

BIOMERICA INC  
Form 10-Q  
October 17, 2011

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, 2011

OR

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

Commission File Number: 0-8765

BIOMERICA, INC.

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(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

-----  
(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

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: 6,868,339 shares of common stock, par value \$0.08, as of October 14, 2011.

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BIOMERICA, INC.

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PART I

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**PART I - FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

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

	Three Months Ended	
	August 31,	
	2011	2010
	-----	-----
Net sales .....	\$1,407,665	\$ 1,177,712
Cost of sales .....	891,244	788,932
	-----	-----
Gross profit .....	516,421	388,780
	-----	-----
Operating Expenses:		
Selling, general and administrative .....	313,584	303,158

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Research and development .....	85,936	97,852
	-----	-----
Total operating expenses	399,520	401,010
	-----	-----
Income (loss) from operations .....	116,901	(12,230)
	-----	-----
Other Income (Expense):		
Interest income .....	1,464	2,143
Interest expense.....	(573)	( 2,136)
Other income, net .....	--	37
	-----	-----
	891	44
	-----	-----
Net income (loss) .....	\$ 117,792	\$ (12,186)
	=====	=====
Basic net income (loss) per common share .....	\$ .02	\$ (.00)
	=====	=====
Diluted net income (loss) per common share .....	\$ .02	\$ (.00)
	=====	=====



Weighted average number of common and common equivalent shares:

Basic .....	6,868,339	6,660,839
	=====	=====
Diluted .....	6,903,353	6,660,839
	=====	=====

Net income (loss) ..... \$ 117,792 \$ (12,186)

Other comprehensive (loss) income, net of tax:

Foreign currency translation

(440) (566)

-----

Comprehensive income (loss) ..... \$ 117,352 \$ (12,752)

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The accompanying notes are an integral part of these statements.

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BIOMERICA, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

	August 31, 2011 (unaudited) -----	May 31, 2011 (audited) -----
Assets		
Current Assets		
Cash and cash equivalents .....	\$ 1,020,655	\$ 989,270
Accounts receivable, less allowance for doubtful accounts of \$53,725 & \$32,204 as of August 31, 2011 and May 31, 2011, respectively .....		865,372
747,075		
Inventories, net .....	1,735,059	1,785,525
Prepaid expenses and other .....	130,628	
237,563		
Deferred tax assets, current portion .....	127,000	
127,000		
	-----	-----
Total Current Assets .....	3,878,714	3,886,433

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Property and Equipment, net of accumulated depreciation and amortization ....	570,861	567,323
Deferred Tax Assets, net of current portion .....	111,000	
	111,000	
Investments .....		
	165,324	
	165,324	
Intangible Assets, net .....		
	195,297	
	177,410	
Other Assets .....	50,079	47,888
	-----	-----
Total Assets .....	\$ 4,971,275	
	\$4,955,378	
	=====	=====

The accompanying notes are an integral part of these statements.

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

	August 31, 2011 (unaudited) -----	May 31, 2011 (audited) -----
<b>Liabilities and Shareholders' Equity</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses .....	\$ 388,020	\$ 451,569
Accrued compensation .....	111,876	
	138,056	
Loan for equipment purchase .....	23,664	35,390
	-----	-----
<b>Total Current Liabilities .....</b>	<b>523,560</b>	<b>625,015</b>

Commitments and Contingencies (Note 4)

Shareholders' Equity

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Preferred stock, no par value authorized 5,000,000 shares, issued  
and none outstanding at August 31, 2011 and May 31, 2011.....

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--

Common stock, \$0.08 par value authorized 25,000,000 shares, issued  
and outstanding 6,868,339 at August 31, 2011 and May 31, 2011                      549,466                      549,466

Additional paid-in-capital .....                      17,643,121

17,643,121

Accumulated other comprehensive loss .....                      (4,900)

(4,460)

Accumulated deficit .....                      (13,739,972)

(13,857,764)

-----

Total Shareholders' Equity .....                      \$ 4,447,715                      \$ 4,330,363

-----

Total Liabilities and Shareholders' Equity .....                      \$ 4,971,275                      \$ 4,955,378

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The accompanying notes are an integral part of these statements.

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

Three Months Ended

August 31,

2011

2010

-----

Cash flows from operating activities:

Net income (loss) ..... \$ 117,792    \$ (12,186)

Adjustments to reconcile net income (loss) to net cash provided by

(used in) operating activities:

Depreciation and amortization ..... 43,048    33,087

Change in provision for losses on accounts receivable ..... 21,521    --

Inventory reserve.....

3,006

8,227

Increase in deferred rent liability.. . . . .

1,662

(3,270)

Changes in assets and liabilities:

Accounts receivable ..... (139,818)    (22,072)

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Inventories .....	47,460	(93,984)
Prepaid expenses and other assets .....	104,744	5,993
Accounts payable and other accrued expenses .....	(65,211)	(81,359)
Accrued compensation .....	(26,180)	(33,589)
	-----	-----
Net cash provided by (used in) operating activities .....	108,024	(199,153)
	-----	-----
Cash flows from investing activities:		
Intangibles.....		
(25,000)	(25,000)	
Purchases of property and equipment .....	(39,473)	(6,578)
	-----	-----
Net cash used in investing activities .....	(64,473)	(31,578)
	-----	-----
Cash flows from financing activities:		
Payment of equipment loan .....	(11,726)	(11,040)
	-----	-----
Net cash used in financing activities .....	(11,726)	(11,040)
	-----	-----
Effect of exchange rate changes in cash.....		

(440)

(566)

Net increase (decrease) in cash and cash equivalents .....	31,385	(242,337)
	-----	-----
Cash and cash equivalents at beginning of period .....	989,270	1,055,206
	-----	-----
Cash and cash equivalents at end of period .....	\$1,020,655	\$ 812,869
	=====	=====

Supplemental Disclosure of Cash-Flow Information:

Cash paid during the quarter for:

Interest .....	\$ 522	\$ 1,958
	=====	=====

The accompanying notes are an integral part of these statements.

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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 (the Company), for the periods indicated. It does not include all information and footnotes necessary for a fair presentation of financial position, results of operations, and cash flow in conformity with generally accepted accounting principles. All adjustments that were made are of normal recurring nature.

The unaudited Condensed consolidated financial statements and notes are presented as permitted by the requirements for Form 10-Q and do not contain certain information included in our annual financial statements and notes. The condensed consolidated balance sheet data as of May 31, 2011 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, 2011. 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 the Company's German subsidiary and Mexican subsidiary which have not begun operations. All significant intercompany accounts and transactions have been eliminated in consolidation. During the first quarter of fiscal 2012 and during fiscal 2011 there were no transactions in discontinued operations and management intends to formally dissolve the corporation during fiscal 2012.

Accounting Estimates

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

### Cash and Cash Equivalents

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

### Accounts Receivable

The Company extends unsecured credit to its customers on a regular basis. International accounts are required to prepay until they establish a history with the Company and at that time, they are extended credit at levels based on a number of criteria. Credit levels are approved by designated upper level management. Domestic customers are extended initial \$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 balances relative to the total gross receivables. One such customer, who received a large order at the end of August 2011, had a balance that comprised 42.3% of our gross receivables balance and another customer had a balance that comprised 11.2% of our gross receivables balance. 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:

	August 31, 2011 -----	May 31, 2011 -----
Raw materials	\$ 782,000	
	\$ 737,000	
Work in progress	630,000	
	718,000	
Finished products	323,000	
	331,000	
	-----	-----
Total	\$ 1,735,000	\$ 1,786,000
	=====	=====

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.



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### Intangible Assets

Intangible assets include trademarks, product rights, licenses, technology rights and patents, and are accounted for based on Accounting Standards Codification (ASC) 350 *Intangibles* (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, licenses are amortized over a period of ten years and 17 years for patents.

Amortization amounted to \$7,113 and \$2,016 for the quarters ended August 31, 2011 and 2010, respectively.

### Stock-Based Compensation

The Company follows the guidance of the accounting provisions of ASC 718 *Share-based Compensation* (ASC 718), which requires the use of the fair-value based method to determine compensation for all arrangements under which employees and others receive shares of stock or equity instruments (warrants and options). The fair value of each option award is estimated on the date of grant using the Black-Scholes valuation model that uses assumptions for expected volatility, expected dividends, expected 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 three months ended August 31, 2011 and 2010, the Company incurred no stock based compensation expense.

The following summary presents the options and warrants granted, exercised, expired, cancelled and outstanding as of August 31, 2011:

Weighted

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Average

	Number of Options and Warrants			Exercise
	Employee	Non-employee	Total	Price
	-----	-----	-----	-----
<b>Outstanding</b>				
May 31, 2011		1,000,250		
--	1,000,250			\$ 0.57
<b>Granted</b>				
	--	--	--	--
<b>Exercised</b>				
	--			
--	--	--		--
<b>Cancelled or expired</b>				
		(27,000)		
--				
		(27,000)		
				0.45
	-----	-----	-----	-----
<b>Outstanding</b>				
		973,250		
--				
		973,250		
				\$ 0.58
August 31, 2011	=====	=====	=====	=====

Revenue Recognition

Revenues from product sales are recognized at the time the product is shipped, customarily FOB shipping point, at which point title passes. An allowance is established when necessary for estimated returns as revenue is recognized. In conjunction with sales to certain customers, the Company provides free products upon attaining certain levels of purchases by the customer. The Company accounts for these free products in accordance with ASC 605-50 *Revenue Recognition - Customer Payments and Incentives* and recognizes the cost of the product as part of cost of sales.

### Investments

From time-to-time, the Company makes investments in privately-held companies. The Company determines whether the fair values of any investments in privately-held entities have declined below their carrying value whenever adverse events or changes in circumstances indicate that recorded values may not be recoverable. If the Company considers any such decline to be other than temporary (based on various factors, including historical financial results, and the overall health of the investee's industry), a write-down to estimated fair value is recorded. The Company currently has not written down the investment and no events have occurred which could indicate the carrying value to be less than the fair value. Investments represent the Company's investment in a Polish distributor which is primarily engaged in distributing medical devices. The Company owns approximately 6% of the investee, and accordingly, applies the cost method to account for the investment. Under the cost method, investments are recorded at cost, with gains and losses recognized as of the sale date, and income recorded when received.

### Shipping and Handling Fees and Costs

Shipping and handling fees billed to customers are classified as revenue, and shipping and handling costs are classified as cost of sales. The Company included shipping and handling fees billed to customers in net sales. The Company included shipping and handling costs associated with inbound freight and unreimbursed shipping to customers in cost of sales.

### Research and Development

Research and development costs are expensed as incurred.

### Income Taxes

The Company 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 is accounted for primarily using local functional currency. Accordingly, assets and liabilities of this subsidiary are translated using exchange rates in effect at the end of the period, and revenues and costs are translated using average exchange rates for the period. The resulting adjustments are presented as a separate component of accumulated other comprehensive 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 and straight-line adjustments were accrued as deferred rent and included as a liability in accounts payable and 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 months ended August 31, 2011 and 2010 was 642,250 and 1,208,999, 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.

	August 31,	
	2011	2010

-----  
 Numerator:

Income (loss) from continuing operations		\$ 117,792		\$ (12,186)
--	--	------------	--	-------------

Denominator for basic net (loss) income

per common share	6,868,339	6,660,839
------------------	-----------	-----------

Effect of dilutive securities:

Options and warrants	35,014	--
----------------------	--------	----

Denominator for diluted net (loss) income per common share 6,903,353 6,660,839

Basic net income per common share \$ 0.02 \$ (0.00)

Diluted net income per common share \$ 0.02 \$ (0.00)

#### Recent Accounting Pronouncements

In June 2011, the FASB issued guidance on the presentation of comprehensive income. This guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. The guidance allows two presentation alternatives; present items in net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive, statements of net income and other comprehensive income. This guidance is effective as of the beginning of a fiscal year that begins after December 15, 2011. Early adoption is permitted, but full retrospective application is required under both sets of accounting standards. The Company is currently evaluating which presentation alternative it will utilize.

In September 2011, the FASB issued an amendment to Topic 350, Intangibles Goodwill and Other, which simplifies how entities test goodwill for impairment. Previous guidance under Topic 350 required an entity to test goodwill for

impairment using a two-step process on at least an annual basis. First, the fair value of a reporting unit was calculated and compared to its carrying amount, including goodwill. Second, if the fair value of a reporting unit was less than its carrying amount, the amount of impairment loss, if any, was required to be measured. Under the amendments in this update, an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads the entity to determine that it is more likely than not that its fair value is less than its carrying amount. If after assessing the totality of events or circumstances, an entity determines that it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, then the two-step impairment test is unnecessary. If the entity concludes otherwise, then it is required to test goodwill for impairment under the two-step process as described under paragraphs 350-20-35-4 and 350-20-35-9 under Topic 350. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 and early adoption is permitted. The Company is currently evaluating whether early adoption is necessary.

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 August 31, 2011 and May 31, 2011:

	August 31, 2011 -----	May 31, 2011 -----
Accounts payable	\$ 289,058	
	\$ 246,346	
Accrued exepenses		21,022
	127,156	
Deferred rent		
	75,179	
	73,517	
Other		
	2,761	

4,550

	-----	-----
Total	\$ 388,020	\$ 451,569
	=====	=====

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**Note 4: Geographic Information**

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

	For the Three Months Ended	
	8/31/11	8/31/10
	-----	-----
Revenues from sales to unaffiliated customers:		
United States	\$ 187,000	\$ 303,000
Asia	631,000	225,000
Europe	582,000	623,000
South America	1,000	1,000
Middle East	4,000	12,000
Other	3,000	14,000
	-----	-----
	\$1,408,000	\$1,178,000
	=====	=====

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

**Note 5: Commitments and Contingencies**

On June 10, 2011, the Company renewed the line of credit (the Line ) with its bank which has a borrowing limit in the amount of \$400,000. The Line is secured by substantially all of the Company's assets, bears interest at 1.0% plus prime, and expires on February 24, 2012. The balance at August 31, 2011 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 August 31, 2011 \$23,664 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.

## **Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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. Frequently, results were not available until at least the following day. We believe that rapid point of care tests may be 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. In July 2010 the Company eliminated its dedicated research department in order to follow its current strategy of licensing technology from other institutions.

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## RESULTS OF OPERATIONS

Consolidated net sales for Biomerica were \$1,407,665 for the first quarter of fiscal 2012 as compared to \$1,177,712 for the same period in the previous year. This represents an increase of \$229,953 or 19.5% for the quarter ended August 31, 2011 as compared to the quarter ended August 31, 2010. The increase was primarily due to the increase of sales to Asia, which were offset by lower sales domestically due to higher than normal sales in the prior fiscal year in the U.S. which were a result of initial purchasing quantities for a major drug store chain.

Cost of sales in the first quarter of fiscal 2012 were \$891,244, or 63.3% of sales as compared to \$788,932, or 67.0% of sales in fiscal 2011. The decrease in cost of sales as a percentage of sales was primarily due to two factors: 1) the Company having a larger portion of its cost of goods sold be in the form of fixed costs, which remained relatively flat on higher revenues; and 2) increased sales of higher margin products. Included in cost of sales for the period ended August 31, 2010 was a bulk sales incentive in the amount of \$56,458, which was paid in the form of free product. This caused higher than normal cost of goods for that period.

Selling, general and administrative costs increased by \$10,426, or 3.4% for the period ended August 31, 2011 as compared to the period ended August 31, 2010. The increase was primarily due to an increase bad debt reserve.

Research and development decreased by \$11,916, or 12.2% for the period ended August 31, 2011 as compared to the period ended August 31, 2010, primarily due to the elimination of a dedicated research department and the completion of development of some of the products licensed by the Company. Although the Company currently doesn't have a dedicated research and development department, personnel in production routinely work on technology transfer projects assigned to them, and therefore, an appropriate amount of production wages and wage related expenses are allocated to research and development.

Interest income decreased by \$679 primarily due to lower interest rates. Interest expense decreased by \$1,563 due to lower debt.

## LIQUIDITY AND CAPITAL RESOURCES



As of August 31 and May 31, 2011, the Company had cash and cash equivalents in the amount of \$1,020,655 and \$989,270 and working capital of \$3,355,154 and \$3,261,418, respectively.

During the quarter ended August 31, 2011 the Company operations provided cash of \$108,024 as compared to cash used of \$199,153 in the same period of the prior fiscal year. Cash provided by operations in fiscal 2012 was due in part to funds received from the Therapeutic Drug Recovery Act of \$140,400 (less a consulting expense of \$28,080) offset by paying down of payables and accrued expenses of \$48,191. Cash used in investing activities in fiscal 2012 was \$64,473 compared to cash used by investing activities in the same period in fiscal 2011 of \$31,578. This is primarily due to the purchases of fixed assets and investment in intangible assets in the first quarter of fiscal 2012. Cash used by financing activities in fiscal 2012 was \$11,726 as compared to \$11,040 in fiscal 2011.

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 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. In February 2010, this line was extended for one more year and in June 2010, it was extended until February 2012.

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 as of August 31, 2011.

On February 13, 2009, the Company entered into a Small Business Bank Agreement with Union Bank of California 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 previous business loan which had been established with different commercial bank. The fixed asset serves as collateral for the Loan. The Loan is payable in thirty-six monthly payments of approximately \$4,000. The loan payable balance at August 31, 2011 and May 31, 2011 relating to this equipment loan is \$23,664 and \$35,390, respectively.

## **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.

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**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. 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. 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. REMOVED AND RESERVED.**

**Item 5. OTHER INFORMATION.** None.

**Item 6. EXHIBITS.**

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

Description	Exhibit No.
*	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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Filed herewith

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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.

BIOMERICA, INC.

Date: October 17, 2011

By: /S/ Zackary S. Irani

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Zackary S. Irani

Chief Executive Officer

(Principal Executive Officer)

Date: October 17, 2011

By: /S/ Janet Moore

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Janet Moore

Chief Executive Officer

(Principal Financial Officer)



