

BIOMERICA INC  
Form 10-Q  
January 14, 2013

**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 NOVEMBER 30, 2012

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)

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

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

**92614**  
(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 Stock, 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: 6,972,339 shares of common stock, par value \$0.08, as of January 14, 2013.



BIOMERICA, INC.  
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**PART I - FINANCIAL INFORMATION****SUMMARIZED FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS**

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

	Six Months Ended		Three Months Ended	
	November 30,		November 30,	
	2012	2011	2012	2011
Net sales	\$ 3,585,719	\$ 3,024,271	\$ 1,883,771	\$ 1,616,606
Cost of sales	(2,084,259)	(1,840,446)	(1,114,560)	(949,202)
Gross profit	1,501,460	1,183,825	769,211	667,404
Operating Expenses:				
Selling, general and administrative	738,094	701,351	405,968	387,767
Research and development	203,722	171,487	115,741	85,551
Total operating expenses	941,816	872,838	521,709	473,318
Income from operations	559,644	310,987	247,502	194,086
Other Income (Expense):				
Dividend and interest income	2,243	2,780	1,127	1,316
Interest expense	(308)	(943)	-	(370)
Other Income	-	60	-	60
Total other income	1,935	1,897	1,127	1,006
Income before income tax	561,579	312,884	248,629	195,092
Provision for income taxes	(33,029)	-	(11,710)	-
Net income	\$ 528,550	\$ 312,884	\$ 236,919	\$ 195,092
Basic net income per common share	\$ 0.08	\$ 0.05	\$ 0.03	\$ 0.03
Diluted net income per common share	\$ 0.07	\$ 0.05	\$ 0.03	\$ 0.03
Weighted average number of common and common equivalent shares:				
Basic	6,959,224	6,868,339	6,966,185	6,868,339
Diluted	7,282,202	6,908,380	7,385,139	6,920,296
Net income	\$ 528,550	\$ 312,884	\$ 236,919	\$ 195,092
Other comprehensive loss, net of tax:				
Foreign currency translation	(554)	(1,623)	(473)	(1,183)
Comprehensive income	\$ 527,996	\$ 311,261	\$ 236,446	\$ 193,909

The accompanying notes are an integral part of these statements.



**BIOMERICA, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

	November 30, 2012 (unaudited)	May 31, 2012 (audited)
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 1,194,369	\$ 1,077,342
Accounts receivable, less allowance for doubtful accounts of \$117,401 and \$113,191 as of November 30, 2012 and May 31, 2012, respectively	1,509,664	1,200,516
Inventories, net	1,800,104	1,821,072
Prepaid expenses and other	161,287	210,700
Deferred tax assets, current portion	177,000	177,000
Total current assets	4,842,424	4,486,630
Property and Equipment, net of accumulated depreciation and amortization of \$937,947 and \$712,176 as of November 30, 2012 and May 31, 2012, respectively	733,977	584,824
Deferred Tax Assets, net of current portion	61,000	61,000
Investments	165,324	165,324
Intangible Assets, net	177,024	194,583
Other Assets	78,561	78,561
Total Assets	\$ 6,058,310	\$ 5,570,922
<b>Liabilities and Shareholders' Equity</b>		
<b>Current Liabilities:</b>		
Accounts payable and accrued expenses	\$ 333,222	\$ 362,447
Accrued compensation	212,459	186,841
Line of credit	-	43,000
Total Current Liabilities	545,681	592,288
Commitments and Contingencies (Note 5)		
<b>Shareholders' Equity:</b>		
Preferred stock, no par value authorized 5,000,000 shares, none issued and none outstanding at November 30, 2012 and May 31, 2012	-	-
Common stock, \$0.08 par value authorized 25,000,000 shares, issued and outstanding 6,972,339 and 6,952,339 at November 30 and May 31, 2012, respectively	557,786	556,186
Additional paid-in capital	17,742,206	17,737,807
Accumulated other comprehensive loss	(6,584)	(6,030)
Accumulated deficit	(12,780,779)	(13,309,329)
Total Shareholders' Equity	5,512,629	4,978,634
Total Liabilities and Shareholders' Equity	\$ 6,058,310	\$ 5,570,922

The accompanying notes are an integral part of these statements.





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

	Six Months Ended November 30,	
	2012	2011
Cash flows from operating activities:		
Net income	\$ 528,550	\$ 312,884
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	110,822	86,671
Stock option expense	-	11,032
Change in provision for losses on accounts receivable	4,210	32,979
Inventory reserve	2,047	2,495
Increase (decrease) in deferred rent liability	(1,764)	1,554
<b>Changes in assets and liabilities:</b>		
Accounts receivable	(313,358)	(418,116)
Inventories	18,921	113,766
Prepaid expenses and other assets	49,413	113,820
Accounts payable and other accrued expenses	(27,461)	(187,027)
Accrued compensation	25,618	6,232
Net cash provided by operating activities	396,998	76,290
<b>Cash flows from investing activities:</b>		
Increase in intangibles	-	(25,000)
Purchases of property and equipment	(242,416)	(49,321)
Net cash used in investing activities	(242,416)	(74,321)
<b>Cash flows from financing activities:</b>		
Proceeds from exercise of stock options	5,999	-
Payments on line of credit or equipment loan	(43,000)	(23,648)
Net cash used in financing activities	(37,001)	(23,648)
Effect of exchange rate changes in cash	(554)	(1,623)
Net increase (decrease) in cash and cash equivalents	117,027	(23,302)
Cash and cash equivalents at beginning of period	1,077,342	989,270
Cash and cash equivalents at end of period	\$ 1,194,369	\$ 965,968
<b>Supplemental Disclosure of Cash-Flow Information:</b>		
Cash paid during year for:		
Interest	\$ 307	\$ 899
Income taxes	\$ 108,160	\$ -

The accompanying notes are an integral part of these statements.

BIOMERICA, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

**Note 1: Basis of Presentation**

The information set forth in these condensed consolidated statements is unaudited and reflects all adjustments which, in the opinion of management, are necessary to present a fair statement of the consolidated results of operations of Biomerica, Inc. and subsidiaries (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 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 condensed consolidated balance sheet data as of May 31, 2012 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) on August 29, 2012 for the fiscal year ended May 31, 2012. 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. 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.

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 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 accounts receivables balances relative to the total gross accounts receivables. One such foreign customer placed a large order at the end of November 2012, had a balance that comprised 62.9% of the gross receivables balance. This same foreign customer accounted for 54.3% and 53.5% of the Company's net sales for the three and six months ended November 30, 2012. 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 a combination of specific lot identification and the first-in, first-out methods) 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 the allocation of fixed production overhead is based on the normal capacity of the Company's production facilities.

The balances of inventories are the following at:

	November 30, 2012	May 31, 2012
Raw materials	\$ 913,267	\$ 896,488

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Work in progress	571,488	553,236
Finished products	315,349	371,348
Total	\$ 1,800,104	\$ 1,821,072

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### 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 is 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. Depreciation and amortization expense on property and equipment and leasehold improvements amounted to \$65,435 and \$43,622 for the three months ended November 30, 2012 and 2011, and \$93,263 and \$71,195 for the six months ended November 30, 2012 and 2011, respectively.

### 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 – Goodwill and Other*” (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, 10 years for purchased technology use rights, licenses, and 17 years for patents. Amortization amounted to \$8,779 and \$8,363 for the three months ended November 30, 2012 and 2011, respectively, and \$17,559 and \$15,476 for the six months ended November 30, 2012 and 2011, 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 forfeiture rate, 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 forfeiture rate is based on historical forfeitures experienced. 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.

The following summary presents the options and warrants granted, exercised, expired, cancelled and outstanding as of November 30, 2012:

	Number of Options and Warrants			Weighted Average Exercise Price
	Employee	Non-employee	Total	
Outstanding May 31, 2012	1,004,500	--	1,004,500	\$ 0.46
Granted	30,000	--	30,000	0.67
Exercised	(20,000)	--	(20,000)	0.30
Cancelled or expired	(11,000)	--	(11,000)	0.41
Outstanding November 30, 2012	1,003,500	--	1,003,500	\$ 0.47

### 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.

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### 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. The Company's annual effective tax rate is approximately 38%, however, due the federal net operating loss carry forwards, the effective tax rate for the three and six months ended November 30, 2012 was 6%.

### 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 loss.



Deferred Rent

Incentive payments received from landlords are recorded as deferred lease incentives and are amortized over the underlying lease term on a straight-line basis as a reduction of rent expense. When the terms of an operating lease provide for periods of free rent, rent concessions, and/or rent escalations, the Company establishes a deferred rent liability for the difference between the scheduled rent payment and the straight-line rent expense recognized. This deferred rent liability is amortized over the underlying lease term on a straight-line basis as a reduction of rent expense.

Net Income Per Share

Basic earnings per share are computed as net income divided by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect 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, 2011 was 510,250 and 621,250, respectively. There were no anti-dilutive warrants or options excluded from the earnings per share calculation for the three and six months ended November 30, 2012.

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 Ended November 30,		Three Months Ended November 30,	
	2012	2011	2012	2011
Numerator:				
Income from continuing operations	\$ 528,550	\$ 312,884	\$ 236,919	\$ 195,092
Denominator for basic net income per common share	6,959,224	6,868,339	6,966,185	6,868,339
Effect of dilutive securities:				
Options and warrants	322,978	40,041	418,954	51,957
Denominator for diluted net income per common share	7,282,202	6,908,380	7,385,139	6,920,296
Basic net income per common share	\$ 0.08	\$ 0.05	\$ 0.03	\$ 0.03
Diluted net income per common share	\$ 0.07	\$ 0.05	\$ 0.03	\$ 0.03

**Note 3: Accounts Payable and Accrued Expenses**

The Company's accounts payable and accrued expense balances consist of the following at:

	November 30, 2012	May 31, 2012
Accounts payable	\$ 225,984	\$ 187,618
Accrued expenses	34,147	40,036
Deferred rent	73,091	74,855
Income taxes payable	--	59,938
Total	\$ 333,222	\$ 362,447

**Note 4: Geographic Information**

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

	Six Months Ended November 30,		Three Months Ended November 30,	
	2012	2011	2012	2011
Revenues from sales to unaffiliated customers:				
United States	\$ 437,000	\$ 527,000	\$ 157,000	\$ 340,000
Asia	1,944,000	1,287,000	1,042,000	657,000
Europe	1,183,000	1,184,000	675,000	602,000
South America	2,000	1,000	2,000	--
Middle East	18,000	10,000	7,000	6,000
Other	2,000	15,000	1,000	12,000
	\$ 3,586,000	\$ 3,024,000	\$ 1,884,000	\$ 1,617,000

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 of \$400,000. The line is secured by substantially all of the Company's assets, bears interest at 1.0% plus the Wall Street Journal Prime West Coast Edition prime rate and expires February 24, 2013. The balance at November 30, 2012 and May 31, 2012 was \$0 and \$43,000, respectively.

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. The rent is currently set at \$20,204 per month.

## **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.

### **RESULTS OF OPERATIONS**

Consolidated net sales for Biomerica were \$1,883,771 for the three months ended November 30, 2012 as compared to \$1,616,606 for the same period in the previous year. This represents an increase of \$267,165 or 16.5%. For the six month period ended November 30, 2012 as compared to 2011, net sales were \$3,585,719 as compared to \$3,024,271. This represents an increase of \$561,448, or 18.6%. The increase for both periods was primarily due to the increase of

sales in Asia.

For the three months ended November 30, 2012 as compared to November 30, 2011, cost of sales increased as a percentage of sales from 58.7% of sales or \$949,202, to 59.2% of sales or \$1,114,560. This increase in cost of sales as a percentage was the result of certain inventory items being purchased rather than manufactured, which resulted in higher costs being allocated to the cost of sales. For the six months ended November 30, 2012 as compared to 2011, cost of sales decreased as a percentage of sales from 60.9% of sales or \$1,840,446, to 58.1% of sales or \$2,084,259. This decrease in cost of sales as a percentage was a result of increased sales and decreases in per unit costs resulting from an increase in production of goods with fixed expenses associated with those products.



For the three months ended November 30, 2012 compared to 2011, selling, general and administrative costs increased by \$18,201, or 4.7%. The increase was mainly due to a non-recurring expense for restructuring of the Mexican facility, which was offset by reductions in bad debt and stock compensation expenses. For the six month period ended November 30, 2012 as compared to 2011, these expenses increased by \$36,743, or 5.2%. The overall increase in selling, general and administrative costs was due to higher cost of trade show attendance and product promotion and Mexico facility restructuring in the second quarter of 2012 reduced by the cost reductions in the second quarter noted above.

For the three months ended November 30, 2012 compared to 2011, research and development expenses increased by \$30,190, or 35.3%. For the six month period ended November 30, 2012 as compared to 2011, these expenses increased by \$32,235, or 18.9%. The increases were primarily due to materials purchased to be used in development and refining of certain products and the addition of personnel in the research and development department.

For the three months ended November 30, 2012 as compared to November 30, 2011, dividend and interest income and interest expense remained relatively constant.

## **LIQUIDITY AND CAPITAL RESOURCES**

As of November 30, 2012 and May 31, 2012, the Company had cash and cash equivalents in the amount of \$1,194,369 and \$1,077,342 and working capital of \$4,296,743 and \$3,894,342, respectively.

During the six months ended November 30, 2012 the Company's operations generated cash of \$396,998 compared to \$76,290 in the same period of the prior fiscal year. Cash provided by operations in fiscal 2013 was a result of net income of \$528,550, utilization of prior prepaid balances in the amount of \$49,413, usage of \$18,921 of inventory, and delayed payout of compensation of \$25,618. This was offset by an increased balance in accounts receivable of \$313,358 and pay downs of accounts payable in the amount of \$27,461. In addition to this there were non-cash charges of approximately \$115,000 of which most was depreciation expense. Cash used in investing activities in the three months ended November 30, 2012 was \$242,416 compared to the six months ended November 30, 2011 of \$74,321. The increase was due to \$242,416 in equipment that was purchased, primarily to automate certain production functions. Cash used in financing activities in the six months ended November 30, 2012 was \$37,001 as compared to \$23,648 in the six months ended November 30, 2011. The Company paid off its line of credit, which it had borrowed for short-term working capital, in the amount of \$43,000 and received proceeds of \$5,999 for the exercise of stock options.

On June 10, 2011, the Company renewed the line of credit (the "Line") with its bank which has a borrowing limit of \$400,000. The line is secured by substantially all of the Company's assets, bears interest at 1.0% plus the Wall Street Journal Prime West Coast Edition prime rate and expires February 24, 2013. The balance at November 30, 2012 and May 31, 2012 was \$0 and \$43,000, respectively.

**OFF BALANCE SHEET ARRANGEMENTS** - None.

### **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. RISKS 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 recent history 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 effect on our revenues and profitability; possible costs or difficulty 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 distributors, which have been increasing, 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; high balances carried on accounts receivables from concentrated customers; and the costs of recalls, should such occasion arise. 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. MINE SAFETY DISCLOSURES.** None.

**Item 5. OTHER INFORMATION.**

We held our Annual Meeting of Stockholders on December 11, 2012, to consider and vote on the matters listed below. The proposals are described in detail in the Proxy Statement filed with the Securities and Exchange Commission on September 28, 2012. The final voting results from the meeting are set forth below.

**Proposal 1: Election of Directors**

Based on the following votes, the individuals named below were each elected to serve as our directors until our next Annual Meeting of Stockholders.

Name	Votes For	Votes Withheld
Zackary Irani	2,758,810	52,467
Janet Moore	2,762,703	48,574
Allen Barbieri	2,762,703	48,574
Dr. Francis Cano	2,759,703	51,574
Dr. Jane Emerson	2,762,703	48,574

**Proposal 2: Ratification of Selection of Independent Auditors**

Based on the following votes, the selection of PKF as our independent registered public accounting firm for the 2013 fiscal year was ratified.

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Votes For	Votes Against	Abstentions	Broker Non-Votes
5,458,271	58,841	143,389	0

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**Item 6. EXHIBITS.**

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

Exhibit No.	Description
31.1*	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act — Zackary S. Irani
31.2*	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act — Janet Moore
32.1*	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act — Zackary S. Irani
32.2*	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act — Janet Moore
101	Interactive data files pursuant to Rule 405 Regulation S-T, as follows:
101	INS-XBRL Instance Document
101	SCH-XBRL Taxonomy Extension Schema Document
101	CAL-XBRL Taxonomy Extension Calculation Linkbase Document
101	DEF-XBRL Taxonomy Extension Definition Linkbase Document
101	LAB-XBRL Taxonomy Extension Label Linkbase Document
101	PRE-XBRL Taxonomy Extension Presentation Linkbase Document

\* Filed 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, 2013

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

Date: January 14, 2013

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