

BIOMERICA INC
Form 10-Q
April 14, 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 FEBRUARY 28, 2017

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
incorporation or organization)

(I.R.S. Employer
Identification No.)

17571 Von Karman Avenue, Irvine, CA

92614

(Address of principal executive offices)

(Zip Code)

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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

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

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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:
8,508,173 shares of common stock, par value \$0.08, as of April 14, 2017.

BIOMERICA, INC.
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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)

	Nine Months Ended			Three Months Ended
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
	\$ 4,342,247	\$ 3,813,683	\$ 1,499,930	\$
ales	(2,759,169)	(2,635,701)	(1,050,503)	(1,
ofit	1,583,078	1,177,982	449,427	
g Expenses:				
general and administrative	1,404,334	1,159,624	510,428	
n and development	781,929	573,473	256,721	
erating expenses	2,186,263	1,733,097	767,149	
m operations	(603,185)	(555,115)	(317,722)	(
come (Expense):			Dividend and interest income	

Interest expense

Total other income

Loss before income tax benefit

Income tax benefit

Net loss

\$

\$

\$

\$

Basic net loss per common share

\$

\$

\$

\$

Diluted net loss per common share

\$

\$

\$

\$

Weighted average number of common and common equivalent s

Basic

8

7

8

7

Diluted

8

7

8

7

Net loss

\$

(

\$

(

\$

(

\$

(

Other comprehensive loss, net of tax:

Foreign currency translation

Comprehensive loss

\$

\$

\$

\$

(

The accompanying notes are an integral part of these statements.

1

BIOMERICA, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
February
28, 2017
(unaudited)

Current Assets:

Cash and cash equivalents

\$

\$

Accounts receivable, less allowance for doubtful accounts of \$67,595 and \$8,405
as of February 28, 2017 and May 31, 2016, respectively

Inventories, net

1,

1,

1,

Prepaid expenses and other

Total current assets

4,

4,

Property and Equipment, net of accumulated depreciation and amortization of \$1,513,598 and
\$1,423,900 as of February 28, 2017 and May 31, 2016, respectively

Deferred Tax Assets

Investments

Intangible Assets, net

Other Assets

Total Assets

\$

5,

\$

5,

Liabilities and Shareholders' Equity

Current Liabilities:

Accounts payable and accrued expenses

\$

\$

Accrued compensation

Total current liabilities

Commitments and Contingencies (Note 5)

Shareholders' Equity:

Preferred stock, no par value authorized 5,000,000 shares , none issued and none outstanding
February 28, 2017 and May 31, 2016

Common stock, \$0.08 par value authorized 25,000,000 shares, issued and outstanding 8,500,000
and 8,169,673 at February 28, 2017 and May 31, 2016, respectively

Additional paid-in-capital

	19,
	19,
Accumulated other comprehensive loss	(
	(
Accumulated deficit	
	(15,3
	(14,8
Total Shareholders' Equity	
	4,
	5,
Total Liabilities and Shareholders' Equity	
\$	
	5,
\$	
	5,

The accompanying notes are an integral part of these statements.

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

(UNAUDITED)

Nine Months Ended

	February 28, 2017	February 29, 2016
Cash flows from operating activities:		
Net loss	\$ (562,741)	\$ (274,105)
Adjustments to reconcile net loss to net cash used in		
operating activities:		163,587
Depreciation and amortization		174,554
Stock option expense		10,009
Change in provision for allowance on accounts receivable		25,869
Inventory reserve		59,190
Increase (decrease) in deferred rent liability		(9,012)
		(12,799)
		12,220

	2,510
	(20,573)
Increase in deferred tax assets	--
	(254,000)
Changes in assets and liabilities:	
Accounts receivable	(161,562)
	200,638
Inventories	57,666
	(84,949)
Prepaid expenses and other	(98,452)
	62,269
	24

Accounts payable and accrued expenses

170,869

(44,559)

Other assets

(9,185)

(11,448)

Accrued compensation

(8,472)

28,040

Net cash used in operating activities

(389,380)

	(195,056)
Cash flows from investing activities:	
Increase in intangibles	--
	(925)
Purchases of property and equipment	
	(95,833)
	(69,998)
Net cash used in investing activities	
	(95,833)
	(70,923)
Cash flows from financing activities:	

Proceeds from exercise of stock options

138,997

38,256

Net cash provided by financing activities

138,997

38,256

Effect of exchange rate changes in cash

(1,001)

(1,439)

Net decrease in cash and cash equivalents

(347,217)

	(229,162)
Cash and cash equivalents at beginning of period	
	1,888,925
	1,088,307
Cash and cash equivalents at end of period	
\$	
	1,541,708
\$	
	859,145
Non-cash investing and financing activities:	

Exercise of stock options for reduction of accrued expenses

\$

14,190

\$

--

Supplemental Disclosure of Cash-Flow Information:

Cash paid during the period for:

Interest

\$

242

\$

17

Income taxes

\$

800

\$

800

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 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 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 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. 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.

Concentration of Credit Risk

The Company maintains cash balances at certain financial institutions in excess of amounts insured by federal agencies. The Company does not believe it is exposed to significant credit risks.

The Company provides credit in the normal course of business to customers throughout the United States and foreign markets. At February 28, 2017 and May 31, 2016 the Company had one customer which accounted for 32.9% and 50.2%, respectively, of gross accounts receivable. This customer also accounted for approximately 38.1% and 28.0%, of consolidated sales for the nine months ended February 28, 2017 and February 29, 2016, respectively.

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.

Occasionally certain long-standing customers, who routinely place large orders, will have unusually large accounts receivable balances relative to the total gross accounts receivable. Management monitors 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:

February 28, 2017	May 31, 2016
	Raw materials
	\$
	903,000
	\$
	942,000
	Work in progress
	772,000
	690,000
	Finished products
	143,000

	231,000
Total	
\$	
	1,818,000
\$	
	1,863,000

Reserves for inventory obsolescence are reduced 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 February 28, 2017 and May 31, 2016 inventory reserves were approximately \$39,000 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 \$33,688 and \$38,370 for the three months ended February 28, 2017 and February 29, 2016, and \$108,160 and \$117,230 for the nine months ended February 28, 2017 and February 29, 2016, 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 and licenses, and 17 years for patents. Amortization amounted to \$18,905 and \$19,788 for the three months ended February 28, 2017 and February 29, 2016, respectively, and \$55,427 and \$57,324 for the nine months ended February 28, 2017 and February 29, 2016, 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 and warrants granted, exercised, expired, cancelled and outstanding as of February 28, 2017:

	Option	Exercise	Price
	Shares	Weighted	Average
Outstanding May 31, 2016	1,199,000	\$	0.81
Granted	55,000		1.55
Exercised	(335,500)		0.46
Cancelled or expired	(11,500)		0.97
Outstanding February 28, 2017	907,000	\$	0.98

During the nine months ended February 28, 2017 options to purchase 335,500 shares of common stock were exercised at prices ranging from \$0.43 to \$1.04 per share. Proceeds to the Company were approximately \$138,997.

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 on deferred income tax assets of approximately \$1,225,000 and \$1,038,000 as of February 28, 2017 and May 31, 2016, respectively.

Foreign Currency Translation

The subsidiaries located in Germany and Mexico are 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 Net 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 loss per share calculation for the three and nine months ended February 28, 2017 was 557,271 and 552,656, respectively. The total amount of options not included in the loss per share calculation for the three and nine months ended February 29, 2016 was 484,983 and 415,960, respectively.

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

	Nine Months Ended		Three Months Ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Numerator:				
Net loss	\$ (562,741)	\$ (274,105)	\$ (304,141)	\$ (135,002)
Denominator for basic loss				
per common share	8,269,791	7,595,273	8,433,932	7,617,272
Effect of dilutive securities:				
Options and warrants	--	--	--	--
Denominator for diluted loss				
per common share	8,269,791	7,595,273	8,433,932	7,617,272
Basic net loss per common share	\$ (0.07)	\$ (0.04)	\$ (0.04)	\$ (0.02)
Diluted net loss per common share	\$ (0.07)	\$ (0.04)	\$ (0.04)	\$ (0.02)

New Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (ASU2014-09). 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 ASU2015 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* (ASU201601). 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* (ASU 2016-09). 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* (ASU 2016-15). 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* (ASU 2016-18). 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.

In January 2017 the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350), Simplifying the test for Goodwill Impairment* (ASU 2017-04). This update addresses how an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. ASU 2017-04 will take effect for public companies for the fiscal years beginning after December 15, 2019. Management is evaluating the provisions of this statement and has not determined what impact the adoption of ASU 2017-04 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 expenses consist of the following at:

February 28, 2017	May 31, 2016
	Accounts payable and accrued expenses
	\$ 482,663
	\$ 325,984
	Deferred rent
	10,011
	7,501
	Total
	\$ 492,674
	\$

Note 4: Geographic Information

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

	Nine Months Ended		Three Months Ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Revenues from sales to unaffiliated customers:				
United States	\$ 743,000	\$ 776,000	\$ 345,000	\$ 370,000
Asia	1,740,000	1,219,000	448,000	367,000
Europe	1,672,000	1,634,000	654,000	543,000
South America	43,000	50,000	13,000	1,000
Middle East	127,000	134,000	37,000	81,000
Other	17,000	1,000	3,000	--
	\$ 4,342,000	\$ 3,814,000	\$ 1,500,000	\$ 1,362,000

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

As of February 28, 2017 and May 31, 2016, approximately \$548,000 and \$659,000, of Biomerica's gross inventory and approximately \$18,000 and \$26,000, of Biomerica's property and equipment, net of accumulated depreciation, 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 entered into a First Amendment to Lease whereby the lease for the above referenced 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.

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.

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 ABILITY OF THE COMPANY TO MAINTAIN REQUIREMENTS TO BE LISTED ON NASDAQ, 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 or urine 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 \$1,499,930 for the three months ended February 28, 2017 as compared to \$1,361,608 for the period ended February 29, 2016. This represents an increase of \$138,322, or 10.2%. For the nine month periods ended February 28, 2017 as compared to February 29, 2016, net sales were \$4,342,247 as compared to \$3,813,683, an increase of \$528,564, or 13.9%. The sales increases for both periods were primarily a result of increased clinical laboratory products sales to Asia and for the three months an increase in clinical laboratory sales in

Europe.

For the three months ended February 28, 2017 as compared to the three months ended February 29, 2016, cost of sales decreased as a percentage of sales from 74.7% of sales, or \$1,017,090, to 70.0% of sales, or \$1,050,503. For the nine months ended February 28, 2017 as compared to February 29, 2016, cost of sales as a percentage of sales decreased from 69.1% of sales, or \$2,635,701, to 63.5% of sales or \$2,759,169. The decrease in cost of sales as a percentage of sales during the three and nine months ended February 28, 2017 was primarily a result of the higher sales offsetting fixed expenses as well as a decrease in material costs.

For the three months ended February 28, 2017 compared to February 29, 2016, selling, general and administrative costs increased by \$82,072, or 19.2%. For the nine months ended February 28, 2017 as compared to February 29, 2016, general and administrative costs increased by \$244,710, or 21.1%. The increase for the quarter ended February 28, 2017 compared to February 29, 2016 was primarily due to the increase in bad debt expense due to a reserve being established for two foreign accounts which are overdue. The increase for the nine months ended February 28, 2017 compared to February 29, 2016 was due to the increase in bad debt expense, Nasdaq filing fees associated with being uplisted to Nasdaq and relating on-going fees, legal fees related to the uplisting, the costs associated with attending investment conferences and consultants.

For the three months ended February 28, 2017 compared to February 29, 2016, research and development expenses increased by \$71,451, or 38.6%. For the nine month period ended February 28, 2017 as compared to February 29, 2016, these expenses increased by \$208,456, or 36.3%. The increase for both periods was due to research being done related to new products, regulatory applications and patent application preparation in addition to development work performed on current products.

For the three and nine months ended February 28, 2017 as compared to February 29, 2016, dividend and interest income and interest expense increased by \$4,475 and by \$13,434, respectively. Both increases were primarily due to dividends received from the Polish distributor in which the Company owns approximately 6%.

LIQUIDITY AND CAPITAL RESOURCES

As of February 28, 2017 and May 31, 2016, the Company had cash and cash equivalents in the amount of \$1,541,708 and \$1,888,925 and working capital of \$3,987,064 and \$4,329,041, respectively.

During the nine months ended February 28, 2017, the Company's operations used cash of \$389,380 compared to \$195,056 in the same period of the prior fiscal year. Cash used in operations in fiscal 2017 was a result of the net loss of \$562,741, increases of \$161,562 in accounts receivable, and increases of prepaid expenses in the amount of \$98,452, which were offset by a \$170,869 increase in accounts payable. In the period ended February 29, 2016, cash decreased by \$195,056 which was primarily the result of the net loss of \$274,105, an increase in inventories of \$84,949 and a decrease in accounts payables of \$44,559 which was offset by a decrease in accounts receivable of \$200,638. Cash used in investing activities in the nine months ended February 28, 2017 was \$95,833 compared to the nine months ended February 29, 2016 of \$70,923. For both fiscal years these decreases in cash were primarily attributable to purchases of property and equipment. The Company received \$138,997 from the exercise of stock options during the nine month period ended February 28, 2017, as compared to \$38,256 during the nine months ended February 29, 2016.

The Company has been working on new products for the gastroenterology market. Patent applications for the new products 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.

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 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. None.

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:

*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

Chief Executive Officer

(Principal Executive Officer)

Date: April 14, 2017

By:

/S/ Janet Moore

Janet Moore

Chief Financial Officer

(Principal Financial Officer)

Date: April 14, 2017

