BIOMERICA INC
Form 10-Q
April 14, 2011

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED FEBRUARY 28, 2011

OR

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

Commission File Number: 0-8765

BIOMERICA, INC.

(Exact name of registrant as specified in its charter)

| Delaware | 95-2645573 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 17571 Von Karman Avenue, Irvine, California | 92614 |
| (Address of principal executive offices) | (Zip Code) |

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

(Not applicable)

(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 $0.08 | 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 mark whether the registrant (1) has 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 Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (paragraph 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [_] No [_]

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the 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 Exchange Act). Yes [_] No [X]

Indicate the number of shares outstanding of each of the registrant's common stock, par value $0.08, as of the latest practicable date: 6,660,839 shares of common stock as of April 14, 2011.

BIOMERICA, INC. AND SUBSIDIARIES

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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 INCOME (UNAUDITED)

| | Nine Months Ended February 28, | | Three Months Ended February 28, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Net sales | $3,684,454 | $3,678,076 | $1,345,900 | $1,429,675 |
| Cost of sales | (2,495,650) | (2,570,396) | (846,421) | (914,949) |
| Gross profit | 1,188,804 | 1,107,680 | 499,479 | 514,726 |
| Operating Expenses: | | | | |
| Selling, general and administrative | 990,654 | 1,024,223 | 329,456 | 313,104 |
| Research and development | 314,980 | 270,762 | 97,008 | 87,447 |
| Total Operating Expenses | 1,305,634 | 1,294,985 | 426,464 | 400,551 |
| (Loss) Income from operations | (116,830) | (187,305) | 73,015 | 114,175 |
| Other Income (Expense): | | | | |
| Interest income | 5,685 | 12,296 | 1,733 | 2,839 |
| Interest expense | (5,106) | (10,062) | (1,345) | (2,953) |
| Other income, net | 177,605 | 20,924 | -- | 19,564 |
| | 178,184 | 23,158 | 388 | 19,450 |
| Net income (loss) | 61,354 | (164,147) | 73,403 | 133,625 |
| Basic net income (loss) per common share | $0.01 | $( 0.02) | $0.01 | $0.02 |
| Diluted net income (loss) per common share | $0.01 | $( 0.02) | $0.01 | $0.02 |
| Weighted average number of common and common equivalent Shares: | | | | |
| Basic | 6,660,839 | 6,642,064 | 6,660,839 | 6,660,839 |
| Diluted | 6,694,375 | 6,642,064 | 6,691,475 | 6,665,514 |
| Net income (loss) | $61,354 | $(164,147) | $73,403 | $133,625 |
| Other comprehensive loss, net of tax: | | | | |
| Foreign currency translation | ( 1,013) | (1,154) | (308) | (409) |

| | | | | |
|---|---|---|---|---|
| Comprehensive income (loss) | $60,341 | $(165,301) | 73,095 | 133,216 |

The accompanying notes are an integral part of these statements.

BIOMERICA, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

| | February 28, 2011 (unaudited) | May 31, 2010 (audited) |
|---|---|---|
| Assets | | |
| | | |
| Current Assets | | |
| Cash and cash equivalents | $904,062 | $1,055,206 |
| Accounts receivable, less allowance for doubtful accounts of $14,302 as of February 28, 2011 and $23,206 as of May 31, 2010, respectively | 993,166 | 1,017,842 |
| Inventories, net | 1,835,337 | 1,790,567 |
| Prepaid expenses and other | 123,950 | 187,703 |
| Deferred tax assets, current portion | -- | 42,000 |
| Total Current Assets | 3,856,515 | 4,093,318 |
| | | |
| Property and Equipment, net of accumulated depreciation and amortization | 547,291 | 562,227 |
| | | |
| Deferred Tax Assets, net of current portion | 238,000 | 196,000 |
| | | |
| Other Assets | 58,195 | 79,774 |
| | | |
| Intangible Assets, net | 157,694 | 83,881 |
| | | |
| Total Assets | $4,857,695 | $5,015,200 |

The accompanying notes are an integral part of these statements.

BIOMERICA, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS - Continued

| | February 28, 2011 (unaudited) | May 31, 2010 (audited) |
|---|---|---|
| Liabilities and Shareholders' Equity | | |
| | | |
| Current Liabilities | | |
| Accounts payable and accrued expenses | $367,243 | $499,809 |
| Accrued compensation | 229,429 | 306,717 |
| Loan for equipment purchase-current | 46,949 | 45,075 |
| Total Current Liabilities | 643,621 | 851,601 |
| | | |
| Deferred rent | 71,855 | 65,279 |
| Loan for equipment purchase-long-term | -- | 35,424 |
| Total Liabilities | 715,476 | 952,304 |
| | | |
| Commitments and Contingencies | | |
| | | |
| Shareholders' Equity | | |
| Preferred stock, no par value authorized 5,000,000 shares, issued and outstanding at February 28, 2011 and May 31, 2010 | -- | -- |
| Common stock, $0.08 par value authorized 25,000,000 shares, issued and outstanding 6,660,839 at February 28, 2011 and May 31, 2010. | 532,866 | 532,866 |
| Additional paid-in-capital | 17,567,736 | 17,548,754 |
| Accumulated other comprehensive loss | (4,526) | (3,513) |
| Accumulated deficit | (13,953,857) | (14,015,211) |
| | | |
| Total Shareholders' Equity | 4,142,219 | 4,062,896 |
| Total Liabilities and Shareholders’Equity . | $4,857,695 | $5,015,200 |

The accompanying notes are an integral part of these statements.

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

| | For the nine months ended February 28, | |
|---|---|---|
| | 2011 | 2010 |
| Cash flows from operating activities: | | |
| Net income (loss) | $61,354 | $(164,147) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 109,610 | 83,076 |
| Stock option expense | 18,982 | 29,695 |
| Inventory reserve | (5,361) | (77,607) |
| Change in provision for losses on accounts receivable | (8,904) | (18,332) |
| Write-off of license-related intangible asset | 13,982 | -- |
| Loss on disposal of fixed assets | -- | 6,107 |
| Increase in deferred rent liability | 6,576 | 62,009 |
| Changes in current assets and liabilities: | | |
| Accounts receivable | 33,580 | (318,414) |
| Inventories | (39,409) | 119,365 |
| Prepaid expenses and other current assets | 63,753 | (1,873) |
| Other assets | 21,579 | (14,464) |
| Accounts payable and accrued expenses | (132,566) | 157,650 |
| Accrued compensation | (77,288) | (95,937) |
| Net cash provided by (used in) operating activities | 65,888 | (232,872) |
| Cash flows from investing activities: | | |
| Purchases of intangible assets | (98,774) | (14,559) |
| Maturity of short term investment | -- | 100,000 |
| Purchases of property and equipment | (83,695) | (295,619) |
| Net cash used in investing activities | (182,469) | (210,178) |
| Cash flows from financing activities: | | |
| Proceeds from exercise of warrants & stock options | -- | 9,834 |
| Payments on loan for equipment purchase | (33,550) | ( 31,439) |
| Net cash used in financing activities | (33,550) | ( 21,605) |
| Effect of exchange rate changes on cash | (1,013) | (1,154) |
| Net decrease in cash and cash equivalents | (151,144) | (465,809) |
| Cash and cash equivalents at beginning of period . | 1,055,206 | 1,595,823 |
| Cash and cash equivalents at end of period | $904,062 | $1,130,014 |
| Supplemental Disclosure of Cash Flow Information: | | |

| | | |
|---|---|---|
| Cash paid during the period for: | | |
| Interest | $4,917 | $10,062 |

The accompanying notes are an integral part of these statements.

BIOMERICA, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1: Basis of Presentation

The information set forth in these condensed consolidated statements is unaudited and reflects all adjustments which, in the opinion of management, are necessary to present a fair statement of the consolidated results of operations of Biomerica, Inc. and subsidiaries, 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 Consolidated Balance Sheet data as of May 31, 2010 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) for the fiscal year ended May 31, 2010. 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. and ReadyScript, Inc. (as discontinued operations) as well as a German subsidiary and Mexican subsidiary, which have not begun operations (collectively the "Company"). 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.

Reclassification

Certain amounts in prior periods have been reclassified to conform to the current period financial statement presentation.

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 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 receivables balance relative to the total gross receivables. One such customer, who received a large order at the end of February 2011, had a balance that comprised 36.8% of our gross receivables balance. Another customer had a balance that comprised 13.9% of 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 the first-in, first-out method) 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 our allocation of fixed production overhead is based on the normal capacity of our production facilities.

Inventories approximate the following:

| | February 28, 2011 | May 31, 2010 |
|---|---|---|
| Raw materials | $ 769,000 | $ 673,000 |
| Work in progress | 677,000 | 724,000 |
| Finished products | 389,000 | 394,000 |
| Total | $ 1,835,000 | $ 1,791,000 |

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 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.

Intangible Assets

Intangible assets include trademarks, product rights, technology rights and patents, and are accounted for based on Accounting Standards Codification (ASC) 350 “Intangibles” (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 that have finite lives 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.

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 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 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 February 2011, the Board of Directors granted stock options for 173,000 options to employees of the Company. The options vest one quarter on the one year anniversary of the grant date and then will vest one quarter per year thereafter. The options are at the exercise price of $0.38 and expire in five years. Management assigned a value of $40,376 to these options.

For the nine months ended February 28, 2011 and 2010 the Company expensed $18,982 and $29,695 of stock option expense in its financial statements, respectively. For the three months ended February 28, 2011 and 2010 the Company expensed $7,266 and $11,021 of stock option expense in its financial statements, respectively.

The following summary presents the options and warrants granted, exercised, expired, cancelled and outstanding as of February 28, 2011:

| | Number of Options and Warrants | | | Weighted Average Exercise Price |
|---|---|---|---|---|
| | Employee | Non-employee | Total | |
| Outstanding May 31, 2010 | 1,268,000 | 51,999 | 1,319,999 | $ 0.55 |
| Granted | 173,000 | -- | 173,000 | 0.38 |
| Exercised | -- | -- | -- | -- |
| Cancelled or expired | (162,000) | -- | (162,000) | 0.54 |
| Outstanding February 28, 2011 | 1,279,000 | 51,999 | 1,330,999 | $ 0.54 |

Non-Controlling Interest

At February 28, 2011 and May 31, 2010, Biomerica owned 88.9% of ReadyScript, which was discontinued in 2001. There were no transactions relating to the discontinued operations and the remaining balance sheet of the discontinued operations is de minimus.

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.

Shipping and Handling Fees and Costs

Shipping and handling fees billed to customers are required to be classified as revenue, 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.

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, management considers factors such as the reversal of deferred income tax liabilities, projected taxable income, and the character of income tax assets and tax planning strategies. A change to these factors could impact the estimated valuation allowance and income tax expense.

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 income.

Deferred Rent

Rent is being amortized on a straight-line basis at $19,580 per month for the eighty-four month term of the lease. The excess of rent accrued each month over the amount paid per month is being accrued as a liability on the Company’s balance sheet. Because three months of rent was abated at the beginning of the lease, all of the rent for those three months was accrued in the deferred rent expense liability account. Deferred rent amounted to $71,855 and $65,279 at February 28, 2011 and May 31, 2010, respectively.

Net Income (Loss) Per Share

Basic earnings (loss) per share is computed as net income (loss) 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. The total amount of anti-dilutive warrants or options not included in the earnings per share calculation for the nine months ended February 28, 2011 and 2010 was 598,249 and 1,395,999, respectively. The total amount of anti-dilutive warrants or options not included in the earnings per share calculation for the three months ended February 28, 2011 and 2010 was 598,249 and 1,375,999, respectively.

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

| | Nine Months Ended February 28, | | Three Months Ended February 28, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Numerator: | | | | |
| Income (loss) from continuing operations | $61,354 | $(164,147) | $73,403 | $133,625 |
| Denominator for basic net income (loss) per common | | | | |
| Share | 6,660,839 | 6,642,064 | 6,660,839 | 6,660,839 |
| Effect of dilutive securities: | | | | |
| Options and warrants | 33,536 | -- | 30,636 | 4,675 |
| | | | | |
| Denominator for diluted net income (loss) | | | | |
| Per common share | 6,694,375 | 6,642,064 | 6,691,475 | 6,665,514 |
| | | | | |
| Basic net income (loss) per common share | $0.01 | $( 0.02) | $0.01 | $0.02 |
| | | | | |
| Diluted net income (loss) per common share | $0.01 | $(0.02) | $0.01 | $0.02 |

Recent Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board (“FASB”) issued authoritative guidance that amends existing revenue recognition accounting pronouncements related to multiple-deliverable revenue arrangements. The new guidance provides accounting principles and application guidance on whether multiple deliverables exist, how the arrangement should be separated, and how the consideration should be allocated. This guidance expands the methods under which a company can establish the fair value of undelivered products and services and provides for separate revenue recognition based upon management's estimate of the selling price for an undelivered item when there is no other means to determine the fair value of that undelivered item. The new guidance is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Earlier application is permitted as of the beginning of a fiscal year. Management does not expect adoption of this standard to have a material impact on the Company’s consolidated financial position, results of operations, or cash flows.

In April 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-17, “Revenue Recognition—Milestone Method” (ASU 2010-017). ASU 2010-017 provides guidance in applying the milestone method of revenue recognition to research or development arrangements. Under this guidance management may recognize revenue contingent upon the achievement of a milestone in its entirety, in the period in which the milestone is achieved, only if the milestone meets all the criteria within the guidance to be considered substantive. This ASU is effective on a prospective basis for research and development milestones achieved in fiscal years, beginning on or after June 15, 2010. Early adoption is permitted; however, adoption of this guidance as of a date other than June 1, 2011 will require the Company to apply this guidance retrospectively effective as of June 1, 2010 and will require disclosure of the effect of this guidance as applied to all previously reported interim periods in the fiscal year of adoption. As the Company plans to implement ASU No. 2010-17 prospectively, the effect of this guidance will be limited to future transactions. Management does not expect adoption of this standard to have a material impact on the Company’s consolidated financial position, results of operations, or cash flows.

In December 2010, the FASB issued ASU No. 2010-027, “Fees Paid to the Federal Government by Pharmaceutical Manufacturers” (ASU 2010-027). ASU 2010-027 provides guidance concerning the recognition and classification of the new annual fee payable by branded prescription drug manufacturers and importers on branded prescription drugs which was mandated under the health care reform legislation enacted in the U.S. in March 2010. Under this new accounting standard, the annual fee would be presented as a component of operating expenses and recognized over the calendar year such fees are payable using a straight-line method of allocation unless another method better allocates the fee over the calendar year. This ASU is effective for calendar years beginning on or after December 31, 2010, when the fee initially becomes effective. Management does not expect adoption of this standard to have a material impact on the Company’s consolidated financial position, results of operations, or cash flows.

Other recent ASU's issued by the FASB and guidance issued by the SEC did not, or are not believed by management to, have a material effect on the Company's present or future consolidated financial statements.

Note 3: Accounts Payable and Accrued Expenses

The Company's accounts payable and accrued expense balances consist of the following at February 28, 2011 and May 31, 2010:

| | February 28, 2011 | May 31, 2010 |
|---|---|---|
| Accounts Payable | $274,477 | $402,143 |
| Accrued Expenses | 86,466 | 92,462 |
| Other | 6,300 | 5,204 |
| | $367,243 | $499,809 |

Note 4: Geographic Information

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

| | For the Nine Months Ended | |
|---|---|---|
| | February 28, 2011 | February 28, 2010 |
| Revenues from sales to unaffiliated customers: | | |
| United States | $ 867,000 | $ 857,000 |
| Asia | 837,000 | 881,000 |
| Europe | 1,886,000 | 1,861,000 |
| South America | 26,000 | 43,000 |
| Middle East | 39,000 | 26,000 |
| Other | 29,000 | 10,000 |
| | $ 3,684,000 | $ 3,678,000 |

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

Note 5: Commitments and Contingencies

On February 13, 2010, the Company renewed the line of credit with its bank for a one year business line of credit (the "Line") in the amount of $400,000. The balance of this Line at February 28, 2011 was zero. This line of credit expired February 13, 2011.

On February 13, 2009, the Company entered into a loan agreement with its bank for an equipment loan ("Loan") for $133,000 at an interest rate of 6.50%. The related equipment serves as collateral for the Loan. The Loan is payable in thirty-six monthly payments of approximately $4,000. As of February 28, 2011 approximately $47,000 was owed on the Loan.

On June 18, 2009 the Company entered into an agreement to lease a building in Irvine, California. The lease commenced September 1, 2009 and ends August 31, 2016. The initial base rent was set at $18,490 per month with scheduled annual increases through the end of the lease term.

During the quarter ended November 30, 2010, the Company signed a Non-Exclusive License Agreement with the Regents of the University of California to Methods of Diagnosis of Diabetes. The agreement required a $15,000 license issue fee and payments of royalties based on certain net sales as well as sublicense fees on certain income. The Agreement will remain in effect until the expiration or abandonment of the last of the Patent Rights licensed thereunder.

Note 6: Other Income

On October 29, 2010, the Company was notified that it has been or is expected to be awarded a total cash grant of approximately $357,000 under the Qualifying Therapeutic Discovery Project program administered under section 48D of the Internal Revenue Code, of which approximately $217,000 (net of expenses related to consulting services for the grant application process of $43,428) relates to qualifying expenses the Company has previously incurred and was received during the second quarter of fiscal 2011. The remainder of the grant of approximately $140,000 (less grant application services of approximately $28,000) may be received in the future based on qualifying expenses the Company incurs. The Company has recognized the portion of the grant related to qualifying expenses that have previously been incurred and approved by the U.S. government, totaling $173,648 during October 2010 as a component of other income on the accompanying condensed consolidated statement of operations. The Company will not recognize any portion of the remaining grant of approximately $140,000 until it is reasonably assured that the Company will comply with the conditions of the award and that the funds will be received. The Company anticipates the receipt of the remaining approved funds of approximately $140,000 within thirty days after the end of its fiscal year.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND SELECTED FINANCIAL DATA

CERTAIN INFORMATION CONTAINED HEREIN (AS WELL AS INFORMATION INCLUDED IN ORAL STATEMENTS OR OTHER WRITTEN STATEMENTS MADE OR TO BE MADE BY BIOMERICA) CONTAINS STATEMENTS THAT ARE FORWARD-LOOKING, SUCH AS STATEMENTS RELATING TO ANTICIPATED FUTURE REVENUES OF THE COMPANY AND SUCCESS OR CURRENT PRODUCT OFFERINGS. SUCH FORWARD-LOOKING INFORMATION INVOLVES IMPORTANT RISKS AND UNCERTAINTIES THAT COULD SIGNIFICANTLY AFFECT ANTICIPATED RESULTS IN THE FUTURE, AND ACCORDINGLY, SUCH RESULTS MAY DIFFER MATERIALLY FROM THOSE EXPRESSED IN ANY FORWARD-LOOKING STATEMENTS MADE BY OR ON BEHALF OF BIOMERICA. THE POTENTIAL RISKS AND UNCERTAINTIES INCLUDE, AMONG OTHERS, FLUCTUATIONS IN THE COMPANY'S OPERATING RESULTS. THESE RISKS AND UNCERTAINTIES ALSO INCLUDE THE SUCCESS OF THE COMPANY IN RAISING NEEDED CAPITAL, THE ABILITY OF THE COMPANY TO MAINTAIN REQUIREMENTSTO BE LISTED ON NASDAQ, THE CONTINUAL DEMAND FOR THE COMPANY'S PRODUCTS, COMPETITIVE AND ECONOMIC FACTORS OF THE MARKETPLACE, AVAILABILITY OF RAW MATERIALS, HEALTH CARE REGULATIONS AND THE STATE OF THE ECONOMY. READERS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS, WHICH SPEAK ONLY AS OF THE DATE HEREOF, AND THE COMPANY UNDERTAKES NO OBLIGATION TO UPDATE THESE FORWARD-LOOKING STATEMENTS.

OVERVIEW

Biomerica, Inc. and Subsidiaries ("Biomerica", the "Company", "we" or "our") develops, manufactures, and markets medical diagnostic products designed for the early detection and monitoring of chronic diseases and medical conditions. Our medical diagnostic products are sold worldwide in two markets: 1) clinical laboratories and 2) point of care (physicians' offices and over-the-counter drugstores). Our diagnostic test kits are used to analyze blood or urine from patients in the diagnosis of various diseases and other medical complications, or to measure the level of specific hormones, antibodies, antigens or other substances, which may exist in the human body in extremely small concentrations.

Technological advances in medical diagnostics have made it possible to perform diagnostic tests within the home and the physician's office (the point of care), rather than in the clinical laboratory. One of our objectives has been to develop and market rapid diagnostic tests that are accurate, employ easily obtained specimens, and are simple to perform without instrumentation. Our over-the-counter and professional rapid diagnostic products help to manage existing medical conditions and may save lives through early detection and prompt diagnosis. Frequently, results were not available until at least the following day. We believe that rapid point of care tests are as accurate as laboratory tests when used properly and they require no instrumentation, give reliable results in minutes and can be performed with confidence in the home or the physician's office.

Our clinical laboratory diagnostic products include tests for bone and anemia conditions, gastrointestinal diseases, food intolerance, diabetes and others. These diagnostic test kits utilize enzyme immunoassay technology. Some of these products have not yet been submitted for clearance by the FDA for diagnostic use, but can be sold in various foreign countries.

A part of Biomerica's manufacturing and assembly operations is located in Mexicali, Mexico, as part of the maquiladora program in order to reduce the cost of manufacturing and compete more effectively worldwide. Biomerica maintains its headquarters in Irvine, California where it houses administration, research and development,

sales and marketing, customer services and some manufacturing operations. Biomerica has also established a subsidiary in Mexicali for future use. After the year-end the Company eliminated its dedicated research department in order to follow its current strategy of licensing technology from other institutions.

RESULTS OF OPERATIONS

Consolidated net sales for Biomerica were $3,684,454 for the first nine months of fiscal 2011 as compared to $3,678,076 for the same period in the previous year. This represents an increase of $6,378, or 0.2%. For the quarter then ended net sales were $1,345,900 as compared to $1,429,675 for the same period in the previous year. This represents a decrease of $83,775 or 5.9%. The decrease in sales for the quarter ended February 28, 2011 as compared to 2010 was a result of lower domestic sales for colorectal screening programs.

For the nine months ended February 28, 2011 as compared to 2010, cost of sales decreased from $2,570,396 or 69.9% of sales, to $2,495,650, or 67.7% of sales. For the three month period then ended cost of sales decreased from $914,949, or 64.0% of sales, to $846,421, or 62.9% of sales. Cost of goods for the nine and three months ended February 28, 2010, were affected adversely by the move of the facilities as well as higher than normal scrap. Cost of goods in fiscal 2011 were impacted by an agreement which provides for free kits to a distributor which were earned as a result of meeting certain sales goals. The kits will be delivered in the fourth quarter of fiscal 2011.

For the nine months ended February 28, 2011 compared to 2010, selling, general and administrative costs decreased by $33,569, or 3.3%. For the three months then ended these expenses increased by $16,352, or 5.2%. Selling, general and administrative costs were adversely affected for the nine and three months ended February 28, 2010 by the move of the facilities. During fiscal 2011 these costs were affected by large, one-time registration fees the Company reimbursed a distributor for registration to sell certain of the Company's products in a foreign country.

For the nine months ended February 28, 2011 compared to 2010, research and development increased by $44,218, or 16.3% and for the three months increased by $9,561, or 10.9%. The increase for the nine and three months was primarily due to higher materials, supplies, and other expenses related to the development, refinement, improvement and integration of newly licensed products into our product line.

For the nine months ended February 28, 2011 interest income decreased from $12,296 to $5,685 and for the three months then ended decreased from $2,839 to $1,733. The decrease was due to lower interest rates in conjunction with a lower amount of cash investments. For the nine months interest expense decreased from $10,062 to $5,106 and for the three months decreased from $2,953 to $1,345 due to lower interest rates on debt in addition to smaller balances owed. Other income increased for the nine months from $20,924 to $177,605 and for the three months decreased from $19,564 to $0. The increase for the nine months was primarily due to a research grant ($217,076 less consulting expenses of $43,428) the Company applied for and received during the quarter ended November 30, 2010.

LIQUIDITY AND CAPITAL RESOURCES

As of February 28, 2011 and May 31, 2010, the Company had cash and cash equivalents in the amount of $904,062 and $1,055,206 and working capital of $3,212,894 and $3,241,717, respectively.

During the nine months ended February 28, 2011 the Company operations generated cash of $65,888 as compared to cash used in operations of $232,872 in the same period of the prior fiscal year. Cash used in operations in fiscal 2011 was due in large part to paying down of accounts payable and other accrued liabilities of $125,990 and accrued compensation of $77,288. Cash inflows were primarily from the utilization of prepaid expenses and other current assets of $63,753 and other assets of $21,579. Cash used in investing activities in fiscal 2011 was $182,469 compared to the same period in fiscal 2010 of $210,178. This is primarily due to the maturity of a certificate of deposit in the amount of $100,000 in fiscal 2010 offset by the purchases of approximately $296,000 of fixed assets in fiscal 2010. In fiscal 2011 the Company used $98,774 in payments of licensing fees according to its licensing agreements and $83,695 for the purchases of fixed assets. Cash used in financing activities in fiscal 2011 was $33,550 as compared to $21,605 in fiscal 2010.

On February 13, 2009, the Company entered into a Small Business Banking Agreement with Union Bank for a one year business line (the "Line") of credit in the amount of $400,000. The line of credit expired in February 2011 and the Company is in the process of negotiating the renewal of this line or obtaining other financing. There is no assurance that the Company will be able to do either.

On February 13, 2009, the Company entered into a Small Business Bank Agreement with Union Bank for a business loan ("Loan") for $133,000 and an interest rate of 6.50%. Loan proceeds were disbursed in one single funding on

March 5, 2009. The Loan was used for the purpose of paying off a business loan which had been established with different commercial bank. The fixed asset serves as collateral for the loan. The loan payable at February 28, 2011 and May 31, 2010 relating to this equipment loan is $46,949 and $80,499, respectively. The Loan is payable in thirty-six monthly payments of approximately $4,000.

CRITICAL ACCOUNTING POLICIES

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

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

Item 4. CONTROLS AND PROCEDURES

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

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

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PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS. None.

Item 1A. RISK FACTORS.

You should read the following factors in conjunction with the factors discussed elsewhere in this and our other filings with the Securities and Exchange Commission and in materials incorporated by reference in these filings. The following is intended to highlight certain factors that may affect the financial condition and results of operations of Biomerica, Inc. and are not meant to be an exhaustive discussion of risks that apply to companies such as Biomerica, Inc. Like other businesses, Biomerica, Inc. is susceptible to macroeconomic downturns in the United States or abroad, as were experienced in fiscal year 2009, that may affect the general economic climate and performance of Biomerica, Inc. or its customers.

Aside from general macroeconomic downturns, the additional material factors that could affect future financial results include, but are not limited to: Terrorist attacks and the impact of such events; diminished access to raw materials that directly enter into our manufacturing process; shipping labor disruption or other major degradation of the ability to ship out products to end users; inability to successfully control our margins which are affected by many factors including competition and product mix; protracted shutdown of the U.S. border due to an escalation of terrorist or counter terrorist activity; any changes in our business relationships with international distributors or the economic climate they operate in; any event that has a material adverse impact on our foreign manufacturing operations may adversely affect our operations as a whole; failure to manage the future expansion of our business could have a material adverse affect on our revenues and profitability; ability to obtain additional financing; 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; quarterly variations in operating results caused by a number of factors, including business and industry conditions; concentrations of sales with certain distributions could adversely affect the results of the Company if the Company were to lose the sales of that distributor and other factors beyond our control. All these factors make it difficult to predict operating results for any particular period.

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

Item 3. DEFAULTS UPON SENIOR SECURITIES. None.

Item 4. OTHER INFORMATION. None.

Item 5. EXHIBITS.

The following exhibits are filed or furnished as part of this quarterly report on Form 10-Q:

| Exhibit No. | Description |
|---|---|
| 31.1* | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act — Zackary S. Irani |
| 31.2* | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act — Janet Moore |
| 32.1** | Certification Pursuant to Section 906 of the Sarbanes-Oxley Act — Zackary S. Irani |

32.2** Certification Pursuant to Section 906 of the Sarbanes-Oxley Act — Janet Moore

* Filed herewith

** Furnished herewith

SIGNATURES

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

BIOMERICA, INC.

| | | |
|---|---|---|
| Date: April 14, 2011 | By: | /s/ Zackary S. Irani<br>Zackary S. Irani<br>Chief Executive Officer<br>(Principal Executive Officer) |
| | By: | /s/ Janet Moore<br>Janet Moore<br>Chief Financial Officer (Principal Financial Officer) |