

BIOMERICA INC
Form 10-Q
April 14, 2016

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 29, 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

OTC-BULLETIN BOARD

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

(TITLE OF EACH CLASS)

COMMON STOCK, PAR VALUE \$0.08

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

required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes 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:
7,659,339 shares of common stock, par value \$0.08, as of April 14, 2016.

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 29,	
	2016	
	February 28,	
	2015	
	February 29,	
	2016	
	February 28,	
	2015	
Net sales		
\$		3,813,683
\$		3,467,450

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\$

1,361,608

\$

1,299,400

Cost of sales

(2,635,701)

(2,391,464)

(1,017,090)

(840,568)

Gross profit

1,177,982

1,075,986

344,518

458,832

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Operating Expenses:

Selling, general and administrative

1,159,624

1,123,073

428,356

409,737

Research and development

573,473

562,420

185,270

	184,632
Total operating expenses	
	1,733,097
	1,685,493
	613,626
	594,369
Loss from operations	
	(555,115)
	(609,507)
	(269,108)
	(135,537)
Other Income (Expense):	

Dividend and interest income

27,134

18,421

9,175

1,724

Interest expense

(124)

(17)

(69)

--

Total other income

27,010

18,404

9,106

1,724

Loss before income tax benefit

(528,105)

(591,103)

(260,002)

(133,813)

Income tax benefit

254,000

16,620

125,000

16,620

Net loss

\$

(274,105)

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\$

(574,483)

\$

(135,002)

\$

(117,193)

Basic net loss per common share

\$

(0.04)

\$

(0.08)

\$

(0.02)

\$

(0.02)

Diluted net loss per common share

\$

(0.04)

\$

(0.08)

\$

(0.02)

\$

(0.02)

Weighted average number of common and common equivalent shares:

Basic

7,595,273

7,551,447

7,617,272

Diluted 7,554,603

7,595,273

7,551,447

7,617,272

7,554,603

Net loss

\$

(274,105)

\$

(574,483)

\$

(135,002)

\$

(117,193)

Other comprehensive loss, net of tax:

Foreign currency translation

(1,439)

(1,987)

	(73)
	(308)
Comprehensive loss	
\$	(275,544)
\$	(576,470)
\$	(135,075)
\$	(117,501)

The accompanying notes are an integral part of these statements.

BIOMERICA, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

equivalents

able, less allowance for doubtful accounts of \$8,456 and \$17,468 as of February 29, 2016 and May 31, 2015, respectively

and other

ts

ipment, net of accumulated depreciation and amortization of \$1,384,847 and \$1,267,617 as of February 29, 2016 and May 31, 2015, res

ets

, net

Shareholders' Equity

S:

and accrued expenses

sation

ilities

d Contingencies (Note 5)

uity:

no par value authorized 5,000,000 shares, none issued and none outstanding at February 29, 2016 and May 31, 2015

0.08 par value authorized 25,000,000 shares, issued and outstanding 7,659,339 and 7,566,714 at February 29, 2016 and May 31, 2015,

n-capital

er comprehensive loss

icit

rs' Equity

and Shareholders' Equity

The accompanying notes are an integral part of these statements.

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

(UNAUDITED)

February 29, 2016	Nine Months Ended February 28, 2015
	Cash flows from operating activities:
	Net loss
	\$
	(274,105)
	\$
	(574,483)
	Adjustments to reconcile net loss to net cash (used in) provided by operating activities:
	Depreciation and amortization
	174,554

	192,670
Stock option expense	
	25,869
	6,063
Change in provision for losses on accounts receivable	
	(9,012)
	(12,993)
Gain on disposal of property and equipment	
	--
	(665)
Inventory reserve	
	12,220
	7,328
Decrease in deferred rent liability	
	(20,573)
	(14,834)
Increase in deferred tax assets	

	(254,000)
	--
Changes in assets and liabilities:	
Accounts receivable	
	200,638
	529,304
Inventories	
	(84,949)
	(352,354)
Prepaid expenses and other assets	
	62,269
	(26,521)
Accounts payable and accrued expenses	
	(44,559)
	(73,902)
Other assets	

(11,448)

(14,788)

Accrued compensation

28,040

16,262

Net cash used in operating activities

(195,056)

(318,913)

Cash flows from investing activities:

Proceeds from sale of equipment	--
	1,900
Increases in intangibles	
	(925)
	(14,135)
Purchases of property and equipment	
	(69,998)
	(8,656)

Net cash used in investing activities

(70,923)

(20,891)

Cash flows from financing activities:

Proceeds from exercise of stock
options

38,256

	4,355
Net cash provided by financing activities	
	38,256
	4,355
Effect of exchange rate changes in cash	
	(1,439)
	(1,987)
Net decrease in cash and cash equivalents	
	(229,162)
	(337,436)
Cash and cash equivalents at beginning of period	
	1,088,307
	1,509,125

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Cash and cash equivalents at end of period

\$

859,145

\$

1,171,689

Supplemental Disclosure of
Cash-Flow Information:

Cash paid during the period for:

Interest

\$

124

\$

17

Income taxes

\$

800

\$

800

The accompanying notes are an integral part of these statements.

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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 data as of May 31, 2015 was derived from audited financial statements. The accompanying interim condensed consolidated financial statements should be read in conjunction with the financial statements and related notes included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on August 29, 2015 for the fiscal year ended May 31, 2015. The results of operations for our interim periods are not necessarily indicative of results to be achieved for our full fiscal year.

Note 2: Significant Accounting Policies

Principles of Consolidation

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

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Actual results could materially differ from those estimates.

Cash and Cash Equivalents

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

Accounts Receivable

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

Occasionally certain long-standing customers, who routinely place large orders, will have unusually large accounts 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 29,	May 31,
	2016	2015
Raw materials	\$ 1,061,000	\$ 958,000
Work in progress	791,000	831,000
Finished products	248,000	238,000
Total	\$ 2,100,000	\$ 2,027,000

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.

Property and Equipment

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

Depreciation and amortization are provided over the estimated useful lives of the related assets, ranging from 5 to 10 years, using the straight-line method. Leasehold improvements are amortized over the lesser of the estimated useful life of the asset or the term of the lease. Depreciation and amortization expense on property and equipment and leasehold improvements amounted to \$38,370 and \$46,819 for the three months ended February 29, 2016 and February 28, 2015, and \$117,230 and \$136,337 for the nine months ended February 29, 2016 and February 28, 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 \$19,788 and \$19,674 for the three months ended February 29, 2016 and February 28, 2015, respectively, and \$57,324 and \$56,333 for the nine months ended February 29, 2016 and February 28, 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 and warrants granted, exercised, expired, cancelled and outstanding as of February 29, 2016:

		Exercise Price Weighted Average
Option Shares	Outstanding May 31, 2015	
	1,148,000	
	\$	
	0.60	
	Granted	
	70,000	
	1.04	
	Exercised	
	(92,625)	
	0.41	
	Cancelled or expired	
	(21,375)	

0.70

Outstanding
February 29,
2016

1,104,000

\$

0.64

Revenue Recognition

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

Investments

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

Shipping and Handling Fees and Costs

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

Research and Development

Research and development costs are expensed as incurred.

Income Taxes

The Company has provided a valuation allowance of \$0 as of February 29, 2016 and May 31, 2015.

Foreign Currency Translation

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

Reclassification

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

Deferred Rent

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

Net Loss Per Share

Basic earnings (loss) per share are computed as net income (loss) divided by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per share reflect the potential dilution that could occur from common shares issuable through stock options, warrants and other convertible securities. The total amount of anti-dilutive options not included in the earnings (loss) per share calculation for the three and nine months ended February 29, 2016 was 484,983 and 415,960, respectively. The total amount of anti-dilutive warrants or options not included in the earnings (loss) per share calculation for the three and nine months ended February 28, 2015 was 364,319 and 403,524, respectively.

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

Nine Months			Three Months
Ended			Ended
February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
			Numerator:

Net loss	
\$	(274,105)
\$	(574,483)
\$	(135,002)
\$	(117,193)
Denominator for basic net loss Per common share	7,595,273
	7,551,447

7,617,272

7,554,603

Effect of dilutive securities:

Options and warrants

--

--

--

--

Denominator for diluted net loss per common share

7,595,273

7,551,447

7,617,272

7,554,603

Basic net loss per common share

\$

(0.04)

\$

(0.08)

\$

(0.02)

\$

(0.02)

Diluted net loss per common share

\$

(0.04)

\$

(0.08)

\$

(0.02)

\$

(0.02)

New Accounting Pronouncements

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

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

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

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

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-S016-09 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.

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 29, 2016	May 31, 2015
	Accounts payable and accrued expenses
\$	312,006
	Deferred rent
\$	356,565
	Total
\$	15,001
	Total
\$	35,574
	Total
\$	327,007
	Total
\$	392,139

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 29,	February 28,	February 29,	February 28,
2016	2015	2016	2015
Revenues from sales to unaffiliated customers:			

United States

\$

776,000

\$

784,000

\$

370,000

\$

310,000

Asia

1,219,000

494,000

367,000

375,000

Europe

1,634,000

2,031,000

543,000

587,000

South America

50,000

	8,000
	1,000
	3,000
Middle East	
	134,000
	136,000
	81,000
	23,000
Other	
	1,000
	14,000
	--
	1,000

\$	3,814,000
\$	3,467,000
\$	1,362,000
\$	1,299,000

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

As of February 29, 2016 and May 31, 2015, approximately \$701,000 and \$530,000, of Biomerica's gross inventory and approximately \$28,000 and \$35,000, 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 ends August 31, 2016. The initial base rent was set at \$18,490 per month with scheduled annual increases through the end of the lease term. The rent is currently set at \$22,080 per month.

On November 30, 2015, the Company entered into a First Amendment to Lease whereby the lease for the above 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.

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

On March 21, 2015, the Company's line of credit in the amount of \$250,000 expired.

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 \$1,361,608 for the three months ended February 29, 2016 as compared to \$1,299,400 for the period ended February 28, 2015. This represents an increase of \$62,208, or 4.8%. The increase for the three month period was primarily due to domestic sales as well as new accounts in the Middle East. For the nine month periods ended February 29, 2016 as compared to February 28, 2015, net sales were \$3,813,683 as compared to \$3,467,450, an increase of \$346,233, or 10.0%, primarily due to increased sales in Asia, which were offset by decreases in Europe.

For the three months ended February 29, 2016 as compared to the three months ended February 28, 2015, cost of sales increased as a percentage of sales from 64.7% of sales or \$840,568, to 74.7% of sales, or \$1,017,090. For the nine months ended February 29, 2016 as compared to February 28, 2015, cost of sales as a percentage of sales increased from 69.0% of sales or \$2,391,464, to 69.1% of sales or \$2,635,701. The increase in cost of sales as a percentage of sales during the three months ended February 29, 2016 was primarily a result of a mix of products sold that had lower profit margins and higher than usual regulatory costs.

For the three months ended February 29, 2016 compared to February 28, 2015, selling, general and administrative costs increased by \$18,619, or 4.5%. For the nine months ended February 29, 2016 as compared to February 28, 2015, general and administrative costs increased by \$36,551, or 3.3%. The increases were primarily due to increased outside services and stock option expense.

For the three months ended February 29, 2016 compared to February 28, 2015, research and development expenses increased by \$638, or 0.3%. For the nine month period ended February 29, 2016 as compared to February 28, 2015, these expenses increased by \$11,053, or 2.0%. The increase for both periods was due to research being done related to new products, regulatory approvals and patent application preparation.

For the three and nine months ended February 29, 2016 as compared to February 28, 2015, dividend and interest income and interest expense increased by \$7,382 and by \$8,606, 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 29, 2016 and May 31, 2015, the Company had cash and cash equivalents in the amount of \$859,145 and \$1,088,307 and working capital of \$3,494,432 and \$3,867,668, respectively.

During the nine months ended February 29, 2016, the Company's operations used cash of \$195,056 compared to \$318,913 in the same period of the prior fiscal year. Cash used in operations in fiscal 2016 was a result of the net loss of \$274,105, increases of \$84,949 in inventory, and decreases of accounts payable and accrued expenses in the amount of \$44,559, which was offset by collection of trade accounts receivable of \$200,638 and depreciation and amortization of \$174,554. Cash used in investing activities in the nine months ended February 29, 2016 was \$70,923 compared to the nine months ended February 28, 2015 of \$20,891. The increase was attributable to purchases of property and equipment. The Company received \$38,256 from the exercise of stock options during the nine month period ended February 29, 2016, as compared to \$4,355 during the nine months ended February 28, 2015.

On March 21, 2015, the Company's \$250,000 line of credit agreement expired.

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

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

OFF BALANCE SHEET ARRANGEMENTS - None.

CRITICAL ACCOUNTING POLICIES

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

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

Item 4. CONTROLS AND PROCEDURES

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

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

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS. None.

Item 1A. RISKS FACTORS.

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

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

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

Item 3. DEFAULTS UPON SENIOR SECURITIES. None.

Item 4. MINE SAFETY DISCLOSURES. None.

Item 5. OTHER INFORMATION. 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:
	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