

Edgar Filing: BIOMERICA INC - Form 10-Q

BIOMERICA INC  
Form 10-Q  
April 14, 2010

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 FEBRUARY 28, 2010

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-8765

BIOMERICA, INC.

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

Delaware

95-2645573

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

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

17571 Von Karman Avenue, Irvine, California

92614

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

(Zip Code)

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

-----  
(Not applicable)

-----  
(Former name, former address and former fiscal year, if changed since last report.)

-----  
(TITLE OF EACH CLASS)

-----  
(NAME OF EACH EXCHANGE ON WHICH REGISTERED)

Common, par value \$0.08

OTC-BULLETIN BOARD

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

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

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

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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  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 Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the registrant's common stock, as of the latest practicable date: 6,660,839 shares of common stock as of April 14, 2010.

BIOMERICA, INC.

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PART I

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

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

	Nine Months Ended February 28,	
	2010	2009
Net sales .....	\$ 3,678,076	\$ 3,688,524
Cost of sales .....	(2,570,396)	(2,148,364)
Gross profit .....	1,107,680	1,540,160
Operating Expenses:		
Selling, general and administrative .....	1,024,223	1,081,304
Research and development .....	270,762	204,767
	1,294,985	1,286,071
Operating (loss) income .....	(187,305)	254,089
Other Expense (income):		
Interest income .....	(12,296)	(22,589)
Interest expense .....	10,062	22,418
Other income .....	(20,924)	(34,540)
Other expense .....	--	28,365
	(23,158)	(6,346)
(Loss) income before income taxes .....	(164,147)	260,435
Income tax (benefit) .....	--	(54,105)

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	-----	-----
Net (loss) income .....	(164,147)	314,540
	-----	-----
Other comprehensive (loss) gain, net of tax		
Unrealized comprehensive (loss) gain .....	--	(1,168)
Foreign currency translation .....	(1,154)	--
	-----	-----
Comprehensive (loss) income .....	\$ (165,301)	\$ 313,372
	=====	=====
Basic net (loss) income per common share .....	\$ (.02)	\$ .05
	=====	=====
Diluted net (loss) income per common share .....	\$ (.02)	\$ .05
	=====	=====
Weighted average number of common and common equivalent shares:		
Basic .....	6,642,064	6,631,039
	=====	=====
Diluted .....	6,642,064	6,778,294
	=====	=====

The accompanying notes are an integral part of these statements.

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BIOMERICA, INC.  
CONSOLIDATED BALANCE SHEET

	February 28, 2010 (unaudited)
	-----
Assets	
Current Assets	
Cash and cash equivalents .....	\$1,130,014
Short-term investment .....	--
Accounts receivable, less allowance for doubtful accounts of \$68,100 & \$86,432, respectively.....	977,414
Inventories, net .....	1,957,705
Prepaid expenses and other .....	117,590
Deferred tax asset - short-term .....	--
	-----
Total Current Assets .....	4,182,723
Property and Equipment, net of accumulated depreciation and amortization .....	573,255
Deferred Tax Asset - Long-term .....	238,000
Other Assets .....	80,046

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Intangible Assets .....	44,559
	-----
	\$5,118,583
	=====

The accompanying notes are an integral part of these statements.

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BIOMERICA, INC.  
CONSOLIDATED BALANCE SHEET - Continued

	February 28, 2010 (unaudited)	May 20 (aud
	-----	-----
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities .....	\$ 421,648	\$
Accrued compensation .....	321,370	
Equipment loan - short-term portion .....	44,317	
	-----	-----
Total Current Liabilities .....	787,335	
Loan for equipment purchase - long-term portion .....	47,025	
Deferred rent liability .....	62,009	
Shareholders' Equity		
Preferred stock no par value authorized 5,000,000 shares, none issued and none outstanding at February 28, 2010 and May 31, 2009 .....	--	
Common stock, \$0.08 par value authorized 25,000,000 shares, issued and outstanding 6,660,839 and 6,631,039 in February 28, 2010 and May 31, 2009 respectively .....	532,866	
Additional paid-in-capital .....	17,540,131	17,
Accumulated other comprehensive loss .....	(2,880)	
Accumulated deficit .....	(13,847,903)	(13,
	-----	-----
Total Shareholders' Equity .....	4,222,214	4,
	-----	-----
Total Liabilities and Equity .....	\$ 5,118,583	\$ 5,
	=====	=====

The accompanying notes are an integral part of these statements.

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

For the nine months ended February 28,	2010	2009
	-----	-----
Cash flows from operating activities:		
Net (loss) income .....	\$ (164,147)	\$ 314
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization .....	83,076	65
Stock option expense .....	29,695	30
Inventory reserve .....	(77,607)	(61)
Provision for losses on accounts receivable .....	(18,332)	17
Loss on disposal of fixed assets .....	6,107	
Changes in current assets and liabilities:		
Accounts receivable .....	(318,414)	(232)
Inventories .....	119,365	(256)
Prepaid expenses and other current assets .....	(16,337)	(14)
Accounts payable and other accrued liabilities .....	157,650	(71)
Accrued compensation .....	(95,937)	(11)
Deferred rent liability .....	62,009	
Net cash used in operating activities .....	(232,872)	(220)
Cash flows from investing activities:		
Increase in intangible assets .....	(14,559)	
Maturity (investment) in certificate of deposit .....	100,000	(100)
Purchases of property and equipment .....	(295,619)	( 76)
Net cash used in investing activities .....	(210,178)	(176)
Cash flows from financing activities:		
Repayment of shareholder loan .....	--	(95)
Proceeds from exercise of warrants & stock options .....	9,834	36
Payments on capital lease .....	--	(3)
Payments on loan for equipment purchase .....	(31,439)	(31)
Payment of common stock subscribed.....	--	(3)
Borrowings on line of credit.....	--	2
Net cash used in financing activities .....	(21,605)	(95)
Effect of exchange rate changes on cash .....	(1,154)	(1)
Net decrease in cash and cash equivalents .....	(465,809)	(493)
Cash and cash equivalents at beginning of period .....	1,595,823	2,022
Cash and cash equivalents at end of period .....	\$ 1,130,014	\$ 1,529
	=====	=====
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		

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Interest .....	\$ 10,062	\$ 22
	=====	=====
Income taxes .....	\$ --	\$ 122
	=====	=====
Change in unrealized holding gain on available-for-sale securities.....	\$ --	\$
	=====	=====

The accompanying notes are an integral part of these statements.

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. Management's policy is to reserve for all receivables' balances which have been outstanding for a significant period of time. 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 February 28, 2010 and May 31, 2009.

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

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Description	February 28, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Short term investment			
Certificate of Deposit	\$ --	\$ --	\$ --
Total	\$ --	\$ --	\$ --

Effective for financial statements issued for fiscal years beginning after November 15, 2007, Financial Accounting Standards Board Accounting Standards Codification ("ASC") 820 Fair Value Measurements, defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. ASC 820 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. ASC 820 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, ASC 820 specifies that fair value measurements should consider adjustments for risk, such as the risk inherent in a valuation technique or its inputs.

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Options and 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 ASC 718 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.

Historically we were in a loss position for tax purposes, and established a partial 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 whole 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. Management re-evaluated its deferred tax asset at February 28, 2010 and determined that it 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



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income from freight for the nine months ended February 28, 2010 and 2009, respectively, was \$82,561 and \$87,739 and for the quarters then ended was \$35,322 and \$34,560, respectively. 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 Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (ASC 718). ASC 718 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. ASC 718 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 nine months ended February 28, 2010 and 2009, the Company expensed \$29,695 and \$30,690, respectively, of stock option expense based on ASC 718 in its financial statements. For the three months ended February 28, 2010 and 2009, the Company expensed \$11,021 and \$12,016, respectively, of stock options expense based on ASC 718 in its financial statements.

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(2) The following summary presents the options granted, exercised, expired, cancelled and outstanding as of February 28, 2010:

	Number of Options and Warrants Employee	Non-employee	Weighted Average Exercise Total	Pri
	-----	-----	-----	-----
Outstanding May 31, 2009	1,516,508	158,166	1,674,674	\$
Granted	--	--	--	
Exercised	(29,800)	--	(29,800)	
Cancelled or expired	(124,875)	(124,000)	(248,875)	
	-----	-----	-----	-----

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Outstanding	1,361,833	34,166	1,395,999	\$
February 28, 2010	=====	=====	=====	=====

(3) The information set forth in these condensed consolidated statements is unaudited and may be subject to normal year-end adjustments. The information 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 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.

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(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 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:

	February 28, 2010	May 31, 2009
	-----	-----
Raw materials	\$ 735,000	\$ 809,000
Work in progress	993,000	818,000
Finished products	317,000	537,000
Reserve for obsolete inventory	(87,000)	(165,000)
	-----	-----
Total	\$ 1,958,000	\$ 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

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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. The following table excludes 59,770 options and warrants for the nine months ended February 28, 2010, which were deemed anti-dilutive.

February 28,	Nine Months Ended		Three Months Ended	
	2010	2009	2010	2009
<b>Numerator:</b>				
(Loss) income from continuing operations	\$ (164,147)	\$ 314,540	\$133,625	\$27,000
<b>Numerator for basic and diluted net</b>				
(loss) income per common share	\$ (164,147)	\$ 314,540	\$133,625	\$27,000
<b>Denominator for basic net (loss) income</b>				
per common share	6,642,064	6,631,039	6,660,839	6,610,000
<b>Effect of dilutive securities:</b>				
Options and warrants	--	147,255	4,675	40,000
<b>Denominator for diluted net (loss) income</b>				
per common share	6,642,064	6,778,294	6,665,514	7,010,000
<b>Basic net (loss) income per common share</b>				
	\$ (.02)	\$ .05	\$ .02	\$ .05
<b>Diluted net (loss) income per common share</b>				
	\$ (.02)	\$ .05	\$ .02	\$ .05

### (7) Recent Accounting Pronouncements

The FASB issued ASC 105, "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 was effective for financial statements issued for interim and periods ending after September 15, 2009. The Company does not believe that the adoption of ASC 105 has had a material impact on its financial statements.

### (8) Financial information about foreign and domestic operations and export sales

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is as follows:

	For the Nine Months Ended	
	2/28/10	2/28/09
	-----	-----
Revenues from sales to unaffiliated customers:		
United States	\$ 857,000	\$ 854,000
Asia	881,000	739,000
Europe	1,861,000	1,985,000
South America	43,000	73,000
Middle East	26,000	--
Other	10,000	38,000
	-----	-----
	\$3,678,000	\$3,689,000
	=====	=====

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

(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 officers 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 February 28, 2010. 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 holds 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 indemnification provisions are 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 February 28, 2010.

(10) On October 14, 2009, the Company entered into an agreement to acquire the technology and intellectual property related to certain products in order to manufacture and sell such products. Under the terms of the agreement Biomerica, Inc. will have the right to use, revise, modify and prepare derivative works with respect to such licensed products and technology for a specified amount per product. The other party to the agreement will have the right and license to use, revise, modify and prepare derivative works from the products that Biomerica develops or modifies as a result of the agreement.

(11) In February 2010 the Company's line of credit for \$400,000 at an interest Rate of 4.25% was renewed with Union Bank.

### Subsequent Events

On March 8, 2010, the Company entered into a manufacturing agreement with Ivax Diagnostics Corp. whereby the Company granted Ivax the right to market and sell

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certain of the Company's products in specified countries. The initial term of the agreement is for two years.

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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, 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 \$3,678,076 for the first nine months of fiscal 2010 as compared to \$3,688,524 for the same period in the previous year. This represents a decrease of \$10,448, or .3%. For the quarter then ended net sales were \$1,429,675 as compared to \$1,373,604 for the same period in the previous year. This represents an increase of \$56,071, or 4.1%. The decreased sales for the nine months was attributable to lower foreign sales during the first half of the year, with foreign sales increasing during the three months ending February 28, 2010. The increase for the three months is reflective of the increased foreign sales, particularly sales of clinical laboratory products.

For the nine months ended February 28, 2010 as compared to 2009, cost of sales increased from \$2,148,364, or 58.2% of sales, to \$2,570,196, or 69.9% of sales. For the three month period then ended cost of sales increased from \$699,387, or 50.9% of sales, to \$914,949, or 64.0% of sales. Factors that affected cost of sales in fiscal 2010 included higher rent (including overlapping rent due to the move), inventory scrap and reserves, higher wages due to more personnel, yearly wage increases and overtime, CE mark expenses, repairs/maintenance and outside services. In addition, due to the move the work-in-process and finished goods inventory, upon which labor and overhead are applied, was at a reduced level which contributed to a higher cost of goods as a percentage of sales.

For the nine months ended February 28, 2010 compared to 2009, selling, general and administrative costs decreased by \$57,081, or 5.3%. For the three months then ended these expenses decreased by \$58,705, or 15.8%. The decreases for the nine months and quarter were attributable to lower wages due to fewer personnel, lower health insurance, accounting and bad debt expense which was offset by moving expenses.

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For the nine months ended February 28, 2010 compared to 2009, research and development increased by \$65,995, or 32.2% and for the three months decreased by \$860, or 1.0%. The increase for the nine was primarily due to higher materials, supplies, wages, outside services and other expenses related to the development of new products.

For the nine months ended February 28, 2010, interest income decreased from \$22,589 to \$12,296 and for the three months then ended decreased from \$3,596 to \$2,839. The decrease was due to lower interest rates on a lower amount of cash investments. For the nine months interest expense decrease from \$22,418 to \$10,062 and for the three months decreased from \$4,964 to \$2,953 due to lower interest rates on debt in addition to smaller balances owed.

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### LIQUIDITY AND CAPITAL RESOURCES

As of February 28, 2010, the Company had cash and equivalents in the amount of \$1,130,014 and working capital of \$3,395,388.

During the nine months ended February 28, 2010, the Company operations used cash in the amount of \$232,872 as compared \$220,040 in the same period in the prior fiscal year. Cash used in financing activities was \$21,605 for the period ended February 28, 2010 as compared to cash used by financing activities for the nine months ended February 28, 2009 of \$95,500. The difference was primarily due to the repayment of the shareholder loan in the amount of \$95,936 in fiscal 2009.

Purchases of property and equipment for fiscal 2010 were \$295,619 as compared to \$76,339 in fiscal 2009. The increase in fiscal 2010 was primarily a result of purchases of equipment and leasehold improvements for the company's new location.

### 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 experiences 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 and conditins. 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 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

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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.

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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.

### 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

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procedures, no matter how well designed and operated, can provide only reasonable assurances of achieving their objectives and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The disclosure controls and procedures have been designed to provide reasonable assurance of achieving their objectives and the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective at the 'reasonable assurance' level. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports that we file and submit under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms; and (2) accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

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

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### PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS. None.

Item 1A. 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 effect 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 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 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



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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 distributors 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. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

The 2009 Annual Meeting of the Company's stockholders was held on December 10, 2009. Two matters were voted upon at the meeting, as set forth in the proxy statement dated September 29, 2009, as filed with the Securities and Exchange Commission pursuant to Rule 14 under the Securities Act of 1934 and described below.

Proposal No. 1: Election of Directors

Name	For	Votes Withheld
Barbieri	5,542,369	264,105
Cano	5,541,873	264,601
Emerson	5,541,923	264,551
Irani	5,542,169	264,305
Moore	5,542,201	264,273

All directors nominated were elected.

Proposal No. 2: Approval of the Company's 2009 Stock Incentive Plan

For	1,963,483	Against	328,522	Abstain	53,482
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The Company's 2009 Stock Incentive Plan was not approved by a plurality of votes.

Item 5. OTHER INFORMATION. None.

Item 6. EXHIBITS.

- 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: April 14, 2010

BIOMERICA, INC.

By: /S/ Zackary S. Irani

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Zackary S. Irani

Chief Executive Officer