ENCISION INC
Form 10QSB
February 11, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-QSB

x **QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended December 31, 2007

OR

o **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number 0-28604

ENCISION INC.

(Exact name of small business issuer as specified in its charter)

Colorado	**84-1162056**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

6797 Winchester Circle

Boulder, Colorado 80301

(Address of principal executive offices)

(303) 444-2600

(Issuer s telephone number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 of 15(d) of the Exchange Act during the past 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 o

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

State the number of shares outstanding of each of the issuer s classes of common equity, as of the latest practicable date:

Common Stock, no par value (Class)	6,447,100 Shares (outstanding at January 31, 2008)

Transitional Small Business Disclosure Format

Yes o No x

ENCISION INC.

FORM 10-QSB

For the Quarter Ended December 31, 2007

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PART I FINANCIAL INFORMATION

ITEM 1 – CONDENSED INTERIM FINANCIAL STATEMENTS

Encision Inc.

Condensed Balance Sheets

	December 31, 2007 (unaudited)	March 31, 2007 (audited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 98,908	$ 436,403
Accounts receivable, net of allowance for doubtful accounts of $18,500 at December 31, 2007 and $23,500 at March 31, 2007	1,247,803	1,194,373
Inventories, net of reserve for obsolescence of $65,000 at December 31, 2007 and $80,000 at March 31, 2007	2,091,735	1,764,227
Prepaid expenses	104,525	241,872
Total current assets	3,542,971	3,636,875
Equipment, at cost:		
Furniture, fixtures and equipment	1,725,460	1,084,260
Customer-site equipment	639,950	612,553
Equipment-in-progress	28,790	233,357
Accumulated depreciation	(1,555,982)	(1,413,656)
Equipment, net	838,218	516,514
Patents, net of accumulated amortization of $113,613 at December 31, 2007 and $104,496 at March 31, 2007	185,573	153,066
Other assets	60,310	81,195
TOTAL ASSETS	$ 4,627,072	$ 4,387,650
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 694,482	$ 620,814
Accrued compensation	210,003	295,994
Line of credit	280,000	
Other accrued liabilities	590,282	547,345
Total current liabilities	1,774,767	1,464,153
Commitments and contingencies		
Shareholders equity:		
Preferred stock, no par value: 10,000,000 shares authorized; none issued and outstanding		
Common stock and additional paid-in capital, no par value: 100,000,000 shares authorized; 6,447,100 and 6,430,437 shares issued and outstanding at December 31, 2007 and March 31, 2007, respectively	19,360,079	19,202,785
Accumulated (deficit)	(16,507,774)	(16,279,288)
Total shareholders equity	2,852,305	2,923,497
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 4,627,072	$ 4,387,650

The accompanying notes to financial statements are an integral part of these condensed statements.

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Encision Inc.

Condensed Statements of Operations

(Unaudited)

Three Months Ended		December 31, 2007		December 31, 2006
NET SALES	$	3,130,752	$	2,787,147
COST OF SALES		1,103,185		1,054,308
GROSS PROFIT		2,027,567		1,732,839
OPERATING EXPENSES:				
Sales and marketing		1,304,732		1,105,251
General and administrative		330,777		378,359
Research and development		325,028		310,083
Total operating expenses		1,960,537		1,793,693
OPERATING INCOME (LOSS)		67,030		(60,854)
Interest income (expense), net		(8,293)		12,407
Other income (expense), net		299		(611)
Interest and other income (expense), net		(7,994)		11,796
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES		59,036		(49,058)
Provision for income taxes				
NET INCOME (LOSS)	$	59,036	$	(49,058)
Net income (loss) per share basic and diluted	$	0.01	$	(0.01)
Weighted average shares basic		6,447,100		6,430,437
Weighted average shares diluted				

FACTORS THAT MAY AFFECT FUTURE RESULTS

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 recently, 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 or no 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 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; recalls of products; quarterly variations in operating results caused by a number of factors, including business and industry conditions;

and other factors beyond our control. All these factors make it difficult to predict operating results for any particular period.

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 2 to our consolidated financial statements for a listing of adopted and soon to be adopted accounting pronouncements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Exhibit 99.3, "Biomerica, Inc. and Subsidiaries Consolidated Financial Statements" is incorporated herein by this reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Attached as exhibits to this Form 10-K are certifications of our Chief Executive Officer (CEO) and Chief Financial Officer (CFO) that are required in accordance with Rule 13a-14 of the Exchange Act. This Disclosure Controls and Procedures section includes information concerning the controls and controls evaluation referred to in the certifications.

EVALUATION OF DISCLOSURE CONTROLS

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 CEO and CFO have concluded that our disclosure controls and procedures are effective at the reasonable assurance level. Based on that evaluation the CEO and CFO concluded 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 CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

For the reasons discussed in "Management's Report on Internal Control over Financial Reporting" below, Company management, including the CEO and CFO concluded that, as of May 31, 2013, the Company's internal control over financial reporting was effective. Management has concluded that the consolidated financial statements included in this annual report present fairly, in all material respects, the Company's financial position, results of operations, and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States of America.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

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

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Company management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed to provide reasonable assurance to the Company's management and Board of Directors regarding the reliability of financial reporting and the preparation and fair presentation of financial statements for external purposes in accordance with generally accepted accounting principles.

A Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

The effectiveness of any system of internal control over financial reporting is subject to inherent limitations, including the exercise of judgment in designing, implementing, operating and evaluating the controls and procedures. Because of these inherent limitations, internal control over financial reporting cannot provide absolute assurance regarding the reliability of financial reporting and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Company management, with the participation of the CEO and the CFO, evaluated the effectiveness of the Company's disclosure controls and procedures as defined in Rules 13(a)-15(e) and 15(d)-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. In making this assessment, Management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework. Based on this assessment, management, with the participation of the CEO and CFO, believes that, as of May 31, 2013, the Company's internal control over financial reporting was effective based on those criteria.

Company management will continue to monitor and evaluate the effectiveness of its disclosure controls and procedures and its internal controls over financial reporting on an ongoing basis and are committed to taking further action and implementing improvements, as necessary and as funds allow.

Note: This 10-K does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this 10-K.

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE.

This information is incorporated by reference to the Company's proxy statement for its 2013 Annual Meeting of Stockholders, which will be filed not later than 120 days after the end of the Company's fiscal year ended May 31, 2013.

ITEM 11. EXECUTIVE COMPENSATION

This information is incorporated by reference to the Company's proxy statement for its 2013 Annual Meeting of Stockholders, which will be filed not later than 120 days after the end of the Company's fiscal year ended May 31, 2013.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

This information is incorporated by reference to the Company's proxy statement for its 2013 Annual Meeting of Stockholders, which will be filed not later than 120 days after the end of the Company's fiscal year ended May 31, 2013.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Other information regarding related transactions is incorporated by reference to the Company's proxy statement for its 2013 Annual Meeting of Stockholders, which will be filed not later than 120 days after the end of the Company's fiscal year ended May 31, 2013.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Please refer to the Company s proxy statement for its 2013 Annual Meeting of Stockholders, which will be filed not later than 120 days after the end of the Company s fiscal year ended May 31, 2013.

PART IV

ITEM 15. EXHIBITS LIST AND FINANCIAL SCHEDULES

The following documents are filed as part of this Annual Report on Form 10-K:

1. *Financial Statements*

Reference is made to the Index to the financial statements as set forth on page FS-1 of this Annual Report on Form 10-K.

2. *Financial Statement Schedules*

All schedules have been omitted as the pertinent information is either not required, not applicable, or otherwise included in the financial statements and notes thereto.

3.*Exhibits*

See below.

Exhibit No.	Description
3.1	Certificate of Incorporation of Registrant filed with the Secretary of the State of Delaware on September 22, 1971 (incorporated by reference to Exhibit 3.1 filed with Amendment No. 1 to Registration Statement on Form S-1, Commission File No. 2-83308).

3.2	Certificate of Amendment to Certificate of Incorporation of Registrant filed with the Secretary of the State of Delaware on February 6, 1978 (incorporated by reference to Exhibit 3.1 filed with Amendment No. 1 to Registration Statement on Form S-1, Commission File No. 2-83308).
3.3	Certificate of Amendment to Certificate of Incorporation of Registrant filed with the Secretary of the State of Delaware on February 4, 1983 (incorporated by reference to Exhibit 3.1 filed with Amendment No. 1 to Registration Statement on Form S-1, Commission File No. 2-83308).
3.4	Certificate of Amendment to Certificate of Incorporation of Registrant filed with the Secretary of the State of Delaware on January 19, 1987 (incorporated by reference to Exhibit 3.4 filed with Form 8 Amendment No. 1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 1987).
3.5	Certificate of Amendment of Certificate of Incorporation of Registrant filed with the Secretary of the State of Delaware on November 4, 1987 (incorporated by reference to Exhibit 3.1 filed with Amendment No. 1 to Registration Statement on Form S-1, Commission File No. 2-83308).
3.6	Bylaws of the Registrant (incorporated by reference to Exhibit 3.2 filed with Amendment No. 1 to Registration Statement on Form S-1, Commission File No. 2-83308).
3.7	Certificate of Amendment of Certificate of Incorporation of Registrant filed with the Secretary of the State of Delaware on December 20, 1994 (incorporated by reference to Exhibit 3.7 filed with Registrant's Annual Report on Form 10-KSB for the fiscal year ended May 31, 1995).
3.8	First Amended and Restated Certificate of Incorporation of Biomerica, Inc. filed with the Secretary of State of Delaware on August 1, 2000 (incorporated by reference to Exhibit 3.8 filed with the Registrant's Annual Report on Form 10-KSB for the fiscal year ended May 31, 2000).
4.1	Specimen Stock Certificate of Common Stock of Registrant (incorporated by reference to Exhibit 4.1 filed with Registrant's Registration Statement on Form SB-2, Commission No. 333-87231 filed on September 16, 1999).
10.1	Standard Industrial/Commercial Single-Tenant Lease for 17571 Von Karman Avenue, Irvine, CA 92614, incorporated by reference to Exhibit 10.1 of the Company's August 31, 2009 Form 10Q filed October 15, 2009.
10.3	1999 Stock Incentive Plan of Registrant (incorporated by reference to Exhibit 10.1 to Registration Statement on Form S-8 filed with the Securities and Exchange Commission on March 29, 2000 and on May 30, 2007).
10.31	2010 Stock Incentive Plan of Registrant (incorporated by reference to Registration Statement on Form S-8 filed with the Securities and Exchange Commission on February 9, 2012.)

10.39	Small Business Banking Agreement (Business Line of Credit Number 0366422012) with Union Bank (incorporated by reference to the Company's February 28, 2009 Form 10Q filed April 14, 2009).
10.4	Small Business Banking Agreement (Business Loan Number 0366422020) with Union Bank (incorporated by reference to the Company's February 28, 2009 Form 10Q filed April 14, 2009).23.1
23.1	Consent of Independent Registered Public Accounting Firm (PKF).
31.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.3	Biomerica, Inc. and Subsidiaries Consolidated Financial Statements
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.

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BIOMERICA, INC.
Registrant

By /s/ Zackary S. Irani
Zackary S. Irani,
Chief Executive Officer

Dated: 8/29/13

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Signature and Capacity

/s/ Zackary S. Irani Zackary S. Irani Director, Chief Executive Officer	Date: 8/29/13
/s/ Janet Moore Janet Moore, Secretary, Director, Chief Financial Officer	Date: 8/29/13
/s/ Francis R. Cano, Ph.D. Francis R. Cano, Ph.D. Director	Date: 8/29/13
/s/ Allen Barbieri Allen Barbieri Director	Date: 8/29/13
/s/ Jane Emerson, M.D., Ph.D. Jane Emerson, M.D.,Ph.D. Director	Date: 8/29/13

BIOMERICA, INC. AND SUBSIDIARIES

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders

Biomerica, Inc. and Subsidiaries

Irvine, California

We have audited the accompanying consolidated balance sheets of Biomerica, Inc. (a Delaware Corporation) and Subsidiaries (the "Company") as of May 31, 2013 and 2012 and the related consolidated statements of operations and comprehensive income (loss), shareholders' equity, and cash flows for each of the two years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We have conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal controls over financial reporting. Our audits included consideration of internal controls over financial reporting as a basis for designing audit procedures that are appropriate in the circumstance, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Biomerica, Inc. and Subsidiaries as of May 31, 2013 and 2012, and the results of its consolidated operations and cash flows for each of the two years then ended in conformity with accounting principles generally accepted in the United States of America.

August 29, 2013
San Diego, California

/s/ PKF

PKF
Certified Public Accountants
A Professional Corporation

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BIOMERICA, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	May 31, 2013	May 31, 2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 2,469,796	$ 1,077,342
Accounts receivable, less allowance for doubtful accounts of $115,730 and $113,191, respectively	871,660	1,200,516
Inventories, net	1,571,221	1,821,072
Deferred tax assets, current portion	144,000	177,000
Prepaid expenses and other	196,678	210,700
Total current assets	5,253,355	4,486,630
PROPERTY AND EQUIPMENT		
Equipment	1,429,906	1,185,098
Furniture, fixtures and leasehold improvements	256,723	244,410
Total property and equipment	1,686,629	1,429,508
Accumulated depreciation	(1,032,009)	(844,684)
Net property and equipment	654,620	584,824
DEFERRED TAX ASSETS, net of current portion	85,000	61,000
INTANGIBLE ASSETS, net	165,200	194,583
INVESTMENTS	165,324	165,324
OTHER ASSETS	71,388	78,561
TOTAL ASSETS	$ 6,394,887	$ 5,570,922
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 351,917	$ 362,447
Accrued compensation	207,976	186,841
Line of credit	--	43,000
Total current liabilities	559,893	592,288

COMMITMENTS AND CONTINGENCIES (NOTE 8)		
SHAREHOLDERS' EQUITY		
Preferred stock, no par value, 5,000,000 authorized shares, no shares issued and outstanding at May 31, 2013 and 2012	--	--
Common stock, $.08 par value; 25,000,000 shares authorized; 7,274,714 and 6,952,339 shares issued and outstanding, respectively	581,976	556,186
Additional paid-in capital	18,034,396	17,737,807
Accumulated other comprehensive loss	(9,006)	(6,030)
Accumulated deficit	(12,772,372)	(13,309,329)
Total shareholders' equity	5,834,994	4,978,634
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 6,394,887	$ 5,570,922

See accompanying notes to consolidated financial statements.

BIOMERICA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

YEARS ENDED MAY 31	2013	2012
Net sales	$ 6,472,960	$ 6,081,131
Cost of sales	(4,045,099)	(3,783,955)
GROSS PROFIT	2,427,861	2,297,176
OPERATING EXPENSES		
Selling, general and administrative	1,454,767	1,445,049
Research and development	459,086	347,128
Total operating expenses	1,913,853	1,792,177
INCOME FROM OPERATIONS	514,008	504,999
OTHER INCOME (EXPENSE)		
Interest expense	(302)	(1,585)
Interest and dividend income	10,708	8,347
Other income	50	101,688
Total other income	10,456	108,450
INCOME BEFORE INCOME TAXES	524,464	613,449
INCOME TAX BENEFIT (EXPENSE)	12,493	(65,014)
NET INCOME	$ 536,957	$ 548,435
BASIC NET INCOME PER COMMON SHARE	$ 0.08	$ 0.08
DILUTED NET INCOME PER COMMON SHARE	$ 0.07	$ 0.08
WEIGHTED AVERAGE NUMBER OF COMMON AND COMMON EQUIVALENT SHARES		
Basic	7,024,418	6,887,929

Diluted		7,451,113		7,107,759
NET INCOME	$	536,957	$	548,435
OTHER COMPREHENSIVE LOSS				
Foreign currency translation		(2,976)		(1,570)
COMPREHENSIVE INCOME	$	533,981	$	546,865

See accompanying notes to consolidated financial statements.

BIOMERICA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

YEARS ENDED MAY 31, 2013 AND 2012

	Common Stock		Additional Paid-in	Other Comprehensive	Accumulated	
	Shares	Amount	Capital	Loss	Deficit	Total
Balances, May 31, 2011	6,818,139	$ 549,466	$ 17,643,121	$ (4,460)	$ (13,857,764)	$ 4,330,363
Exercise of stock options	84,000	6,720	41,070	--	--	47,790
Foreign currency translation	--	--	--	(1,570)	--	(1,570)
Compensation expense in connection with options granted	--	--	53,616	---	--	53,616
Net income	--	--	--	--	548,435	548,435
Balances, May 31, 2012	6,902,139	556,186	17,737,807	(6,030)	(13,309,329)	4,978,634
Exercise of	122,375	9,790	41,724	--	--	51,514

stock options						
Foreign currency translation	--	--	--	(2,976)	--	(2,976)
Sale of shares of common stock	200,000	16,000	234,000	--	--	250,000
Compensation expense in connection with options granted	--	--	20,865	--	--	20,865
Net income	--	--	--	--	536,957	536,957
Balances, May 31, 2007	7,274,314	$ 581,976	$ 18,034,396	$ (9,006)	$ (12,772,372)	$ 5,834,994

See accompanying notes to consolidated financial statements.

BIOMERICA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended May 31,	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 536,957	$ 548,435
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	216,708	180,124
Change in provision for losses on accounts receivable	2,539	80,987
Inventory reserve	3,891	(7,841)
Gain on disposal of property and equipment	--	(101,628)
Stock option expense	20,865	53,616
(Decrease) increase in deferred rent liability	(5,076)	1,338
Decrease in deferred tax assets	9,000	--
Changes in assets and liabilities:		
Accounts receivable	326,317	(534,428)
Inventories	245,960	(27,706)
Prepaid expenses and other	14,022	26,863
Other assets	7,173	(30,673)
Accounts payable and other accrued expenses	(5,454)	(90,460)
Accrued compensation	21,135	48,785
Net cash provided by operating activities	1,394,037	147,412
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(257,121)	(164,798)

Purchases of intangible assets	--	(50,000)
Proceeds from insurance claim	--	101,628
Net cash used in investing activities	(257,121)	(113,170)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of common stock	250,000	--
Net (payments) borrowings on line of credit	(43,000)	43,000
Proceeds from exercise of stock options	51,514	47,790
Payments on loan for equipment purchase	--	(35,390)
Net cash provided by financing activities	258,514	55,400
Effect of exchange rate changes on cash	(2,976)	(1,570)
Net increase in cash and cash equivalents	1,392,454	88,072
CASH AND CASH EQUIVALENTS, beginning of year	1,077,342	989,270
CASH AND CASH EQUIVALENTS, end of year	$2,469,796	$1,077,342
SUPPLEMENTAL DISCLOSURE OF CASH-FLOW INFORMATION		
Cash paid during year for:		
Interest	$ 302	$ 1,585

See accompanying notes to consolidated financial statements.

BIOMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED MAY 31, 2013 AND 2012

1. ORGANIZATION

Biomerica, Inc. and Subsidiaries (collectively "the Company") are primarily engaged in the development, manufacture and marketing of medical diagnostic kits. As of May 31, 2013 and 2012, the Company had one operational unit.

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 fecal 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.

2. SUMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements for the years ended May 31, 2013 and 2012 include the accounts of Biomerica, Inc. ("Biomerica") as well as its 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 the consolidated 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.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company has financial instruments whereby the fair market value of the financial instruments could be different than that recorded on a historical basis. The Company's financial instruments consist of its cash and cash equivalents, accounts receivable, commercial bank line of credit, and accounts payable. The carrying amounts of the Company's financial instruments approximate their fair values.

CONCENTRATION OF CREDIT RISK

The Company maintains cash balances at certain financial institutions in excess of amounts insured by federal agencies.

The Company provides credit in the normal course of business to customers throughout the United States and foreign markets. The Company had one customer which accounted for 29.7% and 37.2% of its sales for the years ended May 31, 2013 and 2012, respectively. During the last quarter of the year ended May 31, 2013, the Company terminated its contract with this customer due to certain proprietary disagreements and entered into an agreement with a new customer. During the year ended May 31, 2013, this new customer accounted for 10.8% of sales. The Company performs ongoing credit evaluations of its customers and requires prepayment in some circumstances. At May 31, 2013 and 2012, one customer accounted for 14.8% and 45.6% of gross accounts receivable, respectively.

For the year ended May 31, 2013, one company accounted for 26.6% of the purchases of raw materials. For the year ended May 31, 2012, two companies accounted for 30.8% of the purchases for raw materials.

GEOGRAPHIC CONCENTRATION

As of May 31, 2013 and 2012, approximately $355,000 and $538,000 of Biomerica's gross inventory and approximately $8,000 and $4,000, of Biomerica's property and equipment, net of accumulated depreciation and amortization, was located in Mexicali, Mexico, respectively.

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 $500 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.

Occasionally certain long-standing customers, who routinely place large orders, will have unusually large receivables balances relative to the total gross receivables. Management monitors the payments for these large balances closely and very often requires payment of existing invoices before shipping new sales orders.

INVENTORIES

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

Inventories approximate the following at May 31:

	2013	2012
Raw materials	$ 787,000	$ 896,000
Work in progress	555,000	554,000
Finished products	229,000	371,000
Total	$ 1,571,000	$ 1,821,000

Reserves for inventory obsolescence are recorded as necessary to reduce obsolete inventory to estimated net 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 are 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 $187,325 and $147,297 for the years ended May 31, 2013 and 2012, respectively.

INTANGIBLE ASSETS

Intangible assets include trademarks, product rights, technology rights and patents, and are accounted for based on Accounting Standards Codification (ASC), 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 and purchased technology use rights, and 17 years for patents. Amortization amounted to $29,383 and $32,827 for the years ended May 31, 2013 and 2012, respectively. Intangible assets with indefinite lives such as perpetual licenses are not amortized but rather tested for impairment at least annually.

The Company assesses the recoverability of these intangible assets by determining whether the amortization of the asset's balance over its remaining life can be recovered through projected undiscounted future cash flows. In July 2012, the FASB issued another update to ASC 350 *Intangibles Goodwill and Other: Testing Indefinite-Lived Intangible Assets for Impairment*. This update simplifies the guidance for testing impairment of indefinite-lived intangible assets other than goodwill. During fiscal 2013, the Company adopted the updated guidance in ASC 350 and used the qualitative assessment to determine whether there were any impairment. This analysis indicated that no impairment adjustment was required as of May 31, 2013.

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.

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 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.

In applying the Black-Scholes options-pricing model, assumptions are as follows:

	2013	2012
Dividend yield	0%	0%
Expected volatility	70.59-70.70%	77.76-84.97%
Risk free interest rate	0.51-0.53%	0.63-0.76%
Expected life	3.50 years	3.25-3.75 years

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 May 31, 2013 and 2012, the allowance for returns is $0.

SHIPPING AND HANDLING FEES AND COSTS

Shipping and handling fees billed to customers are required to be classified as net sales, and shipping and handling costs are required to be classified as either cost of sales or disclosed in the notes to the financial statements. 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. The Company expensed $459,086 and $347,128 of research and development expenses during the years ended May 31, 2013 and 2012, respectively.

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 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, the Company 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 accounts for its uncertain tax provisions by using a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not, based solely on the technical merits, that the position will be sustained in an audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the appropriate amount of the benefit to recognize. The amount of benefit to recognize is measured as the maximum amount which is more likely than not to be realized. The tax position is derecognized when it is no longer more likely than not capable of being sustained. On subsequent recognition and measurement the maximum amount which is more likely than not to be recognized at each reporting date will represent the Company s best estimate, given the information available at the reporting date, although the outcome of the tax position is not absolute or final. Upon adopting the revisions in ASC 740, the Company elected to follow an accounting policy to classify accrued interest related to liabilities for income taxes within the Interest expense line and penalties related to liabilities for income taxes within the Other expense line of the consolidated statements of operations.

ADVERTISING COSTS

The Company reports the cost of all advertising as expense in the period in which those costs are incurred. Advertising costs were approximately $6,000 and $8,000 for the years ended May 31, 2013 and 2012, respectively.

FOREIGN CURRENCY TRANSLATION

The subsidiary located in Germany operates 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 PER SHARE

Basic earnings per share is computed as net income divided by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur from common shares issuable through stock options, warrants and other convertible securities using the treasury stock method. The total amount of anti-dilutive options not included in the earnings per share calculation for the years ended May 31, 2013 and 2012 was 0 and 195,000, respectively.

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

For the Years Ended May 31	2013	2012
Numerator for basic and diluted net income per common share	$ 536,957	$ 548,435
Denominator for basic net income per common share	7,024,418	6,887,929
Effect of dilutive securities:		
Options	426,695	219,830

Denominator for diluted net income per common share		7,451,113		7,107,759
Basic net income per common share	$	0.08	$	0.08
Diluted net income per common share	$	0.07	$	0.08

SEGMENT REPORTING

ASC 280, *Segment Reporting* (ASC 280), establishes standards for reporting, by public business enterprises, information about operating segments, products and services, geographic areas, and major customers. The Company s operations are analyzed by management and its chief operating decision maker as being part of a single industry segment: the design, development, marketing and sales of diagnostic kits.

REPORTING COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) represents net income (loss) and any revenues, expenses, gains and losses that, under GAAP, are excluded from net income (loss) and recognized directly as a component of shareholders equity. Accumulated other comprehensive income (loss) consists solely of foreign currency translation adjustments.

RECENT ACCOUNTING PRONOUNCEMENTS

In February 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-02: Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (ASU 2013-02) which adds new disclosure requirements for items reclassified out of accumulated other comprehensive income. ASU 2013-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2012, which corresponds to the Company s first quarter of fiscal 2014. Early adoption is permitted. The adoption of ASU 2013-02 is not expected to have a material impact on the Company s consolidated financial statements.

In February 2013, the FASB issued ASU No. 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 U.S. GAAP. 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 Company is evaluating when to adopt ASU 2013-04, and the effect the adoption will have on its financial statements.

In March 2013, the FASB issued ASU 2013-05, Foreign Currency Matters (Topic 830): Parent s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity (a consensus of the FASB Emerging Issues Task Force) (ASU 2013-05). ASU 2013-05 clarifies that when a parent reporting entity ceases to have a controlling financial interest in a subsidiary or group of assets that is a business within a foreign entity, the parent is required to apply the guidance in ASC 830-30 to release any related cumulative translation adjustment into net income. Accordingly, the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. ASU 2013-05 is effective prospectively for fiscal years and interim reporting periods within those years beginning after December 15, 2013 which corresponds to the Company s first quarter of fiscal 2015. Early adoption is permitted; however, if an entity elects to early adopt ASU 2013-05, it should be applied as of the beginning of the entity s fiscal year of adoption. Prior periods should not be adjusted. The Company is evaluating when to adopt ASU 2013-05, and the effect the adoption will have on its financial statements.

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.

3. INTANGIBLE ASSETS, net

Intangible assets, net of accumulated amortization, consist of the following at May 31:

	2013	2012
Patents and licenses	$ 245,174	$ 245,174
Less accumulated amortization	(79,974)	(50,591)
	$ 165,200	$ 194,583

Expected amortization of intangible assets for the years ending May 31:

2014	$ 23,099
2015	23,958
2016	23,958
2017	23,958
2018	18,110
Thereafter	49,417
Total	$162,500

4. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

The Company s accounts payable and accrued expense balances consist of the following at May 31:

	2013	2012
Accounts payable	$ 282,138	$ 187,618
Accrued expenses	--	40,036
Deferred rent	69,779	74,855
Income taxes payable	--	59,938
	$ 351,917	$ 362,447

5. SHAREHOLDERS' EQUITY

STOCK OPTION AND RESTRICTED STOCK PLANS

In August 1999, the Company adopted a stock option and restricted stock plan (the "1999 Plan") which provides that non-qualified options and incentive stock options and restricted stock covering an aggregate of 1,000,000 of the Company's unissued common stock may be granted to affiliates, employees or consultants of the Company. As of January 1, of each calendar year, commencing January 1, 2000, this amount is subject to automatic annual increases equal to the lesser of 1.5% of the total number of outstanding common shares, assuming conversion of convertible securities, or 500,000. The 1999 plan expired in November 2009. Options granted under the 1999 Plan were granted at prices not less than 80% of the then fair market value of the common stock and expired not more than 10 years after the date of grant.

In August 2010, the Company adopted a stock option and restricted stock plan (the "2010 Plan") which provides that non-qualified options and incentive stock options and restricted stock covering an aggregate of 850,000 of the Company's unissued common stock may be granted to affiliates, employees or consultants of the Company. This plan was approved by shareholders in December 2010. The 2010 Plan expires in December 2020. Options granted under the 2010 Plan will be granted at prices not less than 80% of the then fair market value of the common stock and will expire not more than 10 years after the date of grant.

Activity as to stock options outstanding are as follows:

	NUMBER OF STOCK OPTIONS	PRICE RANGE PER SHARE	WEIGHTED AVERAGE EXERCISE PRICE
Options outstanding at May 31, 2011	1,000,250	$0.30 - $1.30	$0.57
Options granted	412,500	$0.43 - $0.73	$0.44
Options exercised	(84,000)	$0.38 - $0.73	$0.59
Options canceled or expired	(324,250)	$0.38 - $1.30	$0.71
Options outstanding at May 31, 2012	1,004,500	$0.30 - $0.75	$0.46
Options granted	30,000	$0.65 - $0.68	$0.67
Options exercised	(122,375)	$0.30 - $0.73	$0.42
Options canceled or expired	(65,625)	$0.38 - $0.73	$0.52
Options outstanding at May 31, 2013	846,500	$0.38 - $0.75	$0.47

The weighted average fair value of options granted during 2013 and 2012 was $0.67 and $0.44, respectively. The aggregate intrinsic value of options exercised during 2013 and 2012 was approximately $70,300 and $8,800, respectively. The aggregate intrinsic value of options outstanding at May 31, 2013 and 2012 was approximately $353,000 and $232,000, respectively. The aggregate intrinsic value of options vested and exercisable at May 31, 2013 and 2012 was approximately $162,000 and $79,000, respectively.

Activity as to non-vested stock options are as follows:

	NUMBER OF SHARES		STOCK OPTIONS WEIGHTED AVERAGE GRANT DATE FAIR VALUE
Nonvested shares at May 31,2012	602,250	$	0.42
Granted	30,000	$	0.67
Vested/Issued	(166,375)	$	0.42
Forfeited	(57,625)	$	0.53
Nonvested shares at May 31,2013	408,250	$	0.42

At May 31, 2013, total compensation cost related to non-vested stock option awards not yet recognized totaled $22,034. The weighted-average period over which this amount is expected to be recognized is 2.31 years. The weighted average remaining contractual term of options that were exercisable at May 31, 2013 was 3.25 years.

The following summarizes information about all of the Company's stock options outstanding at May 31, 2013. These options are comprised of those granted under the 1999 and 2010 plans.

RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING 5/31/2013	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE IN YEARS	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT MAY 31, 2013	WEIGHTED AVERAGE EXERCISE PRICE
$0.30 - $0.50	651,500	3.14	$0.42	253,250	$0.42
$0.51 - $0.75	195,000	3.59	$0.66	185,000	$0.66

STOCK ACTIVITY

In January 2012, the Board of Directors granted stock options for 402,500 options to officers, directors and employees of the Company. Options for directors who are not also officers vested one quarter immediately and then will vest one quarter per year thereafter. The options for employees and officers vest one quarter after one year and then will vest one quarter per year thereafter. The options are at the exercise price of $0.43 and expire in five years.

In April 2012, the Board of Directors granted stock options for 10,000 shares to an employee. The option vested one quarter immediately and then will vest one quarter per year thereafter. The option is at the exercise price of $0.73 and expires in five years.

During the fiscal year ended May 31, 2012, options to purchase 84,000 shares of common stock were exercised at prices ranging from $0.38 to $0.73 per share. Total proceeds to the Company were $47,790.

In October 2012, the Board of Directors granted stock options for 30,000 options to employees of the Company. The options vests one quarter after one year and then will vest one quarter per year thereafter. The options are at the exercise price of $0.65 and $0.68 per share and expire in five years.

During the fiscal year ended May 31, 2013, options to purchase 122,375 shares of common stock were exercised at prices ranging from $0.30 to $0.73. Total proceeds to the Company were $51,514.

During the fiscal year ended May 31, 2013, the Company sold 200,000 shares of its common stock at a price of $1.25 per share to an investor for proceeds of $250,000. This investor has agreed to purchase an additional 200,000 shares of common stock at $1.25 per share at a later date.

6. INCOME TAXES

Income tax (benefit) expense from continuing operations for the years ended May 31, 2013 and 2012 consists of the following current provisions:

	2013	2012
Current:		
U.S.Federal	$ --	$ --
State and local	(21,493)	63,414
Total current	(21,493)	63,414
Deferred:		
U.S. Federal	(521)	--
State and local	9,521	1,600
Total deferred	9,000	1,600
Income tax (benefit) expense	$ (12,493)	$ 65,014

Income tax (benefit) expense from continuing operations differs from the amounts computed by applying the U.S. Federal income tax rate of 35 percent to pretax income as a result of the following:

Years ended May 31,	2013	2012
Computed "expected" tax expense (benefit)	$ 184,000	$ 215,000
Increase (reduction) in income taxes resulting from:		
True up of carry forwards and other items	-	30,000
Change in valuation allowance	(205,000)	(219,000)
State income taxes, net of federal benefit	15,000	36,000
Research and development tax credits	(14,000)	(4,000)
Permanent tax differences and other	7,507	7,014
Income tax (benefit) expense	$ (12,493)	$ 65,014

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The tax effect of significant temporary differences is presented below:

Years ended May 31,	2013	2012
Deferred tax assets:		
Accounts receivable, principally due to allowance for doubtful accounts and sales returns	$ 47,000	$ 46,000
Inventory valuation	32,000	30,000
Compensated absences and deferred payroll	37,000	70,000
Net operating loss carryforwards	94,000	327,000
Tax credit carryforwards	117,000	83,000
Deferred rent expense	28,000	31,000
Other	42,000	77,000
Total deferred tax assets	397,000	664,000
Less valuation allowance	--	(280,000)
	397,000	384,000
Deferred tax liabilities:		
Accumulated depreciation of property and equipment	(168,000)	(146,000)
Net deferred tax asset	$ 229,000	$ 238,000
Deferred tax assets, current portion	$ 144,000	$ 177,000
Deferred tax assets, long-term portion	85,000	61,000
	$ 229,000	$ 238,000

The Company has provided a valuation allowance of $0 and $280,000 as of May 31, 2013 and 2012, respectively. After analyzing the Company s tax position, operational history and profitability for the past 3 years, management has chosen to remove all of the remaining allowance for the uncertainty of its future income, as the determination that it was more likely that the deferred tax asset would be realized in the future. The net change in the valuation allowance for the years ended May 31, 2013 and 2012 was a decrease of $280,000 and $231,000, respectively.

At May 31, 2013 and 2012, the Company has federal income tax net operating loss carryforwards of approximately $480,000 and $848,000 respectively. Of the reported net operating loss carryforwards, approximately $211,000 are related to windfall tax benefits from the exercise of the Company s stock options by certain employees. Pursuant to ASC 718, the federal benefit of approximately $74,000 associated with this portion of the net operating loss will be credited to additional paid-in capital when the tax benefits are actually realized. The federal net operating loss carryforwards begin to expire in 2021. At May 31, 2013 and 2012, the Company has California state income tax net operating loss carryforwards of approximately $0 and $527,000, respectively.

At May 31, 2013, the Company has federal research and development tax credit carryforward of approximately $109,000. The federal credits begin to expire in 2027. The Company also had similar credit carry forwards for state purposes of $8,000 at May 31, 2013.

Pursuant to Internal Revenue Code Sections 382 and 383, annual use of the Company's net operating loss ("NOL") and credit carryforwards may be limited by statute because of a cumulative change in ownership of more than 50%. Pursuant to Sections 382 and 383 of the Code, the annual use of the Company's NOLs would be limited if there is a cumulative change of ownership (as that term is defined in Section 382(g) of the Code) of greater than 50% in a three year period. Based on management's analysis the Company does not believe that a cumulative change in ownership of greater than 50% has taken place.

For the fiscal year ended May 31, 2013 and 2012, the Company did an analysis of its ASC 740 position and has not identified any uncertain tax positions as defined under ASC 740. Should such position be identified in the future and should the Company owe interest and penalties as a result of this, these would be recognized as interest expense and other expense, respectively, in the financial statements. The Company is no longer subject to any significant U.S. federal tax examinations by tax authorities for years before fiscal year 2009.

7. BUSINESS SEGMENTS

The Company operates as one segment. Geographic information regarding net sales is approximately as follows:

		2013	2012
Net sales:			
	Europe	$ 2,840,000	$2,533,000
	United States	822,000	1,074,000
	Asia	2,770,000	2,420,000
	South America	7,000	2,000
	Middle East	31,000	22,000
	Other foreign	3,000	30,000
	Total net sales	$ 6,473,000	$6,081,000

8. COMMITMENTS AND CONTINGENCIES

OPERATING LEASES

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 increasing to $22,080 through August 31, 2016, with a security deposit of $22,080. The following is a schedule of rent payments due under the terms of the lease:

Years Ending May 31,		
2014	$	247,902
2015		255,363
2016		263,031
2017		66,240
Total	$	832,536

According to the terms of the lease, the Company is also responsible for routine repairs of the building and for certain increases in property tax.

Total gross rent expense in the U.S. for fiscal 2013 and 2012 was $234,960 and $235,984, respectively. Net rent expense in the U.S. for fiscal 2013 and 2012 was $210,935 and $202,984, respectively. The Company received

$24,025 and $33,000 in fiscal 2013 and 2012, respectively, in income from a temporary sublease, which offset total rent expense. Rent expense for the Mexico facility for fiscal 2013 and 2012 was $33,744 and $36,302, respectively.

The Company also has various insignificant leases for office equipment.

RETIREMENT SAVINGS PLAN

Effective September 1, 1986, the Company established a 401(k) plan for the benefit of its employees. The plan permits eligible employees to contribute to the plan up to the maximum percentage of total annual compensation allowable under the limits of Internal Revenue Code Sections 415, 401(k) and 404. The Company, at the discretion of its Board of Directors, may make contributions to the plan in amounts determined by the Board each year. No contributions by the Company have been made since the plan's inception.

LITIGATION

The Company is, from time to time, involved in legal proceedings, claims and litigation arising in the ordinary course of business. While the amounts claimed may be substantial, the ultimate liability cannot presently be determined because of considerable uncertainties that exist. Therefore, it is possible the outcome of such legal proceedings, claims and litigation could have a material effect on quarterly or annual operating results or cash flows when resolved in a future period. However, based on facts currently available, management believes such matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows. There were no legal proceedings pending as of May 31, 2013.

CONTRACTS

On March 27, 2009, the Company signed an Asset Purchase Agreement with a European company for the purchase of certain technology related to the manufacture of certain medical diagnostic tests. Consideration for this purchase was a nominal deposit upon signing the agreement and a nominal transfer fee upon successful commencement of production of the products. A royalty shall be paid for five years beginning on the date of first sale of finished product derived from the purchased assets. Royalty payments of 10% of sales are due on these products for a period of five years. Royalty expense for this license was approximately $300 and $160 for the years ended May 31, 2013 and 2012, respectively.

In October 2009, the Company entered into a non-exclusive, worldwide, perpetual, irrevocable, and transferable cross-license agreement to acquire technology and intellectual property from and make available its technology and intellectual property related to enzyme-linked immunosorbent assay products to be marketed by the Company. Pursuant to the terms of the license agreement, the Company has paid $25,000 for the license for each of six products, with a similar amount to be paid for each of two additional products as they are transferred. The Company will be amortizing the costs for these licenses over a ten year period. As part of this agreement, the Company must pay royalties on future sales of these products between 4% and 8% and is eligible to receive royalties from certain of its products licensed in the same percentages. The Company accrues this royalty when it becomes payable. The Company had incurred approximately $15,000 and $16,500 in amortization of licensing fees during fiscal 2013 and 2012, respectively.

In May 2010, the Company acquired from an inventor the exclusive, perpetual license to a United States patent applicable to the measurement of thiopurine methyltransferase within patients prior to commencing treatment with thiopurine drugs. The product is currently being redeveloped by the Company. Pursuant to the terms of the license agreement, the Company was granted an exclusive, worldwide, perpetual license to manufacture, market, distribute and sell the products contemplated by the patents subject to the payment of $25,000 as reimbursement to the patent holder for legal and other costs associated with obtaining the patent, which was paid in June 2010. The Company is amortizing the initial cost of $25,000 for this license over a ten year period. As of May 31, 2013, the Company had amortized $7,500 of the license. As part of this agreement, the Company must pay royalties on future sales of these products between 4% and 8% through September 30, 2022. The agreement also has minimum escalating royalty payments which must be made for the Company to keep its exclusivity for the license. The Company accrues this royalty when it becomes payable. Royalty in the amounts of $24,000 and $10,294 was recorded for the years ended May 31, 2013 or 2012, respectively.

On October 19, 2010, the Company signed an agreement with a university to acquire the rights to manufacture and market certain products using two patents owned by the university. The Company paid a license issue fee of $15,000 initially and will pay royalties on net sales quarterly. The Company has amortized all of the licensing fee as of May 31, 2013. Royalty expense for this license was approximately $7,000 and $8,000 for the years ended May 31, 2013 and 2012, respectively.

The Company has two royalty agreements in which it has obtained rights to manufacture and market certain products for the life of the products. Royalty expense of approximately $26,000 and $30,000 is included in cost of sales for these agreements for the years ended May 31, 2013 and 2012, respectively. Beginning in fiscal 2011 the Company is only required to pay royalties for one of the products due to the fact that the company that was paid the royalties no longer provides materials to make that product, which was part of the original agreement. Sales of products manufactured under these agreements comprise approximately 2.9% and 3.4% of total sales for the yearsended May 31, 2013 and 2012, respectively. The Company may license other products or technology in the future as it deems necessary for conducting business.

9. DEBT

On February 13, 2009, the Company entered into a Small Business Banking Agreement with Union Bank for a one year business line of credit (the "Line") in the amount of $400,000. The interest rate for the line of credit was the prime rate in effect on the first day of the billing period, as published in the Wall Street Journal Prime West Coast Edition, plus a spread of 1.00%. Minimum monthly payments are the sum of (i) the amount of interest charge for the billing period, plus (ii) any amount past due, plus (iii) any fees, late charges and/or out-of-pocket expenses assessed. If the Line is not renewed as of the last day of the term of the Line, the entire unpaid balance of the Line, including unpaid fees and charges will be due and payable. The Company has granted the bank security interest in the assets of the Company as collateral. The Company has renewed this line each year. The Line expires February 24, 2014. The Company owed $0 and $43,000 on this Line as of May 31, 2013 and 2012, respectively.

10. OTHER INCOME

During the year ended May 31, 2012, the Company experienced water damage from a burst pipe. Expenses of $33,522 were incurred as a result of this damage. Property and equipment amounting to $68,106 were purchased to replace damaged, fully depreciated equipment and fixtures. The Company s insurance company reimbursed the Company $101,628, which covered approximately all of its expenses plus cost of replacement property and equipment, resulting in a gain of approximately $102,000.