

Edgar Filing: BIOMERICA INC - Form 10-Q

BIOMERICA INC  
Form 10-Q  
October 16, 2009

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

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED AUGUST 31, 2009

OR

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

Commission File Number: 0-8765

BIOMERICA, INC.

-----  
(Exact name of registrant as specified in its charter)

Delaware

95-2645573

-----  
(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

17571 Von Karman Avenue, Irvine, CA

92614

-----  
(Address of principal executive offices)

(Zip Code)

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

-----  
1533 Monrovia Avenue, Newport Beach, CA 92663

-----  
(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  No

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

Yes  No

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

Large Accelerated Filer  Accelerated Filer   
Non-Accelerated Filer  Smaller Reporting Company

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

Yes  No

Indicate the number of shares outstanding of each of the registrant's common stock, as of the latest practicable date: 6,631,039 shares of common stock, par value \$0.08, as of October 15, 2009.

BIOMERICA, INC.

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PART I - FINANCIAL INFORMATION  
SUMMARIZED FINANCIAL INFORMATION  
ITEM 1. FINANCIAL STATEMENTS

BIOMERICA, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
AND COMPREHENSIVE INCOME (UNAUDITED)

	Three Months Ended August 31,	
	2009	2008
	-----	-----
Net sales .....	\$ 1,148,521	\$ 1,194,345
Cost of sales .....	(772,084)	(661,216)
Gross profit .....	376,437	533,129
Operating Expenses:		
Selling, general and administrative .....	283,437	338,883
Research and development .....	88,281	46,988
	-----	-----
	371,718	385,871
	-----	-----
Operating income from operations .....	4,719	147,258
	-----	-----
Other Expense (income):		
Interest income .....	(5,588)	(12,016)
Interest expense .....	3,433	9,671
Other income, net .....	(1,060)	(6)
	-----	-----
	(3,215)	(2,351)
	-----	-----
Income before income taxes .....	7,934	149,609
Income tax expense .....	--	8,797
	-----	-----
Net income .....	\$ 7,934	\$ 140,812
	=====	=====

BIOMERICA, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
AND COMPREHENSIVE INCOME (UNAUDITED) - Continued

Other comprehensive income, net of tax		
Unrealized gain on available-for-sale securities .....	\$           --	\$           2
Foreign currency translation .....	(344)	-
	-----	-----
Comprehensive income .....	\$       7,590	\$     140,83
	=====	=====
Basic net income per common share .....	\$           .00	\$           .0
	=====	=====
Diluted net income per common share .....	\$           .00	\$           .0
	=====	=====
Weighted average number of common and common equivalent shares:		
Basic .....	6,631,039	6,587,11
	=====	=====
Diluted .....	6,757,754	7,096,13
	=====	=====

The accompanying notes are an integral part of these statements.

BIOMERICA, INC.  
CONSOLIDATED BALANCE SHEET

	August 31, 2009 (unaudited)	-----
Assets		
Current Assets		
Cash and cash equivalents .....	\$1,692,165	\$
Short term investment .....	--	
Accounts receivable, less allowance for doubtful accounts of \$95,319 and \$86,432, respectively .....	539,757	
Inventories, net .....	2,057,665	
Prepaid expenses and other .....	144,342	
Deferred tax asset - short-term .....	103,000	
	-----	-----
Total Current Assets .....	4,536,929	

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Property and Equipment, net of accumulated depreciation and amortization ...	368,448
Deferred Tax Asset - Long-term .....	135,000
Intangible Asset .....	32,800
Other Assets .....	89,969
	<u>-----</u>
	\$5,163,146
	<u>=====</u>

The accompanying notes are an integral part of these statements.

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BIOMERICA, INC.  
CONSOLIDATED BALANCE SHEET - Continued

	August 31, 2009 (unaudited)
	<u>-----</u>
Liabilities and Shareholders' Equity	
Current Liabilities	
Accounts payable and accrued liabilities .....	\$ 304,176
Accrued compensation .....	387,602
Loan for equipment purchase - short term portion .....	42,914
	<u>-----</u>
Total Current Liabilities .....	734,692
Loan for equipment purchase-long-term .....	69,597
Shareholders' Equity	
Preferred stock, no par value authorized 5,000,000 shares, issued and none outstanding at August 31, 2009 and May 31, 2009 .....	--
Common stock, \$0.08 par value authorized 25,000,000 shares, issued and outstanding 6,631,039 at August 31, 2009 and May 31, 2009 .....	530,482
Additional paid-in-capital .....	17,506,267
Accumulated other comprehensive loss .....	(2,070)
Accumulated deficit .....	(13,675,822)
	<u>-----</u>
Total Shareholders' Equity .....	\$ 4,358,857
	<u>-----</u>
Total Liabilities and Shareholders' Equity .....	\$ 5,163,146
	<u>=====</u>

The accompanying notes are an integral part of these statements.

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

For the three months ended August 31,	2009	20
	-----	-----
Cash flows from operating activities:		
Net income from continuing operations .....	\$ 7,934	\$ 14
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization .....	23,285	2
Stock option expense .....	3,281	
Provision for losses on accounts receivable .....	8,887	
Inventory reserve .....	(8,583)	3
Changes in current assets and liabilities:		
Accounts Receivable .....	92,024	8
Inventories .....	(49,619)	(22)
Intangibles .....	(2,800)	
Prepaid expenses and other assets .....	(53,012)	
Accounts payable and other accrued liabilities .....	40,178	(
Accrued compensation .....	(29,705)	(1
	-----	-----
Net cash provided by operating activities .....	31,870	4
	-----	-----
Cash flows from investing activities:		
Maturity of short term investment .....	100,000	
Purchases of property and equipment .....	(24,914)	(3
	-----	-----
Net cash provided by (used in) investing activities .....	75,086	(3
	-----	-----
Cash flows from financing activities:		
Paydown on shareholder loan .....	--	(9
Exercise of stock options and warrants .....	--	2
Payment of common stock subscribed .....	--	
Payments on capital lease .....	--	(
Payment of equipment loan .....	(10,270)	(1
	-----	-----
Net cash used in financing activities .....	(10,270)	(7
	-----	-----
Effect of Exchange Rate Changes in Cash .....	(344)	
Net increase (decrease) in cash and cash equivalents .....	96,342	(6
	-----	-----
Cash and cash equivalents at beginning of period .....	1,595,823	2,02
	-----	-----
Cash and cash equivalents at end of period .....	\$ 1,692,165	\$ 1,96
	=====	=====
Supplemental Disclosure of Cash-Flow Information:		
Cash paid during the quarter for:		
Interest .....	\$ 3,608	\$ 1
Taxes .....	--	

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Supplemental Disclosure of Non-Cash Investing and Financing  
Activities:

Unrealized loss on available-for-sale securities .....	\$	--	\$
--	----	----	----

The accompanying notes are an integral part of these statements.

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

#### Significant Accounting Policies

Revenues from product sales are recognized at the time the product is shipped, customarily FOB shipping point, at which point title passes. When necessary an allowance is established for estimated returns as revenue is recognized.

The Allowance for Doubtful Accounts is established for estimated losses resulting from the inability of our customers to make required payments. The assessment of specific receivable balances and required reserves is performed by management and discussed with the audit committee. We have identified specific customers where collection is not probable and have established specific reserves, but to the extent collection is made, the allowance will be released. Additionally, if the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Reserves are provided for excess and obsolete inventory, which are estimated based on a comparison of the quantity and cost of inventory on hand to management's forecast of customer demand. Customer demand is dependent on many factors and requires us to use significant judgment in our forecasting process. We must also make assumptions regarding the rate at which new products will be accepted in the marketplace and at which customers will transition from older products to newer products. Once a reserve is established, it is maintained until the product to which it relates is sold or otherwise disposed of, even if in subsequent periods we forecast demand for the product.

The following table summarizes the Company's investment in a certificate of deposit that is classified under short term investments, and is carried at fair market value on the balance sheet at May 31, 2009. Balance of short term investments is \$0 at August 31, 2009.

Description	Fair Value Measurements at Reporting Date			
	May 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Short term investment				
Certificate of Deposit	\$ 100,000	\$ 100,000	\$ --	\$ --

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Total	\$ 100,000	\$ 100,000	\$ --	\$
	=====	=====	=====	=====

Effective for financial statements issued for fiscal years beginning after November 15, 2007, SFAS No. 157, Fair Value Measurements, defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 clarifies the definition of fair value as an exit price, i.e., a price that would be received to sell, as opposed to acquire, an asset or transfer a liability. SFAS No. 157 emphasizes that fair value is a market-based measurement. It establishes a fair value hierarchy that distinguishes between assumptions developed based on market data obtained from independent external sources and the reporting entity's own assumptions. Further, SFAS No. 157 specifies that fair value measurements should consider adjustments for risk, such as the risk inherent in a valuation technique or its inputs.

Options or warrants granted are assigned values according to current market value, using the Black-Scholes model for option valuation. The term used in the calculation of the options or warrants is the expected life of the option, taking into consideration cancellations, exercises and expirations. A discount rate equivalent to the expected life of the option is calculated using Treasury constant maturity interest rates. For the options granted in fiscal 2008 and 2009 Biomerica used the simplified method (as defined in SAB 107) for calculating the expected life of an option because estimating the expected life is difficult based on historical data. The historical volatility of the stock is calculated using weekly historical closing prices for the length of the vesting period as reported by Yahoo Finance. For purposes of the SFAS 123R footnote disclosure, the Black-Scholes Model is also used for calculating employee options and warrants valuations. When shares are issued for services or other non-cash consideration, fair value is measured using the current market value on the day of the Board of Directors approval of such issuance.

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Historically we were in a loss position for tax purposes, and established a valuation allowance against deferred tax assets, as we did not believe it was likely that we would generate sufficient taxable income in future periods to realize the benefit of our deferred tax assets. Although the Company has achieved net income over the last four fiscal years, predicting future taxable income is difficult, and requires the use of significant judgment. Due to the fact that many factors can influence profitability, management determined at May 31, 2009, that an additional \$68,000 of the deferred tax valuation allowance should be released, which resulted in an income tax benefit of \$58,000 being recognized during fiscal year end May 31, 2009. Management re-evaluated this at August 31, 2009 and determined that the deferred tax asset should remain at \$238,000.

The Company has historically classified income from freight charges to customers as sales, which has been offset by shipping and handling costs. The income from freight for the quarters ended August 31, 2009 and 2008, respectively, was \$24,289 and \$24,872. The financial statements presented herein show the income from shipping and handling as a component of sales for both periods and the costs of shipping and handling as a component of cost of goods sold.

Certain prior year amounts within the consolidated statement of cash flows and consolidated statement of operations have been reclassified to conform to current year presentation.

(1) In December 2004, the Financial Accounting Standards Board ("FASB") Issued



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Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS No. 123R). SFAS No. 123R revised SFAS No. 123, Accounting For Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance. SFAS No. 123R requires compensation costs related to share-based payment transactions to be recognized in the financial statement (with limited exceptions). The amount of compensation cost is measured based on the grant-date fair value of the equity or liability instruments issued. Compensation cost is recognized over the period that an employee provides service in exchange for the award. As of the beginning of fiscal 2007, June 1, 2006, the Company began using this method.

The Black Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For the three months ended August 31, 2009 and 2008 the Company expensed \$3,281 and \$3,283 of stock option expense due to SFAS 123(R) in its financial statements, respectively.

(2) The following summary presents the options and warrants granted, exercised, expired, cancelled and outstanding as of August 31, 2009:

	Number of Options and Warrants			Weighted Average Exercise Price
	Employee	Non-employee	Total	
Outstanding				
May 31, 2009	1,516,508	158,166	1,674,674	\$ 0.77
Granted	--	--	--	--
Exercised	--	--	--	--
Cancelled or expired	(108,000)	(74,000)	(182,000)	2.56
Outstanding				
August 31, 2009	1,408,508	84,166	1,492,674	\$ 0.55

(3) 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., 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 flow in conformity with generally accepted accounting principles. All adjustments that were made are of normal recurring nature.

(4) The unaudited 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, 2009 was derived from audited

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financial statements. The accompanying interim 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, 2009. The results of operations for our interim periods are not necessarily indicative of results to be achieved for our full fiscal year.

(5) Inventories are stated at the lower of cost (first-in, first-out method) or market and consist primarily of chemicals, biologicals, and packaging materials. Cost includes raw materials, labor, manufacturing overhead and purchased products. Market is determined by comparison with recent purchases or net realizable value. Such net realizable value is based on forecasts for sales of the Company's products in the ensuing years. The industry in which the Company operates is characterized by technological advancement and change. Should demand for the Company's products prove to be significantly less than anticipated, the ultimate realizable value of the Company's inventories could be substantially less than the amount shown on the accompanying consolidated balance sheet.

Inventories approximate the following:

	August 31, 2009	May 31, 2009
	-----	-----
Raw materials	\$ 810,000	\$ 809,000
Work in progress	921,000	818,000
Finished products	483,000	537,000
	-----	-----
Inventory Reserve	(156,000)	(165,000)
Total	\$ 2,058,000	\$ 1,999,000
	=====	=====

Allowances for inventory obsolescence are recorded as necessary to reduce obsolete inventory to estimated net realizable value or to specifically reserve for obsolete inventory that the Company intends to dispose of.

### (6) Earnings Per Share

Basic EPS is computed as net income divided by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur from common shares issuable through stock options, warrants and other convertible securities.

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

	AUGUST 31,	
	2009	2008
	-----	-----
Numerator:		
Income from continuing operations	\$ 7,934	\$ 140,812
=====		
Denominator for basic net income per common share	6,631,039	6,587,114
Effect of dilutive securities:		
Options and warrants	126,715	509,016
-----		
Denominator for diluted net income		

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per common share	6,757,754	7,096,130
Basic net income per common share	\$ .00	\$ 0.02
Diluted net income per common share	\$ .00	\$ 0.02

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(7) Recent Accounting Pronouncements

In May, 2009 the FASB issued SFAS No. 165, "Subsequent Events". This statement established general standards of accounting for disclosure of events that occur after the balance sheet date but before financial statement are issued or are available to be issued. It requires the disclosure date through which an entity has evaluated subsequent events and the basis for that date. This would alert all users of financial statements that an entity has not evaluated subsequent events after that in the set of financial statements being presented. This statement is effective for interim and annual periods ending after June 15, 2009. The Company does not believe that the adoption of SFAS No. 165 has had a material impact on its financial statements.

The FASB issued SFAS No. 168, "The FASB Accounting Standards Codification (Codification) and the Hierarchy of Generally Accepted Accounting Principles- a replacement of Financial Statement No. 162". On the effective date of the statement, The FASB Accounting Standards Codification will become the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. This statement is effective for financial statements issued for interim and periods ending after September 15, 2009. The Company does not believe that the adoption of SFAS No. 168 will have a material impact on its financial statements.

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

	For the Three Months Ended	
	8/31/09	8/31/08
Revenues from sales to unaffiliated customers:		
United States	\$ 229,000	\$ 191,000
Asia	272,000	280,000
Europe	617,000	680,000
South America	18,000	35,000
Middle East	12,000	7,000
Other	1,000	1,000
	\$1,149,000	\$1,194,000

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

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(9) Under its bylaws, the Company has agreed to indemnify its officers and directors for certain events or occurrences arising as a result of the officer or director's serving in such capacity. The term of the indemnification period is for the officer's or director's lifetime. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited. However, the Company has a directors and officer liability insurance policy that limits its exposure and enables it to recover a portion of any future amounts paid.

As a result of its insurance policy coverage, the Company believes the estimated fair value of these indemnification agreements is minimal and has no liabilities recorded for these agreements as of August 31, 2009. The Company enters into indemnification provisions under (i) its agreements with other companies in its ordinary course of business, typically with business partners, contractors, and customers, landlords and (ii) its agreements with investors. Under these provisions the Company generally indemnifies and hold harmless the indemnified party for losses suffered or incurred by the indemnified party as a result of the Company's activities or, in some cases, as a result of the indemnified party's activities under the agreement. These indemnification provisions often include indemnifications relating to representations made by the Company with regard to intellectual property rights. These indemnification provisions generally survive termination of the underlying agreement. The maximum potential amount of future payments the Company could be required to make under these indemnification provisions is unlimited. The Company has not incurred material costs to defend lawsuits or settle claims related to these indemnification agreements. As a result, the Company believes the estimated fair value of these agreements is minimal. Accordingly, the Company has no liabilities recorded for these agreements as of August 31, 2009.

### (10) Subsequent Events

The Company has analyzed its operations subsequent to August 31, 2009 through October 15, 2009, the date these financial statements were available for issuance.

In September 2009 the Company began the process of moving to its new facility. Management anticipates that the majority of the Company's personnel and assets will be operating at the new location by early November 2009, with a small amount of the operation remaining for the short-term at the previous site.

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### 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 REQUIREMENTS TO BE LISTED ON NASDAQ, THE CONTINUAL DEMAND FOR THE COMPANY'S PRODUCTS,

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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.

### RESULTS OF OPERATIONS

Consolidated net sales for Biomerica were \$1,148,521 for the first quarter of fiscal 2010 as compared to \$1,194,345 for the same period in the previous year. This represents a decrease of \$45,824 or 3.8% for the quarter ended August 31, 2009 as compared to the quarter ended August 31, 2008. The decrease was primarily due to a decrease in clinical laboratory sales primarily due to timing of orders.

Cost of sales in the first quarter of fiscal 2010 were \$772,084, or 67.2% of sales as compared to \$661,216, or 55.4% of sales in fiscal 2009. Cost of sales as a percentage of sales in fiscal 2009 increased by 11.8%. The increase in cost of goods was a result of a number of factors which included higher capitalization of labor and overhead in fiscal 2009. In addition, fiscal 2010 included higher CE Mark expenses, outside services, wages, and repairs and maintenance.

Selling, general and administrative costs decreased by \$55,446, or 16.3% for the period ended August 31, 2009 as compared to the period ended August 31, 2008. The decrease was primarily due to decreased accounting, commissions and wages. Research and development increased by \$41,293, or 87.8% for period ended August 31, 2009 as compared to the period ended August 31, 2008, due to increased personnel and other expenses related to increased research on new products.

For the three months ended August 31, 2009, other income of \$1,060 was realized as compared to \$6 in the same period in the prior fiscal year.

Interest income decreased by \$6,428 due to lower cash balances and interest rates. Interest expense decreased by \$6,238 (64.5%) due to lower interest rates and balances on loans.

### LIQUIDITY AND CAPITAL RESOURCES

As of August 31 and May 31, 2009, the Company had cash and available-for-sale securities in the amount of \$1,692,165 and \$1,595,823 and working capital of \$3,802,237 and \$3,831,112, respectively.

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During the quarter ended August 31, 2009 the Company operations provided cash of \$31,870 as compared to \$49,595 in the prior fiscal year. Cash used by financing activities in fiscal 2010 was \$10,270 as compared to \$78,387 in fiscal 2009. The difference was primarily the result of payment of the shareholder loan in fiscal 2009. Cash provided by investing activities in fiscal 2010 was \$75,086 compared to cash used in investing activities in the same period in fiscal 2009 of \$32,762. This is primarily due to the maturity of a certificate of deposit in the amount of \$100,000 and the investment of \$24,914 for fixed assets in the first quarter of fiscal 2010 as compared to an investment in fixed assets in the amount of \$32,762 in the prior fiscal year.

On February 13, 2009, the Company entered into a Small Business Banking Agreement with Union Bank of California for a one year business line (the "Line") of credit in the amount of \$400,000. The interest rate for the line of credit is the prime rate in effect on the first day of the billing period, as

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published in the Wall Street Journal Prime West Coast Edition, plus a spread of 1.00%. Minimum monthly payments will be the sum of (i) the amount of interest charge for the billing period, plus (ii) any amount past due, plus (iii) any fees, late charges and/or out-of-pocket expenses assessed. If the Line is not renewed as of the last day of the term of the Line, the entire unpaid balance of the Line, including unpaid fees and charges will be due and payable. The Company has granted the bank security interest in the assets of the Company as collateral.

The Company must maintain for not less than thirty consecutive days in every calendar year, a period in which all amounts due under the revolving credit agreements with the bank are at a zero balance. The Company did not owe anything on this line of credit as of August 31, 2009.

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 Commercial Bank of California. The fixed asset serves as collateral for the loan. The loan payable at August 31, 2009 and May 31, 2009 relating to this equipment loan is \$112,511 and \$122,781, respectively.

The Loan is payable in thirty-six monthly payments of approximately \$4,000.

### CRITICAL ACCOUNTING POLICIES

The preparation of 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 Selected Financial Data.

Please refer to the annual report on Form 10-K for the period ended May 31, 2009 for an in-depth discussion of risk factors.

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### FACTORS THAT MAY AFFECT FUTURE RESULTS

#### Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

You should read the following factors in conjunction with the factors discussed elsewhere in this and our other filings with the SEC 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 and are not meant to be an exhaustive discussion of risks that apply to companies such as Biomerica. Like other businesses, Biomerica is susceptible to macroeconomic downturns in the United States or abroad, that may affect the general economic climate and performance of Biomerica 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 our 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 operation as a whole; failure to manage the future expansion of our business could have an adverse affect on our revenues and profitability; possible costs in complying with government regulations and the delays in receiving required regulatory approvals or the enactment of new adverse regulations or regulatory requirements; numerous competitors, most 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 and other factors beyond our control. All of these factors make it difficult to predict operating results for any particular period.

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#### 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.

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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. RISKS AND UNCERTAINTIES.

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; 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; unforeseen difficulties encountered in the move of the Company's facilities in the second quarter of fiscal 2010. 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. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS. None.

Item 5. OTHER INFORMATION. None.



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Item 6. EXHIBITS.

- 10.1 Standard Industrial/Commercial Single-Tenanc Lease for 17571 Von Karman Avenue, Irvine, CA 92614.
- 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.

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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.

Date: October 15, 2009

BIOMERICA, INC.

By: /S/ Zackary S. Irani

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Zackary S. Irani  
Chief Executive Officer

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