BIOMERICA INC
Form 10-Q
January 19, 2010

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED NOVEMBER 30, 2009

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, Newport Beach, 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.

Yes [X] No [_]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Date 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	[X]

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

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 January 19, 2010.

BIOMERICA, INC.

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

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

	Six Months Ended November 30, 2009	2008
Net sales	$ 2,248,401	$ 2,314,920
Cost of sales	1,655,447	1,448,977
Gross profit	592,954	865,943
Operating Expenses:		
Selling, general and administrative	711,119	709,495
Research and development	183,315	116,460
	894,434	825,955
Operating (loss) income	(301,480)	39,988
Other Expense (income):		
Interest income	(9,457)	(18,999)
Interest expense	7,109	17,454
Other income, net	(1,360)	--
	(3,708)	(1,545)
(Loss) income before income taxes	(297,772)	41,533
Income tax expense (benefit)	--	3,737
Net (loss) income	(297,772)	37,796

Other comprehensive gain, net of tax		
Unrealized comprehensive (loss) gain	--	(1,212)
Foreign currency translation	(745)	--
Comprehensive (loss) income	$ (298,517)	$ 36,584
Basic net (loss) income per common share	$ (0.04)	$ .01
Diluted net (loss) income per common share	$ (0.04)	$ .01
Weighted average number of common and common equivalent shares:		
Basic	6,632,830	6,607,745
Diluted	6,632,830	7,005,903

The accompanying notes are an integral part of these statements.

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BIOMERICA, INC.
CONSOLIDATED BALANCE SHEET

	November 30, 2009 (unaudited)
Assets	
Current Assets	
Cash and cash equivalents	$1,403,397
Short-term investment	--
Accounts receivable, less allowance for doubtful accounts of $72,251 & $86,432, respectively	539,127
Inventories, net	1,948,234
Prepaid expenses and other	107,142
Deferred tax asset - short-term	--
Total Current Assets	3,997,900
Property and Equipment, net of accumulated depreciation and amortization	565,787
Deferred Tax Asset - Long-term	238,000
Other Assets	73,978
Intangible Assets	34,443
	$4,910,108

The accompanying notes are an integral part of these statements.

BIOMERICA, INC.
CONSOLIDATED BALANCE SHEET - Continued

	November 30, 2009 (unaudited)	May 20 (aud
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	$ 345,143	$
Accrued compensation	344,710	
Equipment loan - short-term portion	43,604	
Total Current Liabilities	733,457	
Loan for equipment purchase - long-term portion	58,424	
Deferred rent liability	40,250	
Shareholders' Equity		
Preferred stock no par value authorized 5,000,000 shares, none issued and none outstanding at November 30, 2009 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 November 30, 2009 and May 31, 2009 respectively	532,867	
Additional paid-in-capital	17,529,109	17,
Accumulated other comprehensive loss	(2,471)	
Accumulated deficit	(13,981,528)	(13,
Total Shareholders' Equity	4,077,977	4,
Total Liabilities and Equity	$ 4,910,108	$ 5,

The accompanying notes are an integral part of these statements.

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

For the six months ended November 30,	2009	200
Cash flows from operating activities:		

Net (loss) income	$ (297,772)	$ 37
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	51,073	42
Stock option expense	18,674	18
Inventory reserve	(60,291)	40
Provision for losses on accounts receivable	(14,181)	5
Changes in current assets and liabilities:		
Accounts receivable	115,722	33
Inventories	111,520	(269
Prepaid expenses and other current assets	179	40
Accounts payable and other accrued liabilities	81,145	5
Accrued compensation	(72,597)	(39
Deferred rent liability	40,250	
Net cash used in operating activities	(26,278)	(84
Cash flows from investing activities:		
Increase in intangible assets	(4,443)	
Maturity of short term investment	100,000	
Purchases of property and equipment	(250,041)	(60
Net cash used in investing activities	(154,484)	(60
Cash flows from financing activities:		
Repayment of shareholder loan	--	(95
Proceeds from sale of common stock	--	(3
Proceeds from exercise of warrants & stock options	9,834	36
Payments on capital lease	--	(2
Payments on loan for equipment purchase	(20,753)	(23
Net cash used in financing activities	(10,919)	(88
Effect of exchange rate changes on cash	(745)	(1
Net decrease in cash and cash equivalents	(192,426)	(234
Cash and cash equivalents at beginning of period	1,595,823	2,022
Cash and cash equivalents at end of period	$ 1,403,397	$ 1,787
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest	$ 7,109	$ 17
Income taxes	$ --	$ 105
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. We have identified specific customers where collection is not probable and have established specific reserves, but to the extent collection is made, the allowance will be released. Additionally, if the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

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

The following table summarizes the Company's investment in a certificate of deposit that is classified under short term investments, and is carried at fair market value on the balance sheet at November 30, 2009 and May 31, 2009.

Fair Value Measurements at Reporting Date U

Description	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	$ --	$

Description	November 30, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	U
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.

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 valuation allowance against deferred tax assets, as we did not believe it was likely that we would generate sufficient taxable income in future periods to realize the benefit of our deferred tax assets. Although the Company has achieved net income over the last four fiscal years, predicting future taxable income is difficult, and requires the use of significant judgment. Management re-evaluated its deferred tax asset at November 30, 2009 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 income from freight for the six months ended November 30, 2009 and 2008, respectively, was $47,239 and $53,179 and for the quarters then ended was $22,951 and $28,307, 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 six months ended November 30, 2009 and 2008, the Company expensed $18,674 and $18,674, respectively, of stock option expense based on ASC 718 in its financial statements. For the three months ended November 30, 2009 and 2008, the Company expensed $15,393 and $15,391, 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 November 30, 2009:

	Number of Options and Warrants			Weighted Average Exercise
	Employee	Non-employee	Total	Pri
Outstanding May 31, 2009	1,516,508	158,166	1,674,674	$
Granted	--	--	--	
Exercised	(29,800)	--	(29,800)	
Cancelled or expired	(65,250)	(124,000)	(189,250)	
Outstanding November 30, 2009	1,421,458	34,166	1,455,624	$

(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.

(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:

	November 30, 2009	May 31, 2009
Raw materials	$ 661,000	$ 809,000
Work in progress	846,000	818,000
Finished products	546,000	537,000
Reserve for obsolete inventory	(105,000)	(165,000)
Total	$ 1,948,000	$ 1,999,000

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

(6) Earnings Per Share

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

The following table illustrates the required disclosure of the reconciliation of the numerators and denominators of the basic and diluted EPS computations. The following table excludes 73,117 options and warrants for the six months ended November 30, 2009; 30,355 options and warrants for the three months ended November 30, 2009 and 336,800 options and warrants for the quarter ended November 30, 2008 which were deemed antidilutive.

	Six Months Ended		Three Months Ended	
November 30,	2009	2008	2009	200
Numerator:				
Income from continuing operations	$ (297,772)	$ 37,796	$ (305,706)	$ (10
Numerator for basic and diluted net income per common share	$ (297,772)	$ 37,796	$ (305,706)	$ (10
Denominator for basic net income per common share	6,632,830	6,607,745	6,634,641	6,628
Effect of dilutive securities:				
Options and warrants	--	398,158	--	
Denominator for diluted net income per common share	6,632,830	7,005,903	6,634,641	6,628
Basic net income per common share	$ (0.04)	$ 0.01	$ (0.05)	$ (
Diluted net income per common share	$ (0.04)	$ 0.01	$ (0.05)	$ (

(7) Recent Accounting Pronouncements

In May, 2009 the FASB issued ASC 855, 'Subsequent Events'. This statement established general standards of accounting for disclosure of events that occur after the balance sheet date but before financial statement are issued or are available to be issued. It requires the disclosure date through which an entity has evaluated subsequent events and the basis for that date. This would alert all users of financial statements that an entity has not evaluated subsequent events after that in the set of financial statements being present. This statement is effective for interim and annual periods ending after June 15, 2009. The Company does not believe that the adoption of ASC 855 has had a material on its financial statements.

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 is as follows:

	For the Six Months Ended	
	11/30/09	11/30/08

Revenues from sales to unaffiliated customers:		
United States	$ 454,000	$ 394,000
Asia	547,000	496,000
Europe	1,196,000	1,340,000
South America	31,000	51,000
Middle East	17,000	22,000
Other	3,000	12,000
	$2,248,000	$2,315,000

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 November 30, 2009. The Company enters into indemnification provisions under (i) its agreements with other companies in its ordinary course of business, typically with business partners, contractors, and customers, landlords and (ii) its agreements with investors. Under these provisions the Company generally indemnifies and 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 November 30, 2009.

(10) One 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) Subsequent Events

The Company has analyzed its operations subsequent to November 30, 2009 through January 19, 2010, the date these financial statements were available for issuance.

On December 10, 2009, the Company held its annual meeting of shareholders. All directors nominated were elected. The stock option plan proposed by the board of directors was not approved by the shareholders.

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 $2,248,401 for the first six months of fiscal 2010 as compared to $2,314,920 for the same period in the previous year. This represents a decrease of $66,519, or 2.9%. For the quarter then ended net sales were $1,099,880 as compared to $1,120,575 for the same period in the previous year. This represents a decrease of $20,695, or 1.8%. The decrease in sales for the six months and quarter ended November 30, 2009 as compared to 2008 was a result of lower sales of the EZ Detect product and lower sales to one distributor in Europe.

For the six months ended November 30, 2009 as compared to 2008, cost of sales increased from $1,448,977, or 62.6% of sales, to $1,655,447, or 73.6% of sales. For the three month period then ended cost of sales increased from $787,761, or 70.3% of sales, to $883,363, or 80.3% of sales. The major factor that contributed to the increase in loss was the move of the Company's operation. The move also affected the cost of goods for this quarter. While product sales continued throughout the move phase, the normal level of production decreased temporarily at the end of the quarter, correspondingly this resulted in idle facility costs which were included within cost of sales. The decrease in production levels at the end of the quarter also resulted in less work in process and finished goods on hand at November 30, 2009, upon which labor and overhead are applied. Also included in cost of sales is approximately $19,000 of material cost for replacement of product that was replaced in December, 2009. Other factors that affected cost of sales included higher wages, inventory scrap and reserves, repairs and maintenance, CE mark expenses, lab supplies and fixed costs in relationship to sales and the product mix of sales.

For the six months ended November 30, 2009 compared to 2008, selling, general and administrative costs increased by $1,624, or 0.2%. For the three months then ended these expenses increased by $57,070, or 15.4%. Included in the six and three month expenses for fiscal 2010 were non-recurring moving expenses of approximately $84,000, which was offset by lower accounting, commissions and wages in fiscal 2009.

For the six months ended November 30, 2009 compared to 2008, research and development increased by $66,855, or 57.4% and for the three months increased by $25,562, or 36.8%. The increase for the six and three months was primarily due to higher materials, supplies, and other expenses related to the development of new products.

For the six months ended November 30, 2009, interest income decreased from $18,999 to $9,457 and for the three months then ended decreased from $6,977 to $3,869. The decrease was due to lower interest rates on a lower amount of cash investments. For the six months interest expense decrease from $17,454 to $7,109 and for the three months decreased from $7,783 to $3,676 due to lower interest rates on debt in addition to smaller balances owed.

LIQUIDITY AND CAPITAL RESOURCES

As of November 30, 2009, the Company had cash and current available-for-sale securities in the amount of $1,403,397 and working capital of $3,264,443.

During the six months ended November 30, 2009, the Company operations used cash in the amount of $26,278 as compared $84,472 in the same period in the prior fiscal year. Cash used in financing activities was $10,919 for the period ended November 2009 as compared to cash used by financing activities for the six months ended November 30, 2009 of $88,447. 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 $250,041 as compared to $60,033 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 occurrences result in unanticipated consequences, there could be a material impact on our future financial conditions or results of operations. We suggest that our significant accounting policies be read in conjunction with this Management's Discussion and Analysis of Financial Condition and Selected Financial Data.

Please refer to the annual report on Form 10-KSB 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.

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 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.

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 or exposure to our products; quarterly variations in operating resulted 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. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS. None.

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.

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: January 19, 2010

BIOMERICA, INC.

By: /S/ Zackary S. Irani

Zackary S. Irani
Chief Executive Officer