BIOMERICA INC
Form 10-Q
April 14, 2009

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 February 28, 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.)
1533 Monrovia Avenue, Newport Beach, California	92663
(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.)

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 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 issuer's classes of common stock, as of the latest practicable date: 6,631,039 shares of common stock as of April 14, 2009.

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)

	Nine Months Ended February 28, 2009	Nine Months Ended February 29, 2008
Net sales	$ 3,688,524	$ 3,608,408
Cost of sales	(2,148,364)	(2,023,022)
Gross profit	1,540,160	1,585,386
Operating Expenses:		
Selling, general and administrative	1,081,304	1,044,288
Research and development	204,767	200,932
	1,286,071	1,245,220
Operating gain from continuing operations	254,089	340,166
Other Expense (Income):		
Interest expense	22,418	38,288
Interest income	(22,589)	(26,990)
Other income	(34,540)	(697,125)
Other expense	28,365	--
	(6,346)	(685,827)
Income from operations before income taxes	260,435	1,025,993
Income tax (benefit) expense	(54,105)	13,405
Net income	314,540	1,012,588
Other comprehensive (loss) gain, net of tax:		
Unrealized comprehensive (loss) gain on available for sale securities and foreign currency translation adjustment	(1,168)	54,575
Comprehensive income	$ 313,372	$ 1,067,163
Basic net income per common share	$ .05	$ .17
Diluted net income per common share	$ .05	$ .14

	===========	===========
Weighted average number of common and common equivalent shares:		
Basic	6,631,039	6,061,285
	===========	===========
Diluted	6,778,294	7,129,887
	===========	===========

The accompanying notes are an integral part of these statements.

BIOMERICA, INC.
CONSOLIDATED BALANCE SHEET

	February 28, 2009 (unaudited)	Ma 2 (au
Assets		
Current Assets		
Cash and cash equivalents	$1,529,073	$2,
Short-term investment	100,000	
Available for-sale securities	615	
Accounts receivable, less allowance for doubtful accounts of $43,342 & $84,206, respectively	829,798	
Inventories, net	2,081,945	1,
Prepaid expenses and other	122,790	
Deferred tax asset	35,000	
Total Current Assets	4,699,221	4,
Property and Equipment, net of accumulated depreciation and amortization .	380,864	
Deferred Tax Asset	135,000	
Other Assets	58,486	
	$5,273,571	$5,
	==========	===

The accompanying notes are an integral part of these statements.

BIOMERICA, INC.
CONSOLIDATED BALANCE SHEET - Continued

	February 28, 2009 (unaudited)	May 31, 2008 (audited

Liabilities and Shareholders' Equity

Current Liabilities

Accounts payable and accrued liabilities	$ 402,279	$ 473,
Accrued compensation	475,673	487,
Shareholder loan	--	95,
Capital lease - short-term portion	435	4,
Equipment loan - short-term portion	41,314	48,
Line of credit	2,175	
Total Current Liabilities	921,876	1,109,
Equipment loan - long-term portion	90,299	114,
Shareholders' Equity		
Common stock, $0.08 par value authorized 25,000,000 shares, issued and outstanding 6,631,039 and 6,489,839 in February 28, 2009 and May 31, 2008 respectively	530,482	519,
Additional paid-in-capital	17,462,876	17,407,
Accumulated other comprehensive loss	(8,566)	(7,
Common stock subscribed	--	3,
Accumulated deficit	(13,723,396)	(14,037,
Total Shareholders' Equity	$ 4,261,396	$ 3,883,
Total Liabilities and Equity	$ 5,273,571	$ 5,107,

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, 2009	Feb
Cash flows from operating activities:		
Net income	$ 314,540	$ 1
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	65,055	
Common stock, warrants and options issued for services rendered ...	30,690	
Provision for losses on accounts receivable	17,136	
Changes in current assets and liabilities:		
Accounts Receivable	(232,604)	
Inventories	(317,743)	
Prepaid expenses and other current assets	(14,412)	
Accounts payable and other accrued liabilities	(71,260)	
Accrued compensation	(11,442)	
Net cash (used in) provided by operating activities	(220,040)	

Cash flows from investing activities:		
Investment in certificate of deposit	(100,000)	
Purchases of property and equipment	(76,339)	
Net cash used in investing activities	(176,339)	
Cash flows from financing activities:		
Repayment of shareholder loan	(95,936)	
Proceeds from exercise of warrants & stock options	36,386	
Payments on capital lease	(3,745)	
Borrowings on loan for equipment purchase	--	
Payments on loan for equipment purchase	(31,380)	
Payment of common stock subscribed	(3,000)	
Borrowings on line of credit	2,175	
Net cash (used in) provided by financing activities	(95,500)	
Effect of exchange rate changes on cash	(1,428)	
Net (decrease) increase in cash and cash equivalents	(493,307)	
Cash and cash equivalents at beginning of period	2,022,380	
Cash and cash equivalents at end of period	$ 1,529,073	$
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest	$ 22,558	$
Income taxes	$ 122,500	$
Supplemental Disclosure on non-cash investing & financing activity:		
Change in unrealized holding gain on available-for-sale securities	$ 260	$

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

February 28, 2009

(1) Reference is made to Note 2 of the Notes to Consolidated Financial Statements contained in Biomerica, Inc.'s (the "Company") Annual Report on Form 10-KSB for the fiscal year ended May 31, 2008, for a Summary of significant accounting policies utilized by the Company.

(2) In December 2004, the Financial Accounting Standards Board ("FASB") Issued Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS No. 123R). SFAS No. 123R 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. SFAS No. 123R 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, 2009 and February 29, 2008, the Company expensed $30,690 and $14,837, respectively, of stock option expense due to SFAS 123(R) in its financial statements.

(3) The following summary presents the options granted, exercised, expired, cancelled and outstanding as of February 28, 2009:

	Number of Options and Warrants			Weighted Average Exercise Price
	Employee	Non-employee	Total	
Outstanding May 31, 2008	1,346,958	155,166	1,502,124	$ 0.76
Granted	268,500	--	268,500	0.56
Exercised	(129,200)	--	(129,200)	0.26
Cancelled or expired	(32,000)	--	(32,000)	0.75
Outstanding February 28, 2009	1,454,258	155,166	1,609,424	$ 0.77

(4) The information set forth in these condensed consolidated statements is unaudited. 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.

(5) 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, 2008 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-KSB filed with the Securities and Exchange Commission (SEC) for the fiscal year ended May 31, 2008.

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(6) Aggregate cost exceeded market value of available-for-sale securities by $7,040 and $7,398 at February 28, 2009 and May 31, 2008, respectively.

(7) Inventories are stated at the lower of cost (first-in, first-out method) or market and consist primarily of biological chemicals. 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, 2009	May 31, 2008
Raw materials	$ 819,835	$ 687,959
Work in progress	491,713	570,011
Finished products	838,318	506,232
Reserve for obsolete inventory	(67,921)	--
Total	$ 2,081,945	$ 1,764,202

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.

(8) 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.

	Nine Months Ended		Three Months Ended	
	February 28, 2009	February 29, 2008	February 28, 2009	February 2008
Numerator:				
Income from continuing operations	$ 314,540	$ 1,012,588	$ 276,744	$ 123,
Numerator for basic and diluted net income per common share	$ 314,540	$ 1,012,588	$ 276,744	$ 123,
Denominator for basic net income				

per common share	6,631,039	6,061,285	6,615,453	6,173,
Effect of dilutive securities:				
Options and warrants	147,255	1,068,602	402,158	1,040,
Denominator for diluted net income per common share	6,778,294	7,129,887	7,017,611	7,213,
Basic net income per common share	$ .05	$ .17	$ .04	$
Diluted net income per common share	$ .05	$ .14	$ .04	$

(9) In December 2007, the FASB issued SFAS No. 141R, Business Combinations. SFAS 141R establishes a defined measurement period that governs the time period within which the business combination must be reported. In addition, the revised standard significantly expands the scope of disclosure requirements. SFAS No. 141R is effective for annual periods beginning after December 15, 2008. The Company does not believe that the adoption of SFAS No. 141R will have a material impact on its financial statements.

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In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interest in Consolidated Financial Statements--an amendment of ARB No. 51. This statement applies to all entities that prepare consolidated financial statements, except for non-profit organizations, but will affect only those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. SFAS No. 160 was effective for annual periods beginning after December 15, 2008. The Company does not believe that the adoption of SFAS No. 160 will have an impact on its financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities-an Amendment of FASB Statement No. 133. This Statement requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS No. 161 was effective for financial statements issue years and interim periods beginning after November 15, 2008. The Company does not believe that the adoption of SFAS No. 161 has had an impact on its financial statements.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles. This Statement is intended to improve financial reporting By identifying a consistent framework, or hierarchy, for selecting accounting Principles to be used in preparing financial statements that are presented in Conformity with U.S. generally accepted accounting principles for nongovernmental Agencies. Statement 162 is effective 60 days following the SEC's approval of The Public Company Accounting Oversight Board Auditing amendments to AU Section 411, The Meaning of "Present Fairly in Conformity with Generally Accepted Accounting Principles". The Company does not believe that Statement 162 will have a material effect on its financial statements.

In May 2008, the FASB issued SFAS No. 163, Accounting for Financial Guarantee Insurance Contracts. The new standard clarifies how FASB Statement No. 60, Accounting and Reporting by Insurance Enterprises, applies to financial guarantee insurance contracts issued by insurance enterprises. The Statement was effective for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years. The Company does not believe that the adoption of SFAS No. 163 will have an impact on its financial statements.

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

	For the Nine Months Ended 2/28/09	2/29/08
Revenues from sales to unaffiliated customers:		
United States	$ 807,000	$ 945,000
Asia	739,000	614,000
Europe	2,032,000	1,934,000
South America	73,000	51,000
Oceania	--	1,000
Other	38,000	63,000
	$3,689,000	$3,608,000

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

(11) In July 2007 the Board of Directors granted a stock option for 25,000 options to a new Company director. The options vested one half immediately and then one quarter per year thereafter. The option is at the exercise price of $.78 per share and expires in five years. Management assigned a value of $11,343 to this option.

In November 2007 the Board of Directors granted stock options for 16,000 options to employees of the Company. The options vested one quarter immediately and then will vest one quarter per year thereafter. The options are at the exercise price of $1.30 and expire in five years. Management assigned a value of $12,589 to these options.

During the year ended May 31, 2008, 557,625 options and warrants to purchase Biomerica, Inc., common stock were exercised. The options and warrants were at prices ranging from $0.20 to $0.73. The total proceeds to the Company were $162,386.

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In October 2008 the Board of Directors granted stock options for 100,000 options to the outside directors of the Company. The options vested one quarter immediately and then will vest one quarter per year thereafter. The options are at the exercise price of $.75 and expire in ten years. Management assigned a value of $58,834 to these options.

In January 2009 the Board of Directors granted stock options for 168,500 options to various employees of the Company. The options vested one quarter immediately and then will vest one quarter per year thereafter. The options are at the exercise price of $.45 and expire in five years. Management assigned a value of $38,270 to these options.

During the nine months ended February 28, 2009, 129,200 options and warrants to purchase Biomerica, Inc., common stock were exercised. The options and warrants were at prices ranging from $.25 to $.40. Total proceeds to the Company were $36,386.

Options or 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 cancellation, 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 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 SFAS 123R 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.

(12) In July 2008, the Company paid off the principal and interest balance owed on the shareholder note payable.

(13) The Company is actively looking to relocate facilities and as such may incur additional costs to restore the current facilities to its original condition. This amount has not been recognized within the interim financial statements as of February 28, 2009 due to the inability to reasonably estimate the fair value of such costs.

(14) 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 officer 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, 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 hold 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 amount of future payments the Company could be required to make under these indemnification provisions is 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, 2009.

(15) In June 2008 the Company incorporated in Mexico under the name of Biomerica

de Mexico for the purpose of establishing its own mequiladora operation in Mexico at some time in the future.

(16) In November 2008 the Company incorporated under the name of Biomerica Europe GmbH in Germany for the purpose of operating and distributing some of its products from that location in the future.

(17) Foreign Currency Translation

Assets and liabilities of the Company's newly created international operations are translated at period-end exchange rates. Income and expenses are translated at average exchange rates prevailing during the year. For operations whose functional currency is the local currency, translation adjustments are recorded in the accumulated other comprehensive loss component of shareholder's equity. During the nine months ended February 28, 2009 the Company recorded $1,428 of translation adjustments.

(18) On December 2, 2008 the Company signed an agreement to perform custom manufacturing for a large diagnostics company in the amount of $25,000. One-half of the fee was due to Biomerica thirty days after signing the agreement and is included within other accrued liabilities as the revenue process is not yet complete. The remaining $12,500 balance is due upon completion of the project.

(19) On February 13, 2009, the Company entered into a Small Business Banking Agreement with Union Bank of California for a one year business line (the "Line") of credit in the amount of $400,000. The interest rate for the line of credit is the prime rate in effect on the first day of the billing period, as published in the Wall Street Journal Prime West Coast Edition, plus a spread of 1.00%. Minimum monthly payments will be the sum of (i) the amount of interest charge for the billing period, plus (ii) any amount past due, plus (iii) any fees, late charges and/or out-of-pocket expenses assessed. If the Line is not renewed as of the last day of the term of the Line, the entire unpaid balance of the Line, including unpaid fees and charges will be due and payable.

Fees associated with establishing the Line were $2,175 and these fees have been charged to the Line. The Company has granted the bank security interest in the assets of the Company as collateral.

The Company must maintain for not less than thirty consecutive days in every calendar year, a period in which all amounts due under the revolving credit agreements with the Bank are at a zero balance.

On February 13, 2009, the Company entered into a Small Business Bank Agreement for a Business Loan for $133,000. Loan proceeds were disbursed in one single funding on March 5, 2009. The loan was used for the purpose of paying off the business loan, which had been established with Commercial Bank, for the purpose of financing a significant fixed asset purchase. The fixed asset serves as collateral for the loan.

The loan is payable in thirty-six monthly payments of $4,082.54. The interest rate is 6.50% and the payments are to be made by automatic deduction from the Company's Union Bank account. Initial fees for the loan were $740.

(20) Subsequent Events

On March 30, 2009 the Board of Directors granted stock options for 110,000 options to certain officers and/or directors. The options vested one quarter immediately and then will vest one quarter per year thereafter. The options are at the exercise price of $.60 and expire in five years. Management assigned a value of $35,938 to these options.

On March 27, 2009 the Company signed an Asset Purchase Agreement with a European company for the purchase of certain technology related to the manufacture of certain medical diagnostic tests. Consideration for this purchase was a nominal deposit upon signing the agreement and a nominal transfer fee upon successful commencement of production of the products. A royalty shall be paid for five years beginning on the date of first sale of finished product derived from the Purchased Assets.

On April 7 2009, the Company received CE approval for our kidney disease self-test (urinary microalbumin).

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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 $3,688,524 for the first nine months of fiscal 2009 as compared to $3,608,408 for the same period in the previous year. This represents an increase of $80,116, or 2.2%. For the quarter then ended net sales were $1,373,604 as compared to $1,240,809 for the same period in the previous year. This represents an increase of $132,795, or 10.7%. The increase in sales for the quarter ended February 28, 2009 as compared to February 29, 2008 was a result of increased sales to foreign distributors.

For the nine months ended February 28, 2009 as compared to February 29, 2008, cost of sales increased from $2,023,022, or 56.1% of sales, to $2,148,364, or 58.2% of sales. For the three month period then ended cost of sales decreased from $747,690, or 60.3% of sales, to $699,387, or 50.9% of sales. The increase for the nine months was attributable to a variety of factors which included higher wages and royalties as compared to the prior fiscal year. The decrease for the three months was a result of various factors, including the sale of higher margin products in the third quarter of fiscal 2009 and a larger amount of labor and overhead being capitalized into inventory. Capitalization of labor and overhead can vary from quarter to quarter, as the allocation is based on a rolling average of the value of materials used in production which vary based on product mix and direct labor which typically remains constant over a six month time frame.

For the nine months ended February 28, 2009 compared to February 29, 2008, selling, general and administrative costs increased by $37,016, or 3.5%.

For the three months then ended these expenses increased by $69,441, or 23.0%. These increases were a result of a variety of factors which included higher commissions, Sarbanes-Oxley consulting, trade show expense, wages, option expense and startup costs for Biomerica Europe GmbH.

For the nine months ended February 28, 2009 compared to February 29, 2008, research and development increased by $3,835, or 1.9% and for the three months increased by $15,565, or 21.4%. The increase for the nine and three months was primarily due to higher wages in fiscal 2009.

For the nine months ended February 28, 2009, other income of $34,540 was realized as compared to $697,125 in the prior year. For the three months then ended, other income of $34,534 was realized as compared to $10 expense in the prior fiscal year. The decrease for the nine months was a result of the non-recurring sale of a marketable security in fiscal 2008 that had been carried on the Company's books at a value of zero.

For the nine months interest expense decreased from $38,288 to $22,418. For the three months interest expense decreased from $12,438 to $4,964 as a result of lower interest rates and debt balances. For the nine months interest income decreased from $26,990 to $22,589 and for the three months interest income decreased from $7,446 to $3,596, primarily due to lower interest rates.

LIQUIDITY AND CAPITAL RESOURCES

As of February 28, 2009, the Company had cash and current available-for-sale securities in the amount of $1,529,688 and working capital of $3,777,345. During the quarter ending February 28, 2009, the Company invested in a Certificate of Deposit for $100,000, which is reflected on the balance sheet as a short-term investment.

On February 13, 2009, the Company entered into a Small Business Banking Agreement with Union Bank of California for a one year business line (the "Line") of credit in the amount of $400,000. The interest rate for the line of credit is the prime rate in effect on the first day of the billing period, as published in the Wall Street Journal Prime West Coast Edition, plus a spread of 1.00%. Minimum monthly payments will be the sum of (i) the amount of interest charge for the billing period, plus (ii) any amount past due, plus (iii) any fees, late charges and/or out-of-pocket expenses assessed. If the Line is not renewed as of the last day of the term of the Line, the entire unpaid balance of the Line, including unpaid fees and charges will be due and payable.

The Company must maintain for not less than thirty consecutive days in every calendar year, a period in which all amounts due under the revolving credit agreements with the Bank are at a zero balance.

On February 13, 2009, the Company entered into a Small Business Bank Agreement for a Business Loan for $133,000. Loan proceeds were disbursed in one single funding on March 5, 2009. The loan was used for the purpose of paying off the business loan, which had been established with Commercial Bank, for the purpose of financing a significant fixed asset purchase. The fixed asset serves as collateral for the loan.

During the nine months ended February 28, 2009, the Company operations used cash in the amount of $220,040 as compared to cash provided by operations in the amount of $365,595 in the same period in the prior fiscal year. Cash used in financing activities for the nine months ended February 28, 2009 was $95,500, primarily due to the repayment of the shareholder loan in the amount of $95,936 as compared to cash provided by financing activities of $166,618 in fiscal 2008, which was primarily due to $112,390 from the borrowings on the loan for equipment purchase and $96,545 from the exercise of stock options and warrants. Net cash used in investing activities during the nine months ended February 28, 2009 was $176,339 as compared to $226,828 in the same period in the prior fiscal year. Cash used in investing for fiscal 2008 related solely to the purchase of property and equipment, whereas, cash used in investing for the nine months ended February 28, 2009 related to investment within a certificate of deposit and purchases of property and equipment.

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial condition and results of operations are based on the consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. Note 2 of the Notes to Consolidated Financial Statements contained in the Company's annual report on Form 10KSB for the period ended May 31, 2008, describes the significant accounting policies essential to the consolidated financial statements. The preparation of these financial statements requires estimates and assumptions that affect the reported amounts and disclosures.

We believe the following to be critical accounting policies as they require more significant judgments and estimates used in the preparation of our consolidated financial statements. Although we believe that our judgments and estimates are appropriate and correct, actual future results may differ from our estimates.

In general the critical accounting policies that may require judgments or estimates relate specifically to the Allowance for Doubtful Accounts, Inventory Reserves for Obsolescence and Declines in Market Value, Impairment of Long-Lived Assets, Stock Based Compensation and Income Tax Accruals.

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.

We were in a loss position for tax purposes in prior years, and established a partial valuation allowance against deferred tax assets, as we may not be able to generate sufficient taxable income in future periods to realize the entire benefit of our deferred tax assets. Although the Company has achieved net income in the last three fiscal years, due to the fact that many factors can influence profitability, management determined at May 31, 2008 that $170,000 of the previously allowed for deferred tax assets should be released which resulted an income tax benefit of $170,000 being recognized during fiscal 2008. Predicting future taxable income is difficult, and requires the use of significant judgment. Accruals are made for specific tax exposures and are generally not material to our operating results or financial position, nor do we anticipate material changes to these reserves in the near future. Management re-evaluated this at February 28, 2009, and determined that the deferred tax asset should remain at $170,000.

The consolidated financial statements reflect, for all periods presented, the adoption of the classification or disclosure requirements pursuant to Emerging Issues Task Force ("EITF") 00-10, "Accounting for Shipping and Handling Fees and Costs." 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 nine months ended February 28, 2009 and February 29, 2008, respectively, was $87,739 and $84,513 and for the quarters then ended was $34,560 and $27,722. 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.

Please refer to the annual report on Form 10-KSB for the period ended May 31, 2008 for an in-depth discussion of risk factors.

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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

DISCLOSURE 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. Inapplicable.

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 2002, 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.

The 2008 Annual Meeting of the Company's stockholders was held on December 3, 2008. Two matters were voted upon at the meeting, as set forth in the proxy statement dated September 29, 2008, 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	5,504,358	146,688
Cano	5,503,658	147,388
Emerson	5,502,108	148,938
Irani	5,483,538	167,508
Moore	5,502,008	149,038
Roehm	5,503,508	147,488

All directors nominated were elected.

Proposal No. 2: Approval of the Company's 2008 Stock Incentive Plan

For 2,392,837 Against 282,235 Abstain 34,612

The Company's 2008 Stock Incentive Plan was not approved by a plurality of votes.

Item 5. OTHER INFORMATION. None.

Item 6. EXHIBITS.

10.1 Union Bank Business Line of Credit and Business Loan

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: April 14, 2009

BIOMERICA, INC.

By: /S/ Zackary S. Irani

Zackary S. Irani
Chief Executive Officer