BIOMERICA INC
Form 10-Q
April 15, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED FEBRUARY 28, 2019

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)

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 [X]

No [_]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Date File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (paragraph 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [_]

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

Large Accelerated Filer [_] Accelerated Filer [_]

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes [_] No [X]

Indicate the number of shares outstanding of each of the registrant's common stock, as of the latest practicable date: 9,667,188 shares of common stock, par value $0.08, as of April 15, 2019.

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, 2019	February 28, 2018	February 28, 2019	February 28 2018
Net sales	$ 4,034,822	$ 4,433,785	$ 1,261,161	$ 1,375,666
Cost of sales	(2,923,615)	(2,947,652)		

(895,237)

(910,295)

Gross profit

1,111,207

1,486,133

365,924

465,371

Operating Expense:

Selling, general and administrative

1,488,890

1,409,164

576,070

434,658

Research and development

1,270,288

914,581

497,102

353,559

Total operating expenses

2,759,178

2,323,745

1,073,172

788,217

Loss from operations

(1,647,971)

(837,612)

(707,248)

(322,846)

Other Income (Expense):

Dividend and interest income

40,288

39,438

28,502

355

Interest expense

(47)

(37)

--

--

Total other income

40,241

39,401

28,502

355

Loss before income taxes

(1,607,730)

(798,211)

(678,746)

(322,491)

Provision for income taxes

--

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--

--

Net loss

$

(1,607,730)

$

(798,211)

$

(678,746)

$

(322,491)

Basic net loss per common share	$	(0.18)	$	(0.09)	$	(0.07)	$	(0.04)
Diluted net loss per common share	$	(0.18)	$	(0.09)	$	(0.07)	$	(0.04)

Weighted average number of common and common equivalent shares:	
Basic	
	9,103,225
	8,529,009
	9,322,549
	8,556,480
Diluted	
	9,103,225
	8,529,009
	9,322,549
	8,556,480

Net loss	$	(1,607,730)	$	(798,211)	$	(678,746)	$	(322,491)

Other comprehensive loss, net of tax:

Foreign currency translation

(7,385)

(6,308)

(1,579)

(1,140)

Comprehensive loss

$

(1,615,115)

$

(804,519)

$

(680,325)

$

(323,631)

The accompanying notes are an integral part of these statements.

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BIOMERICA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

Assets	February 28, 2019 (unaudited)	May 31, 2018 (audited)
Current Assets:		
Cash and cash equivalents	$ 917,935	$ 1,204,903
Accounts receivable, less allowance for doubtful accounts of $70,887 and $57,695 as of February 28, 2019 and May 31, 2018, respectively		

1,077,475

799,940

Inventories, net

2,080,284

2,178,777

Prepaid expenses and other

253,637

300,409

Total current assets

4,329,331

4,484,029

Property and Equipment, net of accumulated depreciation and amortization of $1,739,246 and $1,661,128 as of February 28, 2019

and May 31, 2018, respectively

345,978

351,149

Deferred Tax Assets

10,000

10,000

Investments

165,324

165,324

Intangible Assets, net	95,153	98,923
Other Assets	122,141	113,157
Total Assets	$ 5,067,927	$ 5,222,582
Liabilities and Shareholders' Equity		

Current Liabilities:				
Accounts payable and accrued expenses	$	889,702	$	686,956
Accrued compensation		223,754		209,852
Total current liabilities				

1,113,456

896,808

Commitments and Contingencies (Note 6)

Shareholders' Equity:

Preferred stock, no par value authorized 5,000,000 shares, none issued
and none outstanding at February 28, 2019 and May 31, 2018

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Common stock, $0.08 par value authorized 25,000,000 shares, issued and outstanding 9,333,657 and 8,888,011 at February 28, 2019 and May 31, 2018, respectively

746,691

711,040

Additional paid-in-capital

22,049,039

20,843,550

Subscriptions receivable

(6,390)

(9,062)

Accumulated other comprehensive loss

(33,521)

(26,136)

Accumulated deficit

(18,801,348)

	(17,193,618)
Total Shareholders' Equity	
	3,954,471
	4,325,774
Total Liabilities and Shareholders' Equity	
$	5,067,927
$	5,222,582

The accompanying notes are an integral part of these statements.

BIOMERICA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (Unaudited)

Nine Months Ended February 28, 2019

Accumulated

Other

Comprehensive

Loss

Additional

Paid-in

Capital

Common Stock

Subscriptions

Receivable

Accumulated

Deficit

Total

Shares

Amount

Balances, May 31, 2018

8,888,011

$

711,040

$

20,843,550

$

(9,062)

$

(26,136)

$

(17,193,618)

$

4,325,774

Exercise of stock options

109,500

8,760

74,230

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--

82,990

Net proceeds from sales of Common stock

336,146

26,891

984,745

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1,011,636

Stock subscription receivable

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--

2,672

--

--

2,672

Foreign
currency
translation

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(7,385)

--

(7,385)

Compensation
expense in

connection
with options
granted

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146,514

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146,514

Net loss

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(1,607,730)

(1,607,730)

Balances,
February 28,
2019

9,333,657

$

746,691

$

22,049,039

$

(6,390)

$

(33,521)

$

(18,801,348)

$

3,954,471

The accompanying notes are an integral part of these statements.

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BIOMERICA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Nine Months Ended	
	February 28, 2019	February 28, 2018
Cash flows from operating activities:		
Net loss	$ (1,607,730)	$ (798,211)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	128,114	139,864
Stock option expense	146,514	10,927
Change in allowance on accounts receivable	13,192	4,357
Inventory reserve	7,249	(465)
Increase in deferred rent liability	5,360	12,454
Changes in assets and liabilities:		
Accounts receivable	(290,727)	(101,979)
Inventories	91,244	(224,069)
Prepaid expenses	46,772	(144,850)
Other assets	(8,984)	31,825
Accounts payable and accrued expenses	197,386	198,044
Accrued compensation	13,902	19,935
Net cash used in operating activities	(1,257,708)	(852,168)
Cash flows from investing activities:		
Purchases of property and equipment	(72,947)	(74,303)
Increase in intangibles	(46,226)	--
Net cash used in investing activities	(119,173)	(74,303)
Net cash flows from financing activities:		
Net proceeds from sales of common stock	1,011,636	285,733
Proceeds from exercise of stock options	82,990	18,614
Common stock subscribed	2,672	--
Net cash provided by financing activities	1,097,298	304,347
Effect of exchange rate changes in cash	(7,385)	(6,308)
Net decrease in cash and cash equivalents	(286,968)	(628,432)
Cash and cash equivalents at beginning of period	1,204,903	1,225,462

Cash and cash equivalents at end of period	$	917,935	$	597,030
Non-cash investing and financing activities:				
Subscriptions receivable	$	6,390	$	32,999
Supplemental Disclosure of Cash-Flow Information:				
Cash paid during the period for:				
Interest	$	47	$	37
Income taxes	$	--	$	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

Biomerica, Inc. and Subsidiaries (the Company) develops, manufactures, and markets medical diagnostic products designed for the early detection and monitoring of chronic diseases and medical conditions. The Company s medical diagnostic products are sold worldwide in two markets: 1) clinical laboratories and 2) point of care (physicians' offices and over-the-counter drugstores). The 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.

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 condensed consolidated results of operations of Biomerica, Inc. and Subsidiaries, 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 the Company s annual financial statements and notes. The condensed consolidated balance sheet data as of May 31, 2018 was derived from the 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, 2018 for the fiscal year ended May 31, 2018. 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, 2019 and May 31, 2018, the Company had one customer which accounted for 56.4% and one customer which accounted for 53.3%, respectively, of gross accounts receivable. The Company had one customer which accounted for approximately 46.8% and 44.0%, of consolidated sales for the nine months ended February 28, 2019 and February 28, 2018, respectively.

For the nine months ended February 28, 2019 and 2018, two vendors accounted for approximately 33.4% and 24.2%, of the purchases of raw materials, 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, may 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 net realizable value. 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,	May 31,

	2019	2018
Raw materials	$ 1,036,000	$ 1,000,000
Work in progress	832,000	854,000
Finished products	212,000	325,000
Total	$ 2,080,000	$ 2,179,000

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, 2019 and May 31, 2018, inventory reserves were approximately $50,000 and $52,000, respectively.

<u>Property and Equipment</u>

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 $22,436 and $28,344 for the three months ended February 28, 2019 and 2018, and $78,118 and $87,479 for the nine months ended February 28, 2019 and 2018, 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 $16,666 and $17,387 for the three months ended February 28, 2019 and 2018, respectively, and $49,996 and $52,385 for the nine months ended February 28, 2019 and 2018, respectively.

Share-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.

The Company has not paid dividends historically and does not expect to pay them in the future.

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, 2019:

	Option	Exercise
	Shares	Price
		Weighted

		Average
Outstanding May 31, 2018	1,138,625	$ 1.65
Granted	524,000	2.61
Exercised	(109,500)	0.77
Cancelled or expired	(44,250)	2.12
Outstanding February 28, 2019	1,508,875	$ 2.04

During the nine months ended February 28, 2019, options to purchase 109,500 shares of common stock were exercised at prices ranging from $0.71 to $1.04 per share. Proceeds to the Company were $82,990. During the nine months ended February 28, 2019, the Company granted 524,000 options to purchase common stock at an average purchase price of $2.61.

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. As of February 28, 2019 and May 31, 2018, the allowance for returns was $0. 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 $1,881,000 and $1,549,000 as of February 28, 2019 and May 31, 2018, 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 subsidiaries in Germany and Mexico each have one bank account which according to exchange in effect at the end of each period need to be adjusted for that fluctuation. The resulting adjustments are presented as a separate component of accumulated other comprehensive loss.

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 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, 2019 was 393,865 and 592,080, respectively. The total amount of anti-dilutive options not included in the loss per share calculation for the three and nine months ended February 28, 2018 was 597,645 and 569,915, 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 February 28, 2019	Nine Months Ended February 28, 2018	Three Months Ended February 28, 2019	Three Months Ended February 28, 2018
Numerator:				
Net loss	$ (1,607,730)	$ (798,211)	$ (678,746)	$ (322,491)
Denominator for basic loss per common share	9,103,225	8,529,009	9,322,549	8,556,480
Effect of dilutive securities:				
Options and warrants	-	-	-	-
Denominator for diluted loss per common share	9,103,225	8,529,009	9,322,549	8,556,480
Basic net loss per common share	$ (0.18)	$ (0.09)	$ (0.07)	$ (0.04)
Diluted net loss per common share	$ (0.18)	$ (0.09)	$ (0.07)	$ (0.04)

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 adopted the provisions of this statement and is taking them into account in the preparation of the financial statements for the period ended February 28, 2019. The adoption of this standard has not had a significant impact on the Company s financial statements.

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 adopted the provisions of this statement and is taking them into account in the preparation of the financial statements for the period ended February 28, 2019. The adoption of this standard has not had a significant impact on the Company s financial statements.

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 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 adopted the provisions of this statement and is taking them into account in the preparation of the financial statements for the period ended February 28, 2019. The adoption of this standard has not had a significant impact on the Company s financial statements.

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 adopted the provisions of this statement and is taking them into account in the preparation of the financial statements for the period ended February 28, 2019. The adoption of this standard has not had a significant impact on the Company s financial statements.

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, 2018. 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.

On February 15, 2018, the FASB issued ASU 2018-02, *Reclassification of Certain Tax Effects From Accumulated Comprehensive Income* (ASU 2018-02). ASU 2018-02 will give companies the option to reclassify stranded tax effects caused by the newly-enacted U.S. Tax Cuts and Jobs Act (TCJA) from accumulated other comprehensive income (ASCI) to retained earnings. ASU 2018-02 will take effect for all companies for the fiscal years beginning after December 15, 2018, 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 2018-02 will have on the Company s financial position or results of operations.

On June 20, 2018, the FASB issued ASU 2018-07, *Compensation Stock Compensation* (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting (ASU 2018-07). ASU 2018-07 is intended to reduce cost and complexity and to improve financial reporting for share-based payments to nonemployees (for example, service providers, external legal counsel, suppliers, etc.). ASU 2018-07 will be effective for public companies beginning after December 15, 2018. Early adoption is permitted, but no earlier than entity s adoption date for ASC Topic 606, Revenue from Contracts with Customers. Management is evaluating the provisions of this statement and has not determined what impact the adoption of ASU 2018-07 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, 2019	May 31, 2018
Accounts payable and accrued expenses		

	$ 852,985	$ 655,599
Deferred rent	36,717	31,357
Total	$ 889,702	$ 686,956

Note 4: Shareholders Equity

As described in the Company s Form 10Q, filed with the Securities and Exchange Commission on April 16, 2018, the Form 10-K report, filed with the Securities and Exchange Commission on August 29, 2018, the Form 10Q filed on October 15, 2018, the Form 10Q filed on January 14, 2019 and the Form S-3 Registration Statement and Prospectus filed on June 30, 2017 and December 4, 2017, respectively, the Company entered into an At Market Issuance Sales Agreement (the Agreement), whereby, the Company may raise additional working capital and funds for continued development of current research projects. These funds will be needed to fund current research and development projects and bring them to the next state of completion. Management expects to raise additional funds throughout the year from the At Market Issuance Agreement to fund operations as necessary. During the nine months that ended February 28, 2019, the Company received $1,011,636 in net proceeds from the sale of its common stock through this Agreement.

Note 5: Geographic Information

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

	Nine Months Ended		Three Months Ended	
	February 28, 2019	February 28, 2018	February 28, 2019	February 28, 2018
Revenues from sales to unaffiliated customers:				
United States	$ 423,000	$ 533,000	$ 141,000	$ 208,000
Asia	1,973,000	2,112,000	653,000	626,000
Europe	1,330,000	1,562,000	416,000	485,000
South America	129,000	106,000	2,000	3,000
Middle East	180,000	115,000	49,000	54,000
Other	--	6,000	--	--
	$ 4,035,000	$ 4,434,000	$ 1,261,000	$ 1,376,000

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

As of February 28, 2019 and May 31, 2018, approximately $623,000 and $657,000, of Biomerica s gross inventory and approximately $39,000 and $41,000, of Biomerica s property and equipment, net of accumulated depreciation, was located in Mexicali, Mexico, respectively.

Note 6: 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. 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 was $21,000 per month. As of September 1, 2018, the rent was $22,279 per month.

In November 2016, the Company s subsidiary, Biomerica de Mexico, entered into a ten year lease for approximately 8,100 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. In accordance with the terms of the lease agreement, in November 2018 the rent was increased to $3,140 per month. Biomerica, Inc. is not a guarantor of such lease.

On November 6, 2018, the Company entered into a three year sales contract for the distribution of its EZ Detect product with Medline Industries, a large U.S. manufacturer and distributor of medical supplies.

On February 22, 2019, the Company entered into a consulting agreement with an individual to provide investor relations consulting services for a fee of $2,000 per month. The fee will be reviewed after a six-month period. The contract is for a period of twelve months, but is cancellable at any time after the initial three-month period.

On February 5, 2019, the Company entered into commission agreements with an independent contractor for the purpose of obtaining sales of its EZ Detect product in the territories of Vietnam, the United Arab Emirates and Russia. The agreements are for a period of forty eight months but are cancellable if certain preset sales minimums are not met within the first six months after the date of the agreement.

On December 17, 2018, the Company entered into an agreement with a Company for the purpose of procuring and assisting in transactions related to its EZ Detect product with the People s Republic of China. The contract is for a period of twelve months, cancellable by either party with forty five days written notice. The contract specifies 2.5-6% success fees and milestone payments upon certain events transpiring.

On January 23, 2019, the Company entered into a non-exclusive advisory agreement with a Company to promote the Company to new investors for a period of ninety days.

Note 7: Subsequent Events

Subsequent to February 28, 2019, options to purchase 44,000 shares of the Company s common stock were exercised. Net proceeds were approximately $31,520.

Subsequent to February 28, 2019, the Company sold 289,531 shares of its common stock under the S-3 registration statement and received net proceeds of approximately $768,014.

On April 8, 2019, the Company announced that the United States Patent and Trademark Office (USPTO) has issued a Notice of Allowance for Biomerica s first U.S. patent pertaining to the Company s InFoods® family of products that allow for revolutionary new treatment options for patients suffering from Irritable Bowel Syndrome (IBS) and other gastrointestinal diseases. Please refer to the report filed on Form 8-K with the Securities and Exchange Commission on April 9, 2019.

On March 12, 2019, the Company entered into a contract with an institution to conduct an Endpoint Determination Study on the Company s Infoods test. The institution shall invoice the Company monthly for its services with a maximum cost for services of $192,240. On March 1, 2019, the Company also entered into an agreement with the same institution for a Specimen Collection Study on the Company s HP Stool antigen test with costs being invoiced monthly and a maximum cost of $95,050. Both contracts start on the date of the contract and terminate on trial completion.

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

EXCEPT FOR HISTORICAL INFORMATION CONTAINED HEREIN, THE STATEMENTS IN THIS FORM 10-Q MAY BE FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934 AND SECTION 27A OF THE SECURITIES ACT OF 1933. FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS AND UNCERTAINTIES WHICH MAY CAUSE BIOMERICA'S RESULTS IN FUTURE PERIODS TO DIFFER MATERIALLY FROM FORECASTED RESULTS. THESE RISKS AND UNCERTAINTIES INCLUDE, AMONG OTHER THINGS, THE CONTINUED DEMAND FOR THE COMPANY'S PRODUCTS, AVAILABILITY OF RAW MATERIALS, THE STATE OF THE ECONOMY, RESULTS OF RESEARCH AND DEVELOPMENT ACTIVITIES AND THE CONTINUED ABILITY OF THE COMPANY TO MAINTAIN THE LICENSES AND APPROVALS REQUIRED. THESE AND OTHER RISKS ARE DESCRIBED IN THE COMPANY'S ANNUAL REPORT ON FORM 10-K AND IN THE COMPANY'S OTHER FILINGS WITH THE SECURITIES AND EXCHANGE COMMISSION.

EXCEPT AS MAY BE REQUIRED BY APPLICABLE LAW, WE MAY NOT UPDATE OR REVISE OUR FORWARD-LOOKING STATEMENTS AND THE LACK OF SUCH UPDATE DOES NOT IMPLY THAT ACTUAL EVENTS ARE AS ORIGINALLY EXPRESSED BY SUCH FORWARD-LOOKING STATEMENTS. YOU SHOULD READ THE DISCLOSURES IN THIS REPORT AND OTHER REPORTS WHICH WE FILE WITH THE SECURITIES AND EXCHANGE COMMISSION.

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.

We primarily focus on products for gastrointestinal, food intolerances, diabetes and esoteric tests. These diagnostic test products utilize immunoassay technology. Some of these products have not yet been submitted for clearance by the Food and Drug Administration (FDA) or each country s equivalent for diagnostic use, but can still be sold in various foreign countries without this approval.

RESULTS OF OPERATIONS

Consolidated net sales for Biomerica were $1,261,161 for the three months ended February 28, 2019 as compared to $1,375,666 for the period ended February 28, 2018. This represents a decrease of $114,505, or 8.3%. For the nine month periods ended February 28, 2019 as compared to February 28, 2018, net sales were $4,034,822 as compared to $4,433,785, a decrease of $398,963, or 9.0%. The decrease for the three month period was primarily due to lower sales to China and the decrease for the nine month period was primarily due to lower contract manufacturing sales and lower sales to China and Europe.

For the three months ended February 28, 2019 as compared to the three months ended February 28, 2018, cost of sales increased as a percentage of sales from 66.2% of sales, or $910,295, to 71.0% of sales, or $895,237. For the nine months ended February 28, 2019 as compared to February 28, 2018, cost of sales as a percentage of sales increased from 66.5% of sales, or $2,947,652 to 72.5% of sales, or $2,923,615. Increases to cost of goods as a percentage of sales for the three and nine months were due to increased material costs, a larger percent of expenses being capitalized into inventory as of February 28, 2018 as well as fixed costs in relation to lower sales during the quarter and nine months ended February 28, 2019.

For the three months ended February 28, 2019 compared to February 28, 2018, selling, general and administrative expenses increased by $141,412, or 32.5%. For the nine months ended February 28, 2019 as compared to February 28, 2018, general and administrative expenses increased by $79,726, or 5.7%. The increase for the quarter and nine months ended February 28, 2019 as compared to February 28, 2018, was primarily due to an increase of non-cash option expense of approximately $132,000 in the quarter ended February 28, 2019 as compared to February 28, 2018, which was offset by higher consulting fees and wages in fiscal 2018.

For the three months ended February 28, 2019 as compared to February 28, 2018, research and development expenses increased by $143,543, or 40.6%. For the nine month period ended February 28, 2019 as compared to February 28, 2018, these expenses increased by $355,707, or 38.9%. The increases for both periods were due primarily to expenditures related to new products, which included, higher patent legal fees as a majority of the Company s intellectual property is moving into international (nationalization phase) filing for patent protection, clinical studies being performed, research and development on future products and development work on improving current products.

For the three and nine months ended February 28, 2019 as compared to February 28, 2018, other income increased by $28,147 and $840, respectively. The increase in the quarter ended February 28, 2019 was primarily due to timing of dividends received from the Polish distributor in which the Company owns approximately 6%.

LIQUIDITY AND CAPITAL RESOURCES

As of February 28, 2019 and May 31, 2018, the Company had cash and cash equivalents in the amount of $917,935 and $1,204,903 and working capital of $3,215,875 and $3,587,221, respectively.

During the nine months ended February 28, 2019, the Company s operations used cash of $1,257,708 compared to $852,168 in the same period of the prior fiscal year. Cash used in operations in fiscal 2019 was primarily a result of the net loss of $1,607,730, increases of $290,727 in accounts receivables which were offset by a $197,386 increase in accounts payable, and non-cash expenses of depreciation and amortization of $128,114 and stock option expense of $146,514. In the period ended February 28, 2018, cash used in operations was primarily a result of a net loss of

$798,211, an increase in accounts receivable of $101,979, an increase in prepaids of $144,850 and an increase in inventory of $224,069 which was offset by an increase in accounts payables and accrued expenses of $198,044. Cash used in investing activities in the nine months ended February 28, 2019 was $72,947 for the purchase property and equipment and $46,226 for the increase in intangibles compared to the nine months ended February 28, 2018, of $74,303 for the purchase of property and equipment. The Company received $1,011,636 in cash from the sale of common stock through an S-3 registration statement in fiscal 2019 compared to $285,733 received in fiscal 2018. In fiscal 2019, the Company received $82,990 from the exercise of stock options as compared to $18,614 from the exercise of stock options during the nine month period ended February 28, 2018.

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.

On April 8, 2019, the Company announced that the United States Patent and Trademark Office (USPTO) has issued a Notice of Allowance for Biomerica s first U.S. patent pertaining to the Company s InFoods® family of products that allow for revolutionary new treatment options for patients suffering from Irritable Bowel Syndrome (IBS) and other gastrointestinal diseases. Please refer to the report filed on Form 8-K with the Securities and Exchange Commission on April 9, 2019.

As described in the Company s Form 10Q, filed with the Securities and Exchange Commission on April 16, 2018, the Form 10-K report, filed with the Securities and Exchange Commission on August 29, 2018, the Form 10Q filed on October 15, 2018, the Form 10Q filed on January 14, 2019 and the Form S-3 Registration Statement and Prospectus filed on June 30, 2017 and December 4, 2017, respectively, the Company entered into an At Market Issuance Sales Agreement (the Agreement), whereby, the Company may raise additional working capital and funds for continued development of current research projects. These funds will be needed to fund current research and development projects and bring them to the next state of completion. Management expects to raise additional funds throughout the year from the At Market Issuance Agreement to fund operations as necessary. During the nine months that ended February 28, 2019, the Company received $1,011,636 in net proceeds from the sale of its common stock through this Agreement and has subsequently sold an additional 289,531 shares and received approximately $768,014 in net proceeds.

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. The Company has adopted ASU 2014-09, *Revenue from Contracts with Customers* . This standard has not had a significant impact on the Company s financial statement. 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 such as the Form S-3 and Prospectus Supplement filed in June and December 2017, respectively. 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; additional governmental tariffs or other fees imposed by the U.S. government for the export of goods to China or other countries; 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 12, 2018, to consider and vote on the proposals set forth in our proxy statement filed with the Securities and Exchange Commission on September 28, 2018. Please refer to the Form 8-K filed on December 14, 2018 for a description of the results of the meeting.

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 Irani

Zackary S. Irani

Chief Executive Officer

(Principal Executive Officer)

Date: April 15, 2019

By:

/S/ Janet Moore

Janet Moore

Chief Financial Officer

Date: April 15, 2019

(Principal Financial Officer)