BIOMERICA INC
Form 10-Q
January 14, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED NOVEMBER 30, 2013

OR

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

Commission File Number: 0-8765

BIOMERICA, INC.

(Exact name of registrant as specified in its charter)

Delaware

95-2645573

(State or other jurisdiction of

(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	OTC-BULLETIN BOARD

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

(TITLE OF EACH CLASS)

COMMON STOCK, PAR VALUE $0.08

Indicate by check whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [_]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Date File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (paragraph 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes [X] No [_]

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

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes [_] No [X]

Indicate the number of shares outstanding of each of the registrant's common stock, as of the latest practicable date: 7,291,214 shares of common stock, par value $0.08, as of January 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)

	Six Months Ended		Three Months Ended	
	November 30,		November 30,	
	2013	2012	2013	2012
Net sales	$ 1,948,580	$ 3,585,719	$ 934,841	$ 1,883,771
Cost of sales	(1,432,645)	(2,084,259)	(679,197)	(1,114,560)
Gross profit	515,935	1,501,460	255,644	769,211
Operating Expenses:				
Selling, general and administrative	709,160	738,094	366,357	405,968
Research and development	228,046	203,722	136,789	115,741
Total operating expenses	937,206	941,816	503,146	521,709
(Loss) income from operations	(421,271)	559,644	(247,502)	247,502
Other Income (Expense):				
Dividend and interest income	10,199	2,243	4,145	1,127
Interest expense	-	(308)	-	-
Total other income	10,199	1,935	4,145	1,127
(Loss) income before income tax	(411,072)	561,579	(243,357)	248,629

Provision for income taxes		-		(33,029)		-		(11,710)
Net (loss) income	$	(411,072)	$	528,550	$	(243,357)	$	236,919
Basic net (loss) income per common share	$	(0.06)	$	0.08	$	(0.03)	$	0.03
Diluted net (loss) income per common share	$	(0.06)	$	0.07	$	(0.03)	$	0.03
Weighted average number of common and common equivalent shares:								
Basic		7,277,659		6,959,224		7,278,967		6,966,185
Diluted		7,277,659		7,282,202		7,278,967		7,385,139
Net (loss) income	$	(411,072)	$	528,550	$	(243,357)	$	236,919
Other comprehensive loss, net of tax:								
Foreign currency translation		(14)		(554)		77		(473)
Comprehensive (loss) income	$	(411,086)	$	527,996	$	(243,280)	$	236,446

The accompanying notes are an integral part of these statements.

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

	November 30, 2013 (unaudited)	May 31, 2013 (audited)
Assets		
Current Assets:		
Cash and cash equivalents	$ 1,647,559	$ 2,469,796
Accounts receivable, less allowance for doubtful accounts of $120,405 and $115,730 as of November 30, 2013 and May 31, 2013, respectively	821,571	871,660
Inventories, net	1,899,633	1,571,221
Prepaid expenses and other	186,362	196,678
Deferred tax assets, current portion	144,000	144,000
Total current assets	4,699,125	5,253,355
Property and Equipment, net of accumulated depreciation and amortization of $1,118,240 and $1,032,009 as of November 30, 2013 and May 31, 2013, respectively	652,244	654,620
Deferred Tax Assets, net of current portion	85,000	85,000
Investments	165,324	165,324
Intangible Assets, net	154,079	165,200
Other Assets	71,388	71,388
Total Assets	$ 5,827,160	$ 6,394,887
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable and accrued expenses	$ 279,974	$ 351,917
Accrued compensation	120,618	207,976
Total current liabilities	400,592	559,893

Commitments and Contingencies (Note 5)		
Shareholders' Equity:		
Preferred stock, no par value authorized 5,000,000 shares, none issued and none outstanding at November 30, 2013 and May 31, 2013	-	-
Common stock, $0.08 par value authorized 25,000,000 shares, issued and outstanding 7,279,214 and 7,274,714 at November 30 and May 31, 2013, respectively	582,336	581,976
Additional paid-in-capital	18,036,696	18,034,396
Accumulated other comprehensive loss	(9,020)	(9,006)
Accumulated deficit	(13,183,444)	(12,772,372)
Total Shareholders' Equity	5,426,568	5,834,994
Total Liabilities and Shareholders' Equity	$ 5,827,160	$ 6,394,887

The accompanying notes are an integral part of these statements.

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

	Six Months Ended November 30, 2013	2012
Cash flows from operating activities:		
Net (loss) income	$ (411,072)	$ 528,550
Adjustments to reconcile net (loss) income to net cash (used in)		
provided by operating activities:		
Depreciation and amortization	97,352	110,822
Stock option expense	881	-
Change in provision for losses on accounts receivable	4,675	4,210
Inventory reserve	(6,713)	2,047
Decrease in deferred rent liability	(6,418)	(1,764)
Changes in assets and liabilities:		
Accounts receivable	45,414	(313,358)
Inventories	(321,700)	18,921
Prepaid expenses and other assets	10,316	49,413
Accounts payable and other accrued expenses	(65,525)	(27,461)
Accrued compensation	(87,358)	25,618
Net cash (used in) provided by operating activities	(740,148)	396,998
Cash flows from investing activities:		
Purchases of property and equipment	(83,855)	(242,416)

Net cash used in investing activities	(83,855)	(242,416)
Cash flows from financing activities:		
Proceeds from exercise of stock options	1,780	5,999
Payments on line of credit or equipment loan	-	(43,000)
Net cash provided by (used in) financing activities	1,780	(37,001)
Effect of exchange rate changes in cash	(14)	(554)
Net (decrease) increase in cash and cash equivalents	(822,237)	117,027
Cash and cash equivalents at beginning of period	2,469,796	1,077,342
Cash and cash equivalents at end of period	$ 1,647,559	$ 1,194,369
Supplemental Disclosure of Cash-Flow Information:		
Cash paid during the period for:		
Interest	$ -	$ 307
Income taxes	$ 3,500	$ 108,160

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 financial 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 November 30, 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 accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Actual results could materially differ from those estimates.

Cash and Cash Equivalents

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

Accounts Receivable

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

	November 30, 2013	May 31, 2013
Raw materials	$ 864,000	$ 787,000
Work in progress	755,000	555,000
Finished products	281,000	229,000
Total	$ 1,900,000	$ 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 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 $43,452 and $65,435 for the three months ended November 30, 2013 and 2012, and $86,231 and $93,263 for the six months ended November 30, 2013 and 2012, 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 $3,665 and $8,779 for the three months ended November 30, 2013 and 2012, respectively, and $11,121 and $17,559 for the six months ended November 30, 2013 and 2012, 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 November 30, 2013:

	Option Shares	Exercise Price Weighted Average
Outstanding May 31, 2013	846,500	$ 0.47
Granted	52,000	$ 0.84
Exercised	(4,500)	$ 0.40
Cancelled or expired	(10,000)	$ 0.43
Outstanding November 30, 2013	884,000	$ 0.49

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 $0.83 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 exercise 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.

In September 2013, options to exercise 2,500 shares of the Company s common stock were exercised at the exercise prices of $0.45 and $0.38 per share.

In December 2013, options to exercise 12,000 shares of the Company s common stock were exercised at the exercise price of $0.38 per share.

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 has provided a valuation allowance of $0 as of November 30, 2013 and May 31, 2013.   In May 2013, after analyzing the Company s tax position, operational history and profitability for the past 3 years, management chose 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.

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

Basic earnings (loss) per share are computed as net income (loss) divided by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per share reflect the potential dilution that could occur from common shares issuable through stock options, warrants and other convertible securities. The total amount of anti-dilutive warrants or options not included in the earnings (loss) per share calculation for the three and six months ended November 30, 2013 was 372,816 and 379,180, respectively. There were no anti-dilutive warrants or options excluded from the earnings per share calculation for the three and six months ended November 30, 2012.

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

	Six Months Ended November 30,		Three Months Ended November 30,	
	2013	2012	2013	2012
Numerator:				
(Loss)income from continuing operations	$ (411,072)	$ 528,550	$ (243,357)	$ 236,919
	7,277,659	6,959,224	7,278,967	6,966,185

Denominator for basic net (loss) income Per common share				
Effect of dilutive securities:				
Options and warrants	-	322,978	-	418,954
Denominator for diluted net (loss) income				
per common share	7,277,659	7,282,202	7,278,967	7,385,139
Basic net (loss) income per common share	$ (0.06)	$ 0.08	$ (0.03)	$ 0.03
Diluted net (loss) income per common share	$ (0.06)	$ 0.07	$ (0.03)	$ 0.03

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 expense balances consist of the following at:

	November 30,					
				(40)	$	8.00
Balance at March 31, 2008	1,881	5,041	$	6.57		

The Company may also award shares to new employees as a material inducement to the acceptance of employment with the Company, and such awards are not made under the Amended 2000 Plan. These grants must be approved by the compensation committee of the board of directors, a majority of the independent directors or an authorized executive officer, as determined under the Marketplace Rules of the Nasdaq Stock Market.

A summary of the inducement grant option activity is presented below (in thousands, except exercise price):

	Options Outstanding	
	Number of Shares	Weighted Average Exercise Prices
Balance at December 31, 2007	1,619	$ 5.92
Granted	965	$ 4.00
Cancelled	(137)	$ 7.52
Exercised		
Balance at March 31, 2008	2,447	$ 5.08

A summary of the restricted stock award activity is presented below (in thousands, except fair value):

	Number of Shares	Weighted Average Grant-Date Fair Value
Non-vested shares at December 31, 2007	539	$ 6.99
Granted		
Vested	(19)	$ 5.91
Cancelled	(7)	$ 5.91
Non-vested shares at March 31, 2008	513	$ 6.99

The following table summarizes significant ranges of outstanding and exercisable options and inducement grants as of March 31, 2008 (in thousands, except contractual life and exercise price):

	Options Outstanding				Options Exercisable			
Range of Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (in Years)	Weighted Average Exercise Price	Aggregate Intrinsic value	Number Exercisable	Weighted Average Remaining Contractual Life (in Years)	Weighted Average Exercise Price	Aggregate Intrinsic value
$1.00 - $4.09	1,494	6.52	$ 3.77	$ 878	663	6.08	$ 3.85	$ 341
$4.10 - $8.00	4,447	5.87	$ 5.78	$ 34	1,789	4.42	$ 5.78	$ 20
$8.01 - $10.00	1,260	4.62	$ 8.77		482	3.87	$ 9.32	
$10.01 - $15.69	287	3.84	$ 11.04		287	3.84	$ 11.04	
	7,488	5.71	$ 6.08	$ 912	3,221	4.63	$ 6.38	$ 361

As of March 31, 2008, the Company had 6,472,548 shares fully vested and expected to vest, after estimated forfeitures, with a remaining contractual life of 5.62 years, weighted average exercise price of $6.11 and aggregate intrinsic value of $0.8 million.

The total fair value of shares vested using the Black-Scholes method during the three months ended March 31, 2008 and 2007 were $0.8 million and $0.8 million, respectively. The total intrinsic value of employee stock options exercised during the three months ended March 31, 2008 and 2007 were $0 and $0.7 million, respectively.

Options exercisable were 3.2 million and 2.8 million at March 31, 2008 and 2007, respectively.

ITEM 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

This Management s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the accompanying condensed consolidated financial statements and notes included in this report. This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which include, without limitation, statements about the market for our technology, our strategy, competition, expected financial performance, all information disclosed under Item 3 of this Part I, and other aspects of our business identified in the Company s most recent annual report on Form 10-K filed with the Securities and Exchange Commission on March 17, 2008 and in other reports that we file from time to time with the Securities and Exchange Commission. Any statements about our business, financial results, financial condition and operations contained in this Form 10-Q that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words believes, anticipates, expects, intends, plans, projects, or similar expressions are intended to identify forward-looking statements. Our actual results could differ materially from those expressed or implied by these forward-looking statements as a result of various factors, including the risk factors described in Risk Factors and elsewhere in this report. We undertake no obligation to update publicly any forward-looking statements for any reason, except as required by law, even as new information becomes available or events occur in the future.

Overview

We design, develop, market and license memory intellectual property, or IP, used by the semiconductor industry. Our patented memory solutions include 1T-SRAM and 1T-FLASH high-density alternatives to traditional volatile and non-volatile embedded memory. We license these technologies to companies that incorporate, or embed, memory on complex integrated circuits, such as Systems on Chips, or SoCs.

Our customers include semiconductor companies, integrated device manufacturers (IDMs), and foundries. We generate revenue from the licensing of our IP, and our customers pay us fees for licensing, non-recurring engineering services, royalties and maintenance and support. Royalty revenues are typically earned under our license agreements when our licensees manufacture or sell products that incorporate any of our technologies. Generally, we expect our total sales cycle, or the period from our initial discussion with a prospective licensee to our receipt of royalties from the licensee s use of our technologies, to run from 18 to 24 months. The portion of our sales cycle from the initial discussion to the receipt of license fees may run from 6 to 12 months, depending on the complexity of the proposed project and degree of development services required.

In 2005, we began delivering our 1T-SRAM CLASSIC Memory Macro products to licensees. These macros are silicon-proven, high-density solutions offering customers rapid memory block integration into their SoC designs. They are pre-configured and require minimal additional customization, and we believe they will enable us to increase our penetration of the market for very dense, low power, high speed embedded memory applications.

In July 2007, we entered into an asset purchase agreement and a transition services agreement with Atmel Corporation (Atmel) with respect to the purchase of several analog/mixed-signal integrated circuit designs and related assets from Atmel, including the rights to acquire an Atmel subsidiary located in Romania that employed 58 people and another Atmel subsidiary located in Shanghai, China that employed 45 people at the time of purchase. Under the agreement, we made a cash payment of $1.0 million, assumed net liabilities of acquired subsidiaries, and agreed to reimburse certain pre-closing operating expenses for a total purchase price of approximately $1.4 million.

In August 2007, we acquired intellectual property and other assets from LSI Design and Integration Corporation (LDIC) in a transaction related to the Atmel acquisition. We acquired this technology and related assets in exchange for 500,000 shares of the Company s common stock with an issuance date fair value of $7.07 per share. Of the 500,000 shares issued by us for the LDIC acquisition, 300,000 shares valued at $7.07, or $2.1 million, were recorded as purchase price of intangible assets and the other 200,000 shares have been reserved for future distribution to employees and are being recognized as compensation expense over the two-year vesting period. In addition, the agreement calls for an earn-out payment equal to 25% of the license and royalty revenues generated by us from the integrated circuit designs acquired from Atmel and LDIC that are recognized for financial accounting purposes in the first 12 calendar months following the closing date. Any such payments will be recorded as additional purchase consideration when earned.

Sources of Revenue

We generate two types of revenue: licensing and royalties.

Licensing. Our license agreements involve long sales cycles, which makes it difficult to predict when the agreements will be signed. In addition, our licensing revenues fluctuate from period-to-period, and it is difficult for us to predict the timing and magnitude of such revenue from quarter-to-quarter. Moreover, we believe that the amount of licensing revenue for any period is not necessarily indicative of results in any future period.

Our licensing revenue consists of fees for providing circuit design, layout and design verification and granting a license to a customer for embedding our technology into its product. License fees generally range from $100,000 to several million dollars per contract, depending on the scope and complexity of the development project, and the extent of the licensee s rights. The licensee generally pays the license fees in installments at the beginning of the license term and upon the attainment of specified milestones. The vast majority of our contracts allow for milestone billing based on work performed. Fees billed prior to revenue recognition are recorded as deferred revenue.

Royalty. Each of our license agreements provides for royalty payments at a stated rate. We negotiate royalty rates by taking into account such factors as the anticipated volume of the licensee s sales of products utilizing our technologies and the cost savings to be achieved by the licensee through the use of our technology. Our license agreements generally require the licensee to report the manufacture or sale of products that include our technology after the end of the quarter in which the sale or manufacture occurs.

As with our licensing revenue, the timing and level of royalties are difficult to predict. They depend on the licensee s ability to market, produce and sell products incorporating our technology. Many of the products of our licensees that are currently subject to licenses from us are consumer products, such as electronic game consoles, for which demand can be seasonal and generally highest in the fourth quarter.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operation are based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make certain estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis we make these estimates based on our historical experience and on assumptions that we consider reasonable under the circumstances. Actual results may differ from these estimates, and reported results could differ under different assumptions or conditions. Our significant accounting policies and estimates are disclosed in Note 1 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2007. As of March 31, 2008, there have been no material changes to our significant accounting policies and estimates.

Recent Accounting Pronouncements

In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, Effective Date of FASB Statement No. 157 (FSP 157-2), to partially defer FASB Statement No. 157, Fair Value Measurements (SFAS 157). FSP 157-2 defers the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years, and interim periods within those fiscal years, beginning after November 15, 2008. We are currently evaluating the impact FSP 157-2 will have on our consolidated financial statements.

Results of Operations

Three Months Ended March 31, 2008 and 2007

Revenues.

	Three Months Ended March 31, 2008	2007	Year-Over-Year Change 2007 to 2008	
	(dollar amounts in thousands)			
Licensing	$ 432	$ 1,158	$ (726)	(63)%
Percentage of total revenues	15%	37%		

Licensing revenue consists of fees earned from license agreements, development services and support and maintenance.

Licensing revenue decreased for the three months ended March 31, 2008 compared with the same period a year ago primarily due to a significant decline in new customers and agreements for our 1T-SRAM technology licenses.

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007	Year-Over-Year Change 2007 to 2008	
	(dollar amounts in thousands)			
Royalty	$ 2,385	$ 1,979	$ 406	21%
Percentage of total revenues	85%	63%		

Royalty revenue represents amounts earned under provisions in our licensing contracts that require our licensees to report royalties and make payments at a stated rate based on actual units manufactured or sold by licensees for products that include our technologies. We generally recognize royalties in the quarter in which we receive the licensee s report.

Royalty revenue increased for the three months ended March 31, 2008 compared with the same period a year ago primarily due to an increase in royalties earned on the sale of the Nintendo Wii game console and increased royalties from a foundry partner, which had an increase in the number of products incorporating our technologies that were manufactured on its 90nm and 65nm processes.

Cost of net revenue and gross profit.

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007	Year-Over-Year Change 2007 to 2008	
	(dollar amounts in thousands)			
Cost of net revenue	$ 480	$ 564	$ (84)	(15)%
Percentage of total revenues	17%	18%		

Cost of net revenue consists of personnel costs for engineers assigned to revenue-generating licensing arrangements and related overhead allocation costs.

Cost of net revenue decreased for the three months ended March 31, 2008 compared with the same period a year ago primarily due to fewer license arrangements for our 1T-SRAM technology requiring significant engineering services. We expect that cost of licensing revenues will continue to grow in absolute dollars and will be higher as a percentage of net revenue for 2008 because we anticipate entering into license agreements requiring more complete development services due to the shift by many licensees to smaller process geometries, including 65nm and below. Cost of net revenue included stock-based compensation expense of $0.1 million for each of the three months ended March 31, 2008 and 2007.

Gross profit decreased to $2.3 million for the three months ended March 31, 2008 from $2.6 million from the year ago quarter mainly due to a decrease in our licensing revenue, although that decrease was partially offset by the increase in royalty revenue, which has no related costs. Therefore, gross margin percentage increased to 83% for the three months ended March 31, 2008 from 82% in the same quarter of the prior year.

Research and Development.

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007	Year-Over-Year Change 2007 to 2008	
	(dollar amounts in thousands)			
Research and development	$ 4,296	$ 2,078	$ 2,218	107%
Percentage of total revenues	153%	66%		

Our research and development expenses include development and design of variations of the 1T-SRAM technologies for use in different manufacturing processes used by licensees, development of our 1T-FLASH technology solution and costs related to our analog/mixed-signal design technology, including the subsidiaries in China and Romania, and amortization of acquired intangible assets. We expense research and development costs as they are incurred.

Research and development expense increased for the three months ended March 31, 2008 compared with the same period a year ago primarily due to a $1.4 million increase in costs, primarily personnel-related, attributable to the analog and mixed signal technology and personnel acquired in the third quarter of 2007, a $0.2 million increase in amortization of purchased intangible assets from the Atmel and LDIC acquisitions, a $0.2 million increase in costs attributable to the expansion of our engineering team working on our non-volatile 1T-FLASH memory technology and 1T-SRAM display driver applications and a $0.1 million increase in stock-based compensation expense.

Research and development expenses included stock-based compensation expense of $0.4 million and $0.3 million for the three months ended March 31, 2008 and 2007, respectively.

Selling, General and Administrative.

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007	Year-Over-Year Change 2007 to 2008	
	(dollar amounts in thousands)			
Selling, general and administrative	$ 3,356	$ 2,580	$ 776	30%
Percentage of total revenues	119%	82%		

Selling, general and administrative expenses consist primarily of personnel and related overhead costs for sales, marketing, customer support, finance, human resources and general management.

Selling, general and administrative expenses increased for the three months ended March 31, 2008 compared with the same period a year ago primarily due to a $0.4 million increase in stock-based compensation expense and a $0.2 million increase in personnel and related expenses as we expanded our sales and marketing organizations to enhance our analog/mixed-signal expertise.

Selling, general and administrative expenses included stock-based compensation expense of $0.8 million and $0.4 million for the three months ended March 31, 2008 and 2007, respectively.

Interest, Other Income and Expense.

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007	Year-Over-Year Change 2007 to 2008	
	(dollar amounts in thousands)			
Interest, other income and expense	$ 1,074	$ 1,064	$ 10	1%
Percentage of total revenues	38%	34%		

Interest, other income and expense was primarily comprised of interest income on our investments, which declined by $0.1 million for three months ended March 31, 2008 due to lower interest rates earned and lower average investment balances than during the comparable quarter in 2007. The decline was offset by an increase in non-investment interest income of $0.1 million attributable to an income tax refund received in the first quarter of 2008 resulting from an amended tax return.

Provision for Income Taxes.

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007	Year-Over-Year Change 2007 to 2008	
	(dollar amounts in thousands)			
Income tax benefit (provision)	$ (43)	$ 52	$ 95	(183)%
Percentage of total revenues	(2)%	2%		

Our income tax provisions were primarily attributable to foreign jurisdictions.

Provision for Income Taxes. A (provision) benefit for income taxes of ($43,000) and $52,000 was recorded for the three months ended March 31, 2008 and 2007, respectively. The provision for the three months ended March 31, 2008 was primarily attributable to taxes for our foreign subsidiaries and branches and minimum U.S. state income tax liabilities. We believe that, based on the history of our operating losses and other factors, the weight of available evidence indicates that it is more likely than not that we will not be able to realize the benefit of our net operating losses. Accordingly, a full valuation reserve has been recorded against our net deferred tax assets.

Liquidity and Capital Resources; Changes in Financial Condition

Cash Flows

As of March 31, 2008, we had cash and cash equivalents and long and short-term investments of $77.3 million and had total working capital of $59.6 million. Our primary capital requirements are for working capital needs.

Net cash used in operating activities was $1.0 million for the first three months of 2008 and primarily consisted of the net loss of $4.3 million and an increase in accounts receivable of $0.4 million, offset by non-cash charges, including stock-based compensation expense of $1.3 million and depreciation and amortization of $0.4 million, increases in prepaid expenses and other assets of $0.5 million and deferred revenues of $0.6 million.

Net cash provided by operating activities was $1.7 million for the first three months of 2007 and primarily consisted of the net loss of $1.0 million, offset by non-cash charges, including stock-based compensation expense of $0.8 million and depreciation and amortization expense of $0.1 million, and a decrease in accounts receivable.

Net cash provided by investing activities was $4.6 million for the first three months of 2008 and was primarily attributable to $4.7 million of net proceeds from sales and purchases of marketable securities, partially offset by $0.1 million of expenditures for property and equipment.

Net cash provided by investing activities was $0.4 million for the first three months of 2007 and was primarily attributable to $0.4 million of net proceeds from the sales and purchases of marketable securities, offset by purchases of computer equipment and software upgrades of $0.1 million.

There was no cash impact from financing activities for the first three months of 2008.

Net cash provided by financing activities was $0.3 million in the first three months of 2007 due to proceeds received from the exercise of stock options.

Our future liquidity and capital requirements are expected to vary from quarter-to-quarter, depending on numerous factors, including:

- level and timing of licensing and royalty revenues;
- cost, timing and success of technology development efforts, including meeting customer design specifications;
- market acceptance of our existing and future technologies and products;
- competing technological and market developments;
- cost of maintaining and enforcing patent claims and intellectual property rights;
- variations in manufacturing yields, materials costs and other manufacturing risks;
- costs of acquiring other businesses and integrating the acquired operations; and
- profitability of our business.

We expect that our existing cash, cash equivalents, and investments along with our existing capital and cash generated from operations, if any, will be sufficient to meet our capital requirements for the foreseeable future. We expect that a licensing business such as ours generally will require less cash to support operations.

However, we cannot be certain that we will not require additional financing at some point in time. Should our cash resources prove inadequate, we may need to raise additional funding through public or private financing. There can be no assurance that such additional funding will be available to us on favorable terms, if at all. The failure to raise capital when needed could have a material, adverse effect on our business and financial condition.

ITEM 3. Qualitative and Quantitative Disclosures About Market Risk

Our investment portfolio consists of money market accounts, auction rate securities, corporate debt, commercial paper and government agency debt obligations. The portfolio dollar-weighted average maturity of these investments is within 12 months. Our primary objective with this investment portfolio is to invest available cash while preserving principal and meeting liquidity needs. No single security should exceed 5% of the portfolio at the time of purchase. In accordance with our investment policy, we place investments with high credit quality issuers and limit the amount of credit exposure to any one issuer. These securities, which approximated $36.0 million as of March 31, 2008 and earned an average interest rate of approximately 3.0% during the first three months of 2008, are subject to interest rate and credit risks. We do not have any investments denominated in foreign country currencies, and therefore are not subject to foreign currency risk on such investments.

As of March 31, 2008, the Company had classified $8.7 million (net of $0.4 million in temporary unrealized losses) of its auction rate securities as long-term investments due to the disruption in the credit markets that resulted in widespread failed auctions. Those failed auctions resulted in a loss of liquidity for sellers but did not constitute a default by the issuer of the underlying security. All of the Company s auction rate securities have AAA credit ratings, are collaterized by student loans substantially guaranteed by the U.S. government, and continue to pay interest in accordance with their contractual terms. The unrealized loss was determined in accordance with SFAS No. 157 (SFAS 157), Fair Value Measurements, which was adopted by the Company on January 1, 2008. SFAS 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The auction rate securities in the Company s portfolio had successful auctions until January 2008 and as such, their fair value would have been measured using Level 2 inputs at January 1, 2008. However, since February 2008, there has not been a successful auction in that there were insufficient buyers for these auction rate securities, therefore the Company transferred them from the Level 2 to Level 3 category as of March 31, 2008. In accordance with SFAS 157, the Company used the concepts of fair value based on estimated discounted future cash flows of interest income including assumptions for interest rates, timing and amount of cash flows and expected holding periods.

ITEM 4. Controls and Procedures

Disclosure Controls and Procedures. Our management is responsible for establishing and maintaining adequate internal control over our financial reporting. Because of inherent limitations, internal control over financial reporting 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.

We have performed an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures, as required by SEC Rule 13a-15(b). Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of March 31, 2008 to ensure that information required to be disclosed by us in the reports filed or submitted by us with the SEC is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms.

Changes in Internal Control over Financial Reporting. During the first three months of 2008, there was no material change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1A. Risk Factors

We face many significant risks in our business, some of which are unknown to us and not presently foreseen. These risks could have a material adverse impact on our business, financial condition and results of operations in the future. We have disclosed a number of material risks under Item 1A of our annual report on Form 10-K for the year ended December 31, 2007, which we filed with the Securities and Exchange Commission on March 17, 2008. The following discussion is of material changes to the risk factors disclosed in that report.

Our revenue has been highly concentrated among a small number of licensees and customers, and our results of operations could be harmed if we lose a key revenue source and fail to replace it.

Our overall revenue has been highly concentrated, with a few customers accounting for a significant percentage of our total revenue. For the three months ended March 31, 2008, two customers represented 58% and 10% of total revenue and for the three months ended March 31, 2007, one customer represented 65% of total revenue. We expect that a relatively small number of licensees will continue to account for a substantial portion of our revenue for the foreseeable future.

Our royalty revenue also has been highly concentrated among a few licensees, and we expect this trend to continue for the foreseeable future. In particular, a substantial portion of our licensing and royalty revenue in the three months ended March 31, 2008 and 2007 has come from the licenses for integrated circuits used by one electronics manufacturing company. Royalties earned from the production of this company s gaming devices incorporating our 1T-SRAM technology represented 56% and 41% of total revenue for the three months ended March 31, 2008 and 2007, respectively. This manufacturer faces intense competitive pressure in the video game market, which is characterized by extreme volatility, costly new product introductions and rapidly shifting consumer preferences, and we cannot be certain whether their sales of products incorporating our technology will increase or decrease beyond prior or current levels.

As a result of this revenue concentration, our results of operations could be impaired by the decision of a single key licensee or customer to cease using our technology or products or by a decline in the number of products that incorporate our technology that are sold by a single licensee or customer or by a small group of licensees or customers.

Our revenue concentration may also pose credit risks, which could negatively affect our cash flow and financial condition.

We might also face credit risks associated with the concentration of our revenue among a small number of licensees and customers. As of March 31, 2008, four customers represented 50%, 16%, 14% and 13% of total trade receivables, respectively. Although the majority of the trade receivables from these customers were subsequently collected, our failure to collect receivables from any customer that represents a large percentage of receivables on a timely basis, or at all, could adversely affect our cash flow or results of operations and might cause our stock price to fall.

Our investments in adjustable rate securities are subject to risks which may cause losses and affect the liquidity of these investments.

As of March 31, 2008, we held $8.7 million of municipal notes investments, classified as long-term investments, with an auction reset feature (auction rate securities) whose underlying assets were primarily in student loans. All our auction rate securities have a AAA credit rating. Auctions for all of these securities have failed during the quarter ended March 31, 2008. An auction failure means that the parties wishing to sell their securities could not do so as a result of a lack of buying demand. As a result of auction failures, our ability to liquidate and fully recover the carrying value of our auction rate securities in the near term has been limited, therefore as of March 31, 2008, we recognized $0.4 million in unrealized losses related to these securities. Although we consider these unrealized losses to be temporary, there is a risk that we may incur other-than-temporary impairment charges on the value of these if the issuers are unable to successfully close future auctions and their credit ratings deteriorate. We may be required to wait until market stability is restored for these instruments or until the final maturity of the underlying notes (up to 40 years) to realize our investments recorded value.

ITEM 6. Exhibits

(a) Exhibits

10.25.1 (10)*	New Employee Inducement Grant Stock Option Agreement between Registrant and Leonard Perham dated as of November 8, 2007
10.25.2(10)*	New Employee Inducement Grant Stock Option Agreement between Registrant and Leonard Perham dated as of November 8, 2007
10.25.3(10)*	New Employee Inducement Grant Stock Option Agreement between Registrant and Leonard Perham dated as of November 8, 2007
31.1	Rule 13a-14 certification
31.2	Rule 13a-14 certification
32	Section 1350 certification

(10) Exhibit is refiled to incorporate typographical corrections. Exhibit number is the same as the exhibit originally filed with the Form 10-K filed by the Company on March 17, 2008 (Commission File No. 000-32929).

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* Management compensatory plan

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: May 9, 2008

/s/ Leonard Perham
Leonard Perham
President and Chief Executive Officer