

BIOMERICA INC
Form 10-Q
April 14, 2014

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

FORM 10-Q

(Mark

One)

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

FOR THE QUARTERLY PERIOD ENDED FEBRUARY 28, 2014

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
(I.R.S. Employer
incorporation or organization)
Identification No.)

17571 Von Karman Avenue, Irvine, CA

92614

(Address of principal executive offices)

(Zip Code)

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

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

(TITLE OF EACH CLASS)

(NAME OF EACH EXCHANGE ON WHICH
REGISTERED)

Common, par value \$.08

BOARD

OTC-BULLETIN

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

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(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: 7,543,714 shares of common stock, par value \$0.08, as of April 14, 2014.

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)INCOME (UNAUDITED)

	Nine Months Ended		Three Months Ended	
	February 28,	February 28,	February 28,	February 28,
	2014	2013	2014	2013
Net sales	\$ 3,441,299	\$ 5,002,418	\$ 1,492,719	\$ 1,416,698
Cost of sales	(2,346,803)	(3,055,575)	(914,157)	(971,316)
Gross profit	1,094,496	1,946,843	578,562	445,382
Operating Expenses:				
Selling, general and administrative	1,114,872	1,096,627	405,768	358,533
Research and development	368,222	353,904	140,177	150,182
Total operating expenses	1,483,094	1,450,531	545,945	508,715
(Loss) income from operations	(388,598)	496,312	32,617	(63,333)
Other Income (Expense):				
Dividend and interest income	13,681	9,316	3,482	7,073
Interest (expense) income	(80)	(302)	(20)	6
Total other income	13,601	9,014	3,462	7,079
(Loss) income before income tax	(374,997)	505,326	36,079	(56,254)
(Provision) benefit for income taxes	(9,535)	(12,389)	(9,535)	20,640
Net (loss) income	\$ (384,532)	\$ 492,937	\$ 26,544	\$ (35,614)
Basic net (loss) income per common share	\$ (0.05)	\$ 0.07	\$ 0.00	\$ (0.01)
Diluted net (loss) income per common share	\$ (0.05)	\$ 0.07	\$ 0.00	\$ (0.01)
Weighted average number of common and common equivalent shares:				
Basic	7,310,872	6,972,671	7,378,403	7,000,011
Diluted	7,310,872	7,410,917	7,731,252	7,000,011

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Net (loss) income	\$	(384,532)	\$	492,937	\$	26,544	\$	(35,614)
Other comprehensive loss, net of tax:								
Foreign currency translation		(1,114)		(2,709)		(1,110)		(2,155)
Comprehensive (loss) income	\$	(385,646)	\$	490,228	\$	25,434	\$	(37,769)

The accompanying notes are an integral part of these statements.

BIOMERICA, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	February 28, 2014 (unaudited)		May 31, 2013 (audited)
Assets			
Current Assets:			
Cash and cash equivalents	\$ 1,665,690	\$	2,469,796
Accounts receivable, less allowance for doubtful accounts of \$120,405 and \$115,730 as of February 28, 2014 and May 31, 2013, respectively	1,171,767		871,660
Inventories, net	1,938,341		1,571,221
Prepaid expenses and other	141,007		196,678
Deferred tax assets, current portion	144,000		144,000
Total current assets	5,060,805		5,253,355
Property and equipment, net of accumulated depreciation and amortization of \$1,163,523 and \$844,684 as of February 28, 2014 and May 31, 2013, respectively	640,471		654,620
Deferred tax assets, net of current portion	85,000		85,000
Investments	165,324		165,324
Intangible assets, net	248,090		165,200
Other assets	71,388		71,388
Total assets	\$ 6,271,078	\$	6,394,887
Liabilities and Shareholders' Equity			
Current Liabilities:			
Accounts payable and accrued expenses	\$ 423,130	\$	351,917
Accrued compensation	120,322		207,976
Total current liabilities	543,452		559,893
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, 2014 and May 31, 2013	--		--
	601,096		581,976

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Common stock, \$0.08 par value authorized
25,000,000 shares, issued and outstanding 7,513,714
and 7,274,714 at February 28, 2014 and May 31,
2013, respectively

Additional paid-in-capital	18,293,554		18,034,396
Accumulated other comprehensive loss	(10,120)		(9,006)
Accumulated deficit	(13,156,904)		(12,772,372)
Total Shareholders' Equity	5,727,626		5,834,994
Total Liabilities and Shareholders' Equity	\$ 6,271,078	\$	6,394,887

The accompanying notes are an integral part of these statements.

BIOMERICA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Nine Months Ended	
	February 28,	
	2014	2013
Cash flows from operating activities:		
Net (loss) income	\$ (384,532)	\$ 492,937
Adjustments to reconcile net (loss) income to net cash (used in)provided by operating activities:		
Depreciation and amortization	148,624	164,411
Stock option expense	11,003	17,155
Change in provision for losses on accounts receivable	4,675	(4,133)
Inventory reserve	(6,713)	3,891
Decrease in deferred rent liability	(10,109)	(3,420)
Changes in assets and liabilities:		
Accounts receivable	(304,783)	691,339
Inventories	(360,407)	111,943
Prepaid expenses and other assets	55,671	(13,548)
Accounts payable and other accrued expenses	81,323	7,362
Other assets	-	(2,767)
Accrued compensation	(87,654)	30,870
Net cash (used in) provided by operating activities	(852,902)	1,496,040
Cash flows from investing activities:		
Purchases of property and equipment	(117,365)	(249,410)
Net cash used in investing activities	(117,365)	(249,410)
Cash flows from financing activities:		
Proceeds from sale of common stock	150,000	-
Proceeds from exercise of stock options	17,275	40,414
Payments on line of credit or equipment loan	--	(43,000)
Net cash provided by (used in) financing activities	167,275	(2,586)
Effect of exchange rate changes in cash	(1,114)	(2,709)
Net (decrease) increase in cash and cash equivalents	(804,106)	1,241,335

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Cash and cash equivalents at beginning of period		2,469,796		1,077,342
Cash and cash equivalents at end of period	\$	1,665,690	\$	2,318,677
Supplemental Disclosure of Cash-Flow Information:				
Cash paid during the period for:				
Interest	\$	80	\$	302
Income taxes	\$	9,535	\$	108,160
Non-Cash Investing Activities:				
Payment of international regulatory approval fees in exchange for \$100,000 due on agreement to purchase Biomerica restricted stock	\$	100,000	\$	-

The accompanying notes are an integral part of these statements.

BIOMERICA, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1: Basis of Presentation

The information set forth in these condensed consolidated statements is unaudited and reflects all adjustments which, in the opinion of management, are necessary to present a fair statement of the consolidated results of operations of Biomerica, Inc. and subsidiaries (the Company), for the periods indicated. It does not include all information and footnotes necessary for a fair presentation of financial position, results of operations, and cash flows in conformity with generally accepted accounting principles. All adjustments that were made are of 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, 2013 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, 2013 for the fiscal year ended May 31, 2013. 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 which have not begun operations. All significant intercompany accounts and transactions have been eliminated in consolidation.

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 reserved for unless collection is reasonably assured. Any charge-offs are approved by upper level management prior to charging off.

Occasionally certain long-standing customers, who routinely place large orders, will have unusually large accounts receivables balances relative to the total gross accounts receivables. At February 28, 2014, one customer accounted for 32.1% of the Company's outstanding gross receivable balance and one foreign customer accounted for 43.4% and 15.3% of the Company's net sales for the three and nine months ended February 28, 2014, respectively. Management monitors the payments for these large balances closely and very often requires payment of existing invoices before shipping new sales orders.

Inventories

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

The approximate balances of inventories are the following at:

	February 28, 2014	May 31, 2013
Raw materials	\$ 885,000	\$ 787,000
Work in progress	758,000	555,000
Finished products	295,000	229,000
Total	\$ 1,938,000	\$ 1,571,000

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

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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 \$45,283 and \$49,220 for the three months ended February 28, 2014 and 2013, and \$131,514 and \$142,484 for the nine months ended February 28, 2014 and 2013, 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 \$5,989 and \$4,368 for the three months ended February 28, 2014 and 2013, respectively, and \$17,110 and \$21,927 for the nine months ended February 28, 2014 and 2013, 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 (warrants and options). The fair value of each option award is estimated on the date of grant using the Black-Scholes valuation model that uses assumptions for expected volatility, expected dividends, expected forfeiture rate, expected term, and the risk-free interest rate.

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

The following summary presents the options and warrants granted, exercised, expired, cancelled and outstanding as of February 28, 2014:

	Option Shares	Exercise Price Weighted Average
Outstanding May 31, 2013	846,500	\$ 0.47
Granted	52,000	0.84
Exercised	(39,000)	0.44
Cancelled or expired	(10,000)	0.43
Outstanding February 28, 2014	849,500	\$ 0.50

On June 10, 2013, the Board granted a stock option to purchase 20,000 shares of the Company's common stock at the purchase price of \$0.93 per share.

On November 13, 2013, the Board granted stock options to purchase 32,000 shares of the Company's common stock at the purchase price of \$0.84 per share.

In June 2013, options to purchase 2,000 shares of the Company's common stock were exercised at the exercise price of \$0.38 per share. Net proceeds to the Company were \$760.

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In September 2013, options to purchase 2,500 shares of the Company's common stock were exercised at the exercise prices of \$0.45 and \$0.38 per share. Net proceeds to the Company were \$1,020.

In December 2013, options to purchase 12,000 shares of the Company's common stock were exercised at the exercise price of \$0.38 per share. Net proceeds to the Company were \$5,400.

In January 2014, options to purchase 22,500 shares of the Company's common stock were exercised at the exercise prices ranging from \$0.43-\$0.45 per share. Net proceeds to the Company were \$10,095.

Revenue Recognition

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

Investments

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

Shipping and Handling Fees and Costs

Shipping and handling fees billed to customers are classified as revenues, and shipping and handling costs are classified as cost of sales. 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 accounts for income taxes in accordance with ASC 740, *Income Taxes* (ASC 740). Deferred tax assets and liabilities arise from temporary differences

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between the tax bases of assets and liabilities and their reported amounts in the consolidated financial statements that will result in taxable or deductible amounts in future years. These temporary differences are measured using enacted tax rates. A valuation allowance is recorded to reduce deferred tax assets to the extent that management considers it is more likely than not that a deferred tax asset will not be realized. In determining the valuation allowance, management considers factors such as the reversal of deferred income tax liabilities, projected taxable income, and the character of income tax assets and tax planning strategies. A change to these factors could impact the estimated valuation allowance and income tax expense. The Company's annual effective tax rate is approximately 38%, however, due to its federal net operating loss carry forwards, the effective tax rate for the three and nine months ended February 28, 2014 was adjusted for utilization of these carry forwards. During the quarter ended February 28, 2013, the Company recorded a refund due from the state of California which resulted in an adjustment to the provision for income taxes.

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.

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 Income (Loss) Per Share

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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 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 warrants or options not included in the earnings per share calculation for the three months ended February 28, 2013 was 910,625. There were no anti-dilutive warrants or options excluded from the earnings per share calculation for the nine months ended February 28, 2013. There were no anti-dilutive warrants or options excluded from the earnings per share calculation for the three months ended February 28, 2014. The total amount of anti-dilutive warrants or options not included in earnings (loss) per share calculation for the nine months ended February 28, 2014 was 359,013.

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

	Nine Months		Three Months	
	Ended		Ended	
	February 28,		February 28,	
	2014	2013	2014	2013
Numerator:				
(Loss)income from continuing operations	\$ (384,532)	\$ 492,937	\$ 26,544	\$ (35,614)
Denominator for basic net (loss) income Per				
common share	7,310,872	6,972,224	7,378,403	7,000,011
Effect of dilutive securities:				
Options and warrants	-	438,246	352,849	-
Denominator for diluted net (loss)income per				
common share	7,310,872	7,410,470	7,731,252	7,000,011
Basic net (loss) income per common share	\$ (0.05)	\$ 0.07	\$ 0.00	\$ (0.01)
Diluted net (loss) income per common share	\$ (0.05)	\$ 0.07	\$ 0.00	\$ (0.01)

New Accounting Pronouncements

Management does not believe that any recently issued, but not effective, accounting standards if currently adopted would have a material effect on the accompanying condensed consolidated financial statements.

Note 3: Accounts Payable and Accrued Expenses

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

	February 28,	May 31,
	2014	2013
Accounts payable	\$ 317,464	\$ 282,138
Accrued expenses	45,996	-
Deferred rent	59,670	69,779
Total	\$ 423,130	\$ 351,917

Note 4: Shareholders' Equity

For the nine months ended February 28, 2014, options to purchase 39,000 shares of the Company's common stock were exercised. See Note 2.

In January 2014, pursuant to the Stock Purchase Agreement dated April 18, 2013, the Company sold the remaining 200,000 shares of its common stock at a price of \$1.25 per share to an investor for \$250,000.

Note 5: Geographic Information

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

	Nine Months Ended		Three Months Ended	
	February 28,		February 28,	
	2014	2013	2014	2013
Revenues from sales to unaffiliated customers:				
United States	\$ 951,000	\$ 654,000	\$ 446,000	\$ 217,000
Asia	599,000	2,503,000	383,000	559,000
Europe	1,797,000	1,810,000	598,000	627,000
South America	12,000	5,000	5,000	3,000
Middle East	65,000	28,000	45,000	10,000
Other	17,000	2,000	16,000	1,000
	\$ 3,441,000			