

BIOMERICA INC  
Form 10-Q  
January 14, 2011

---

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 NOVEMBER 30, 2010

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  
State or other jurisdiction of  
incorporation or organization)

95-2645573  
(I.R.S. Employer Identification No.)

17571 Von Karman Avenue, Irvine, California  
(Address of principal executive offices)

92614  
(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)

Common, par value \$0.08

(NAME OF EACH EXCHANGE ON WHICH  
REGISTERED)

OTC-BULLETIN BOARD

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

(TITLE OF EACH CLASS)  
COMMON STOCK, PAR VALUE \$0.08

Edgar Filing: BIOMERICA INC - Form 10-Q

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  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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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 January 14, 2011.

## BIOMERICA, INC. AND SUBSIDIARIES

## INDEX

PART I	Financial Information	
Item 1.	Financial Statements:	
	Condensed Consolidated Statements of Operations and Comprehensive Income (unaudited) - Six and Three Months Ended November 30, 2010 and 2009	3
	Condensed Consolidated Balance Sheets (unaudited) November 30, 2010 and (audited) May 31, 2010	4
	Condensed Consolidated Statements of Cash Flows (unaudited) - Six Months Ended November 30, 2010 and 2009.	6
	Notes to Condensed Consolidated Financial Statements (unaudited)	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	14
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	16
Item 4.	Controls and procedures	16
PART II	Other Information	17
Item 1.	Legal Proceedings	17
Item 1A.	Risk Factors	17
Item 2.	Unregistered Sales of Equity Securities & Use of Proceeds	17
Item 3.	Defaults Upon Senior Securities	17
Item 4.	Other Information	17
Item 5.	Exhibits	17
	Signatures	18

PART I - FINANCIAL INFORMATION  
SUMMARIZED FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

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

	Six Months Ended November 30,		Three Months Ended November 30,	
	2010	2009	2010	2009
Net sales	\$2,338,554	\$2,248,401	\$1,160,842	\$1,099,880
Cost of sales	1,649,229	1,655,447	860,297	883,363
Gross profit	689,325	592,954	300,545	216,517
Operating Expenses:				
Selling, general and administrative	661,198	711,119	358,040	427,682
Research and development	217,972	183,315	120,120	95,034
Total Operating Expenses	879,170	894,434	478,160	522,716
Loss from operations	(189,845 )	(301,480 )	(177,615 )	(306,199 )
Other Income (Expense):				
Interest income	3,952	9,457	1,809	3,869
Interest expense	(3,761 )	(7,109 )	(1,625 )	(3,676 )
Other income, net	177,605	1,360	177,568	300
	177,796	3,708	177,752	493
Net (loss) income	(12,049 )	(297,772 )	137	(305,706 )
Basic net (loss) income per common share	\$(.00 )	\$(.04 )	\$.00	\$(.05 )
Diluted net (loss) income per common share	\$(.00 )	\$(.04 )	\$.00	\$(.05 )
Weighted average number of common and common equivalent Shares:				
Basic	6,660,839	6,632,830	6,660,839	6,634,641
Diluted	6,660,839	6,632,830	6,669,155	6,634,641
Net (loss) income	\$(12,049 )	\$(297,772 )	\$137	\$(305,706 )
Other comprehensive loss, net of tax:				
Foreign currency translation	(705 )	(745 )	(139 )	(401 )
Comprehensive loss	\$(12,754 )	\$(298,517 )	\$(2 )	\$(306,107 )

The accompanying notes are an integral part of these statements.



BIOMERICA, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

	November 30, 2010 (unaudited)	May 31, 2010 (audited)
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$972,097	\$1,055,206
Accounts receivable, less allowance for doubtful accounts of \$34,709 as of November 30, 2010 and \$23,206 as of May 31, 2010, respectively	875,002	1,017,842
Inventories, net	1,815,107	1,790,567
Prepaid expenses and other	114,389	187,703
Deferred tax assets, current portion	—	42,000
<b>Total Current Assets</b>	<b>3,776,595</b>	<b>4,093,318</b>
Property and Equipment, net of accumulated depreciation and amortization	561,870	562,227
Deferred Tax Assets, net of current portion	238,000	196,000
Other Assets	68,175	83,881
Intangible Assets, net	139,418	79,774
<b>Total Assets</b>	<b>\$4,784,058</b>	<b>\$5,015,200</b>

The accompanying notes are an integral part of these statements.

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

	November 30, 2010 (unaudited)	May 31, 2010 (audited)
<b>Liabilities and Shareholders' Equity</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$407,436	\$565,088
Accrued compensation	256,389	306,717
Loan for equipment purchase-current-term	46,591	45,075
<b>Total Current Liabilities</b>	<b>710,416</b>	<b>916,880</b>
Loan for equipment purchase-long-term	11,784	35,424
<b>Total Liabilities</b>	<b>722,200</b>	<b>952,304</b>
<b>Commitments and Contingencies</b>		
<b>Shareholders' Equity</b>		
Preferred stock, no par value authorized 5,000,000 shares, no shares issued and outstanding at November 30, 2010 and May 31, 2010	--	--
Common stock, \$0.08 par value authorized 25,000,000 shares, issued and outstanding 6,660,839 at November 30, 2010 and May 31, 2010	532,866	532,866
Additional paid-in-capital	17,560,470	17,548,754
Accumulated other comprehensive loss	(4,218 )	(3,513 )
Accumulated deficit	(14,027,260 )	(14,015,211 )
<b>Total Shareholders' Equity</b>	<b>4,061,858</b>	<b>4,062,896</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$4,784,058</b>	<b>\$5,015,200</b>

The accompanying notes are an integral part of these statements.

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

For the six months ended November 30,	2010	2009
Cash flows from operating activities:		
Net loss	\$(12,049	) \$(297,772 )
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	68,681	51,073
Stock option expense	11,716	18,674
Inventory reserve	(2,000	) (60,291 )
Change in provision for losses on accounts receivable	11,503	(14,181 )
Write-off of license-related intangible asset	13,982	--
Changes in current assets and liabilities:		
Accounts receivable	131,337	115,722
Inventories	(22,540	) 111,520
Prepaid expenses and other current assets	84,913	179
Accounts payable and other accrued liabilities	(162,566	) 81,145
Accrued compensation	(50,328	) (72,597 )
Deferred rent liability	4,914	40,250
Net cash provided by (used in) operating activities	77,563	(26,278 )
Cash flows from investing activities:		
Increase in intangible assets	(73,775	) (4,443 )
Maturity of short term investment	--	100,000
Purchases of property and equipment	(64,068	) (250,041 )
Net cash used in investing activities	(137,843	) (154,484 )
Cash flows from financing activities:		
Proceeds from exercise of warrants & stock options	--	9,834
Payments on loan for equipment purchase	(22,124	) (20,753 )
Net cash used in financing activities	(22,124	) (10,919 )
Effect of exchange rate changes on cash	(705	) (745 )
Net decrease in cash and cash equivalents	(83,109	) (192,426 )
Cash and cash equivalents at beginning of period	1,055,206	1,595,823
Cash and cash equivalents at end of period	\$972,097	\$1,403,397
Supplemental Disclosure of Cash Flow Information:		



Cash paid during the period for:

Interest	\$3,548	\$7,109
----------	---------	---------

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., 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 (collectively the "Company") 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 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.

Occasionally certain long-standing customers, who routinely place large orders, will have unusually large receivables balances relative to the total gross receivables. One such customer, who received a large order at the end of November 2010, had a balance that comprised 25.8% of our gross receivables balance. Another customer had a balance that comprised 14.8% of gross receivables. Management monitors the payments for these large balances closely.

## 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:

	November 30,	
	2010	May 31, 2010
Raw materials	\$ 752,000	\$ 673,000
Work in progress	693,000	724,000
Finished products	370,000	394,000
<b>Total</b>	<b>\$ 1,815,000</b>	<b>\$ 1,791,000</b>

## 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 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.

For the six months ended November 30, 2010 and 2009 the Company expensed \$11,716 and \$18,674 of stock option expense due to ASC 718 in its financial statements, respectively. For the three months ended November 30, 2010 and 2009 the Company expensed \$11,716 and \$15,393 of stock option expense due to ASC 718 in its financial statements, respectively.

The following summary presents the options and warrants granted, exercised, expired, cancelled and outstanding as of November 30, 2010:

	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	–	–	–	–
Exercised	–	–	–	–
Cancelled or expired	(162,000)	–	(162,000)	0.54
Outstanding November 30, 2010	1,106,000	51,999	1,157,999	\$ 0.56

## Non-Controlling Interest

At November 30 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.

#### 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 \$70,193 and \$65,279 at November 30, 2010 and May 31, 2010, respectively, and is included in accrued expenses.

#### 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 three and six months ended November 30, 2010 was 1,149,683 and 1,157,999, respectively. The total amount of anti-dilutive warrants or options not included in the earnings per share calculation for the three and six months ended November 30, 2009 was 1,455,624 for both periods.



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		Three Months	
	Ended November 30, 2010	2009	Ended November 30, 2010	2009
Numerator:				
Income (loss) from continuing operations	\$(12,049 )	\$(297,772 )	\$137	\$(305,706 )
Denominator for basic net loss per common Share	6,660,839	6,632,830	6,660,839	6,634,641
Effect of dilutive securities:				
Options and warrants	--	--	8,316	--
Denominator for diluted net loss Per common share	6,660,839	6,632,830	6,669,155	6,634,641
	\$(.00 )	\$(.04 )	\$.00	\$(.05 )
Diluted net loss per common share	\$(.00 )	\$(.04 )	\$.00	\$(.05 )

#### Recent Accounting Pronouncements

In April 2008, the Financial Accounting Standards Board (FASB) issued updated guidance of ASC 350, "Intangibles—Goodwill and Other" (ASC 350), removing the requirement for an entity to consider, when determining the useful life of an acquired intangible asset, whether the intangible asset can be renewed without substantial cost or material modifications to the existing terms and conditions associated with the intangible asset. The intent of the updated guidance is to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset under ASC 805, "Business Combinations" (ASC 805) and other U.S. generally accepted accounting principles. The updated guidance replaces the previous useful-life assessment criteria with a requirement that an entity considers its own experience in renewing similar arrangements. This updated guidance applies to all intangible assets, whether acquired in a business combination or otherwise and shall be effective for the Company's financial statements commencing April 1, 2010. The adoption of these changes did not have an impact on the Company's consolidated financial statements.

In October 2009, the FASB issued Accounting Standards Update (ASU) 2009-13, "Multiple-Deliverable Revenue Arrangements, (amendments to ASC Topic 605, Revenue Recognition)" (ASU 2009-13). ASU 2009-13 requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The amendments eliminate the residual method of revenue allocation and require revenue to be allocated using the relative selling price method. The standard also expands the disclosure requirements for multiple deliverable revenue arrangements. ASU 2009-13 should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. The adoption of these changes is not expected to have an impact on the Company's consolidated financial statements.

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 November 30, 2010 and May 31, 2010:



	November 30, 2010	May 31, 2010
Accounts Payable	\$306,114	\$402,143
Accrued Expenses	27,134	92,462
Deferred Rent	70,193	65,279
Other	3,995	5,204
	\$407,436	\$565,088

## Note 4: Geographic Information

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

	For the Six Months Ended	
	November 30, 2010	November 30, 2009
Revenues from sales to unaffiliated customers:		
United States	\$ 551,000	\$ 454,000
Asia	459,000	547,000
Europe	1,264,000	1,196,000
South America	20,000	31,000
Middle East	25,000	17,000
Other	20,000	3,000
	\$ 2,339,000	\$ 2,248,000

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 November 30, 2010 was zero.

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 November 30 2010 approximately \$58,000 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 (\$173,648, 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 been previously incurred and approved by the U.S. government as a component of other income. 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.

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, 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. Until recently, tests of this kind required the services of medical technologists and sophisticated instrumentation. 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, 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 established a subsidiary in Mexicali for future use. After the year-ended May 31, 2010, 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 \$2,338,554 for the first six months of fiscal 2011 as compared to \$2,248,401 for the same period in the previous year. This represents an increase of \$90,153, or 4.0%. For the quarter then ended net sales were \$1,160,842 as compared to \$1,099,880 for the same period in the previous year. This represents an increase of \$60,962, or 5.5%. The increase in sales for the six months and quarter ended November 30, 2010 as compared to 2009 was a result of increases in sales to chain drug stores of EZ Detect as well as an increase of foods allergy test kits to several distributors.

For the six months ended November 30, 2010 as compared to 2009, cost of sales decreased from \$1,655,447 or 73.6% of sales, to \$1,649,229, or 70.5% of sales. For the three month period then ended cost of sales decreased from \$883,363, or 80.3% of sales, to \$860,297, or 74.1% of sales. Cost of goods for the three and six months ended November 30, 2009, were affected adversely by the move of the facilities.

For the six months ended November 30, 2010 compared to 2009, selling, general and administrative costs decreased by \$49,921, or 7.0%. For the three months then ended these expenses decreased by \$69,642, or 16.3%. Included in the six and three month expenses for period that ended November 30, 2009 were non-recurring moving expenses of approximately \$84,000. Offsetting this decrease in moving expenses in the six month period ended November 30, 2010, the Company had \$18,852 in increased trade show expenses over November 30, 2009 and increased bad debt reserve of \$24,664 over the same period in the prior year.

For the six months ended November 30, 2010 compared to 2009, research and development increased by \$34,657, or 18.9% and for the three months increased by \$25,086, or 26.4%. The increase for the six and three months was primarily due to increased purchases of materials, supplies, and other expenses related to the refinement, improvement and integration of newly licensed products into our system.

For the six months ended November 30, 2010, interest income decreased from \$9,457 to \$3,952 and for the three months then ended decreased from \$3,869 to \$1,809. The decrease was due to lower interest rates on a lower amount of cash investments. For the six months interest expense decreased from \$7,109 to \$3,761 and for the three months decreased from \$3,676 to \$1,625 due to lower interest rates on debt in addition to smaller balances owed. Other income increased for the six months from \$1,360 to \$177,605 and for the three months from \$300 to \$177,508 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 November 30 and May 31, 2010, the Company had cash and cash equivalents in the amount of \$972,097 and \$1,055,206 and working capital of \$3,066,179 and \$3,176,438, respectively.

During the six months ended November 30, 2010 the Company operations generated cash of \$77,563 as compared to cash used in operations of \$26,278 in the same period of the prior fiscal year. Cash provided by operations in fiscal 2011 was due in large part to paying down of accounts payable and other accrued liabilities of \$162,566 and accrued compensation of \$50,328. Cash inflows were primarily from the collection of receivables of \$131,337 and the utilization of prepaid expenses of \$84,913. Cash used in investing activities in fiscal 2011 was \$137,843 compared to the same period in fiscal 2010 of \$154,484. 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 \$250,000 of equipment in the first quarter of fiscal 2010. In fiscal 2011 the Company used \$73,775 in payments of licensing fees according to its licensing agreements and \$64,068 for the purchases of fixed assets. Cash used in financing activities in fiscal 2011 was \$22,124 as compared to \$10,919 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 interest rate for the line of credit is the prime rate in effect on the first day of the billing period, as published in the Wall Street Journal Prime West Coast Edition, plus a spread of 1.00%. Minimum monthly payments 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 November 30, 2010.

In February 2010 the Company and the bank agreed to extend the above line of credit for one year.

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 equipment serves as collateral for the loan. The loan payable at November 30, 2010 and May 31, 2010 relating to this equipment loan is \$58,375 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.

## 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; 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:

Edgar Filing: BIOMERICA INC - 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: January 14, 2011

By: /s/ Zackary S. Irani  
Zackary S. Irani  
Chief Executive Officer (Principal  
Executive Officer)

By: /s/ Janet Moore  
Janet Moore  
Chief Financial Officer (Principal  
Financial Officer)