000)		0.96
Granted	55,000		1.55
Outstanding November 30, 2016	1,118,125	\$	0.89

During the quarter ended November 2016 options to purchase 130,875 shares of common stock were exercised at the exercise prices of \$0.43 and \$0.71 per share. Proceeds to the Company were approximately \$57,000.

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

Shipping and handling fees billed to customers are classified as net sales and shipping and handling costs are classified as cost of 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 \$1,122,000 and \$1,038,000 as of November 30, 2016 and May 31, 2016.

Foreign Currency Translation

The subsidiary located in Germany as well as Mexico is accounted for primarily using local functional currency. Accordingly, assets and liabilities of these subsidiaries 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, 2016 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.

Basic Loss Per Share

Basic losses per share are computed as net loss divided by the weighted average number of common shares outstanding for the period. Diluted loss 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, 2015 was 321,669 and 401,914, respectively. The total amount of anti-dilutive options not included in the loss per share calculation for the three and six months ended November 30, 2016 was 710,242 and 716,995, 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		Three Months Ended	
	November 30,		November 30,	
	2016	2015	2016	2015
Numerator:				
Loss from continuing operations	\$ (258,600)	\$ (139,103)	\$ (202,887)	\$ (66,768)
Denominator for basic loss				
Per common share	8,208,672	7,584,333	8,189,066	7,586,635
Effect of dilutive securities:				
Options	--	--	--	--
Denominator for diluted loss				
per common share	8,208,672	7,584,333	8,189,066	7,586,635
Basic net loss per common share	\$ (0.03)	\$ (0.02)	\$ (0.02)	\$ (0.01)
Diluted net loss per common share	\$ (0.03)	\$ (0.02)	\$ (0.02)	\$ (0.01)

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 accounting principles generally accepted 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. 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. 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.

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 accounting principles generally accepted 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.

On January 5, 2016, the FASB issued ASU 2016-01, *Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* (ASU-2016-01). The release affects public and private companies that hold financial assets or owe financial liabilities. ASU-2016-01 will take effect for public companies for fiscal years beginning after December 15, 2017. Management is evaluating the provisions of this statement and has not determined what impact the adoption of ASU- 2016-01 will have on the Company's financial position or results of operations.

On February 25, 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* (ASU-2016-02). ASU-2016-02 defines whether a contract is a lease. If it is a lease, the Company is required to recognize the lease assets and liabilities. ASU-2016-02 is effective for public companies for the annual periods beginning after December 15, 2018. Management is evaluating the provisions of this statement and has not determined what impact the adoption of ASU-2016-02 will have on the Company's financial position or results of operations.

On March 30, 2016, the FASB issued ASU 2016-09, *Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. The update includes provisions intended to simplify various aspects of accounting for share-based compensation. ASU-2016-09 will take effect for public companies for the annual periods beginning after December 15, 2016. Management is evaluating the provisions of this statement and has not determined what impact the adoption of ASU-2016-09 will have on the Company's financial position or results of operations.

On August 26, 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. This Update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. ASU-2016-15 will take effect for public companies for the fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Management is evaluating the provisions of this statement and has not determined what impact the adoption of ASU-2016-15 will have on the Company's financial position or results of operations.

On November 27, 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This update addresses the fact that diversity exists in the classification and presentation of changes in restricted cash on the statement of cash flows under Topic 230, Statement of Cash Flows. ASU-2016-18 will take effect for public companies for the fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Management is evaluating the provisions of this statement and has not determined what impact the adoption of ASU-2016-18 will have on the Company's financial position or results of operations.

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,	May 31,
2016	2016
	Accounts payable
	\$
	367,158
	\$
	325,984
	Deferred rent

3,897

7,501

Total

\$

371,055

\$

333,485

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, 2016	November 30, 2015	November 30, 2016	November 30, 2015
Revenues from sales to unaffiliated customers:				
United States	\$ 398,000	\$ 405,000	\$ 172,000	\$ 218,000
Asia	1,292,000	852,000	716,000	419,000
Europe	1,018,000	1,092,000	464,000	473,000
South America	30,000	49,000	14,000	32,000
Middle East	91,000	54,000	53,000	23,000
Other	13,000	--	13,000	--
	\$ 2,842,000	\$ 2,452,000	\$ 1,432,000	\$ 1,165,000

No other geographic concentrations exist where net sales exceed 10% of total net sales. For the six month period ended November 30, 2016, one customer accounted for approximately 45% of the Company's consolidated net sales and owed a balance of approximately \$709,000 of which approximately \$298,000 was paid in December 2016.

As of November 30, 2016 and May 31, 2016, approximately \$653,000 and \$659,000 of Biomerica's gross inventory and approximately \$20,000 and \$26,000, 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 ended 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 was \$22,080. In November 2015, the Company signed the First Amendment to Lease to extend the lease until August 31, 2021. The initial base rent for the lease amendment which started September 1, 2016 is \$21,000 per month.

In November 2016 the Company's subsidiary, Biomerica de Mexico, entered into a ten year lease for approximately 8,104 square feet at a monthly rent of \$2,926. The yearly rate is subject to an annual adjustment for inflation according to the United States Bureau of Labor Statistics Consumer Price Index For All Urban Consumers. Biomerica, Inc., is not a guarantor of such lease.

Note 6: Subsequent Events

Subsequent to November 30, 2016 options to purchase 157,625 shares of the Company's common stock were exercised after the end of the quarter ended November 30, 2016 at purchase prices ranging from \$0.43 to \$0.71 per share. Proceeds to the Company totaled approximately \$68,500.

In December 2016 the Company entered into a Clinical Trial Agreement with a major U.S. university to start the clinical trials for a gastrointestinal product that the Company is developing.

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 \$1,432,206 for the three months ended November 30, 2016 as compared to \$1,165,080 for the same period in the previous year. This represents an increase of \$267,126 or 22.9%. For the six month period ended November 30, 2016 as compared to 2015, net sales were \$2,842,317 as compared to \$2,452,073. This represents an increase of \$390,244 or 15.9%. The increase was primarily due to the increase sales in Asia, which were offset by decreased sales in Europe and the U.S.

For the three months ended November 30, 2016 as compared to November 30, 2015, cost of sales decreased as a percentage of sales from 64.6% of sales, or \$753,039, to 61.1% of sales, or \$875,522. For the six months ended November 30, 2016 as compared to 2015, cost of sales decreased as a percentage of sales from 66.0% of sales, or \$1,618,611, to 60.1% of sales, or \$1,708,666. The decrease in the three and six month periods was primarily due to relatively constant wages in relationship to the higher sales volume.

For the three months ended November 30, 2016 compared to 2015, selling, general and administrative costs increased by \$83,654, or 21.4%. For the six month period ended November 30, 2016 as compared to 2015, these expenses increased by \$162,643, or 22.2%. The overall increase in selling, general and administrative costs was primarily due to fees related to uplisting to Nasdaq, higher commissions, wages, outside services and an increase to

the allowance for doubtful accounts.

For the three months ended November 30, 2016 compared to 2015, research and development expenses increased by \$70,751 or 30.7%. For the six month period ended November 30, 2016 as compared to 2015, these expenses increased by \$137,002, or 35.3%. The increases were primarily due to research being done related to new products, regulatory approvals, and patent application preparation in addition to development work performed on current products.

LIQUIDITY AND CAPITAL RESOURCES

As of November 30, 2016 and May 31, 2016, the Company had cash and cash equivalents in the amount of \$1,611,148 and \$1,888,925 and working capital of \$4,205,524 and \$4,329,041, respectively.

During the six months ended November 30, 2016 the Company's operations used cash of \$307,891 as compared to \$425,042 in the same period of the prior fiscal year. The cash used by operations of \$307,891 for the six months ended November 30, 2016 was primarily a result of increased receivables of \$193,134 and a net loss of \$258,600, which was offset by depreciation and amortization of \$110,994 as compared to cash used by operations of \$425,042 for the six months ended November 30, 2015 which resulted from \$214,238 in increased inventories, payment of \$63,233 of accounts payable and a net loss of \$139,103, which was offset by depreciation and amortization of \$116,396. Cash used in investing activities in the six months ended November 30, 2016 was \$25,682 which was for purchases of property and equipment as compared to the six months ended November 30, 2015 during which cash used was \$29,219, of which \$28,294 was for purchases of property and equipment and \$925 for increased intangibles. Cash provided by financing activities for the six months ended November 30, 2016 was a result of the exercise of stock options of \$56,556. Cash provided of \$10,298 in the prior fiscal year was due to the exercise of stock options.

The Company has been working on new products for the gastroenterology market. Patent applications for the new products have been filed and the Company has been working on obtaining additional patents and U.S. regulatory approvals. The Company has been spending significant funds on the research, development and related costs and expects this will continue in order to obtain the desired patents and approvals.

The Board of Directors has authorized the Company to pursue the filing of an S-3 shelf registration statement. The Company does not intend to immediately sell the securities if the registration becomes active.

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.

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 AND UNCERTAINTIES.

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. Our results may fluctuate adversely as a result of many factors that are outside our control, which may negatively impact our stock price. Sales of our common stock in the public market could lower the market price for our common stock and the price of our stock could fluctuate unpredictably in response to various factors. The Company does not anticipate paying dividends in the foreseeable future, which could affect the market price of the stock.

There is no assurance that we will be able to remain competitive and develop new products and markets for these products. Raising funds to support this development may be difficult and the inability to do so may impact our ability to develop these new products. Acceptance of these new products by health care providers and physicians could have a negative impact on future sales.

Our business is subject to regulation by various governmental agencies. Our results of operations could be negatively impacted by failures or delays in approvals or the loss of previously received approvals or changes to existing laws and regulations. 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 could affect results adversely.

Interruptions in the supply of raw materials could adversely affect our operations and results. Inability to successfully control our margins is affected by many factors including competition and product mix.

The loss of key personnel and the inability to hire key personnel could affect the business.

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; 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; 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-the loss of certain of these distributors could lead to significantly reduced sales, which have been increasing. This 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 could result in write-offs of accounts receivable; 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 14, 2016, 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, 2016. 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.

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Name	Votes For	Votes Withheld
Zackary Irani	3,643,894	85,204
Janet Moore	3,644,373	84,725
Allen Barbieri	3,621,504	107,594
Dr. Francis Cano	3,622,957	106,141
Dr. Jane Emerson	3,647,400	81,698
Dr. Mark Sirgo	3,642,704	86,394

Proposal 2: To approve on an advisory, non-binding basis the named executive officers' compensation.

The results of the votes received for Proposal No. 2 will be considered by the Company's Compensation Committee.

FOR	3,200,179	AGAINST	515,801	ABSTAIN	13,118
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Proposal 3: 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 2017 fiscal year was ratified.

<u>Votes For</u>	<u>Votes Against</u>	<u>Abstentions</u>
6,279,624	128,201	47,509

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.

By:

/S/ Zackary S. Irani

Zackary S. Irani

Director, Chief Executive Officer

(Principal Executive Officer)

Date: January 17, 2017

By:

/S/ Janet Moore

Janet Moore

Secretary, Director, Chief Financial Officer

(Principal Financial Officer)

Date: January 17, 2017

