LIGAND PHARMACEUTICALS INC
Form 10-Q/A
February 10, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

Amendment No. 1

Mark One

x **Quarterly Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934**
For the quarterly period ended September 30, 2011

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: 001-33093

LIGAND PHARMACEUTICALS INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware	**77-0160744**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
11085 North Torrey Pines Road La Jolla, CA	**92037**
(Address of principal executive offices)	**(Zip Code)**

Registrant s Telephone Number, Including Area Code: (858) 550-7500

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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer	¨	Accelerated Filer	x
Non-Accelerated Filer	¨ (Do not check if a smaller reporting company)	Smaller Reporting Company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of November 4, 2011, the registrant had 19,673,693 shares of common stock outstanding.

Table of Contents

EXPLANATORY NOTE

Ligand Pharmaceuticals Incorporated (the Company) is filing this Amendment No. 1 (Amended Form 10-Q) to its Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2011, which was originally filed with the Securities and Exchange Commission (SEC) on November 8, 2011 (the Original Form 10-Q) to restate the Company s unaudited condensed consolidated financial statements for the three and nine-month period ended September 30, 2011 and amend related disclosures in Management s Discussion and Analysis as well as adding pro forma disclosures related to the acquisition of CyDex Pharmaceuticals, Inc.

The Original Form 10-Q included $0.2 million and $0.9 million of general and administrative expenses for the three and nine month periods ended September 30, 2011, respectively, which represented acquisition-related costs that the Company paid on behalf of CyDex Pharmaceuticals, Inc. (CyDex). During the Company s 2011 year-end close procedures, the Company determined that these acquisition-related costs should have been recorded as a liability.

As a result, the Company is filing this Amended Form 10-Q to amend Part 1. Financial Statements and Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations, to reflect the following:

General and administrative expenses for the three-month period ended September 30, 2011 have been reduced by $0.2 million to $4.0 million from $4.1 million and general and administrative expenses for the nine-month period ended September 30, 2011 have been reduced by $0.9 million to $11.3 million from $12.1 million ;

Income tax benefit for the nine-month period ended September 30, 2011 has been reduced $0.2 million to $13.4 million from $13.6 million;

Loss from continuing operations for the three-month period ended September 30, 2011 has been decreased by $0.2 million to $3.8 million, or $0.19 per share, from $3.9 million, or $0.20 per share; and

Goodwill and other identifiable intangible assets at September 30, 2011 have been increased by $0.7 million to $72.9 million from $72.2 million.

This Amended Form 10-Q also includes currently-dated certifications from the Company s Chief Executive Officer and Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. The Company has not modified or updated disclosures presented in the Original Form 10-Q, except as required to specifically reflect the effects of the restatement in the Amended Form 10-Q. Accordingly, this Amended Form 10-Q does not reflect other events occurring after the Original Form 10-Q, nor does it modify or update those disclosures affected by other subsequent events. Information not affected by the restatement is unchanged and reflects the disclosures made at the time of the Original Form 10-Q.

LIGAND PHARMACEUTICALS INCORPORATED

QUARTERLY REPORT

FORM 10-Q

TABLE OF CONTENTS

* No information provided due to inapplicability of item.

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LIGAND PHARMACEUTICALS INCORPORATED

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in thousands, except share data)

	September 30, 2011 (Restated)	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,251	$ 3,346
Short-term investments	10,000	19,351
Accounts receivable, net	1,719	993
Inventory	1,960	
Other current assets	1,663	720
Deferred income taxes	1,194	
Income tax receivable		4,575
Current portion of co-promote termination payments receivable	8,030	8,034
Total current assets	26,817	37,019
Restricted cash and investments	1,341	1,341
Property and equipment, net	678	559
Goodwill and other identifiable intangible assets	72,929	12,951
Long-term portion of co-promote termination payments receivable	20,616	22,851
Other assets	777	838
Total assets	123,158	75,559
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$ 10,072	$ 8,597
Accrued liabilities	7,480	8,859
Accrued litigation settlement costs		1,000
Current portion of liability for contingent value rights	6,446	
Current portion of deferred gain	426	1,702
Current portion of co-promote termination liability	8,030	8,034
Bank line of credit	10,000	
Current portion of lease termination payments		5,296
Total current liabilities	42,454	33,488
Long-term portion of note payable	20,200	
Long-term portion of co-promote termination liability	20,616	22,851
Long-term portion of deferred revenue, net	1,291	2,546
Long-term portion of lease exit obligations	9,171	11,118
Deferred income taxes	3,184	372
Liability for contingent value rights	14,294	700
Other long-term liabilities	545	989

Total liabilities	111,755	72,064
Commitments and contingencies		
Common stock subject to conditional redemption; 112,371 shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively	8,344	8,344
Stockholders equity (deficit):		
Common stock, $0.001 par value; 33,333,333 shares authorized; 20,679,544 and 20,620,917 shares issued at September 30, 2011 and December 31, 2010, respectively	21	21
Additional paid-in capital	731,899	729,271
Accumulated other comprehensive income		31
Accumulated deficit	(686,581)	(691,947)
Treasury stock, at cost; 1,118,222 and 1,111,999 shares at September 30, 2011 and December 31, 2010, respectively	(42,280)	(42,225)
Total stockholders equity (deficit)	3,059	(4,849)
Total liabilities and stockholders equity (deficit)	$ 123,158	$ 75,559

See accompanying notes.

Table of Contents

LIGAND PHARMACEUTICALS INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands, except share data)

	Three Months Ended September 30, 2011 (Restated)	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011 (Restated)	Nine Months Ended September 30, 2010
Revenues:				
Royalties	$ 2,431	$ 1,774	$ 6,597	$ 5,337
Material sales	1,679		5,713	
Collaborative research and development and other revenues	1,631	6,028	4,791	14,261
Total revenues	5,741	7,802	17,101	19,598
Operating costs and expenses:				
Cost of sales	703		2,851	
Research and development	2,471	4,935	7,693	18,912
General and administrative	3,962	3,074	11,261	9,363
Write-off of in-process research and development	2,282		2,282	
Lease exit and termination costs	(2)	15,894	(168)	15,942
Total operating costs and expenses	9,416	23,903	23,919	44,217
Accretion of deferred gain on sale leaseback	426	426	1,277	1,277
Loss from operations	(3,249)	(15,675)	(5,541)	(23,342)
Other income (expense):				
Interest income	1	59	31	387
Interest expense	(700)	(8)	(1,793)	(39)
Decrease (increase) in liability for contingent value rights	224	2,460	(835)	6,702
Other, net	(10)	1,728	74	2,476
Total other income (expense), net	(485)	4,239	(2,523)	9,526
Income (loss) before income taxes	(3,734)	(11,436)	(8,064)	(13,816)
Income tax expense (benefit)	22	419	(13,427)	1,318
Income (loss) from continuing operations	(3,756)	(11,855)	5,363	(15,134)
Discontinued operations:				
Gain on sale of AVINZA Product Line		11		23
Gain on sale of Oncology Product Line		1	(13,309,329)	
Total Shareholders' Equity	5,526,431	4,978,634		
Total Liabilities and Shareholders' Equity	$6,110,531	$5,570,922		

The accompanying notes are an integral part of these statements.

BIOMERICA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Nine Months Ended	
	February 28, 2013	February 29, 2012
Cash flows from operating activities:		
Net income	$ 492,937	$ 494,329
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	164,411	129,798
Stock option expense	17,155	29,956
Change in provision for losses on accounts receivable	(4,133)	37,106
Inventory reserve	3,891	2,692
Decrease in deferred rent liability	(3,420)	(1,554)
Changes in assets and liabilities:		
Accounts receivable	691,339	(633,448)
Inventories	111,943	(79,169)
Prepaid expenses and other assets	(13,548)	54,516
Accounts payable and other accrued expenses	7,362	27,069
Other assets	(2,767)	(5,660)
Accrued compensation	30,870	47,499
Net cash provided by operating activities	1,496,040	103,134
Cash flows from investing activities:		
Increase in intangibles	--	(50,000)
Purchases of property and equipment	(249,410)	(135,528)
Net cash used in investing activities	(249,410)	(185,528)
Cash flows from financing activities:		
Proceeds from exercise of stock options	40,414	28,500
Payments on line of credit or equipment loan	(43,000)	(35,390)
Net cash used in financing activities	(2,586)	(6,890)
Effect of exchange rate changes in cash	(2,709)	(1,528)
Net increase (decrease) in cash and cash equivalents	1,241,335	(90,812)
Cash and cash equivalents at beginning of period	1,077,342	989,270
Cash and cash equivalents at end of period	$2,318,677	$ 898,458
Supplemental Disclosure of Cash-Flow Information:		
Cash paid during the period for:		Interest
		$
		302
		$
		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. 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. At February 28, 2013, two customers accounted for 32.0% of the Company s outstanding gross receivable balance and two foreign customers accounted for 10.3% and 48.6% of the Company s net sales for the three and nine months, respectively, ended February 28, 2013. 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:

	February 28, 2013		May 31, 2012	
Raw materials	$	857,770	$	896,488
Work in progress		568,431		553,236
Finished products		279,037		371,348
Total	$	1,705,238	$	1,821,072

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 $49,220 and $34,556 for the three months ended February 28, 2013 and February 29, 2012, and $142,484 and $105,751 for the nine months ended February 28, 2013 and February 29, 2012, 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 $4,368 and $8,571 for the three months ended February 28, 2013 and February 29, 2012, respectively, and $21,927 and $24,047 for the nine months ended February 28, 2013 and February 29, 2012, 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 February 28, 2013:

	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	(97,875)	--	(97,875)	0.41
Cancelled or expired	(26,000)	--	(26,000)	0.42
Outstanding February 28, 2013	910,625	--	910,625	$ 0.48

Revenue Recognition

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

Investments

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

Shipping and Handling Fees and Costs

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

Research and Development

Research and development costs are expensed as incurred.

Income Taxes

The Company accounts for income taxes in accordance with ASC 740, *Income Taxes* (ASC 740). Deferred tax assets and liabilities arise from temporary differences between the tax bases of assets and liabilities and their reported amounts in the consolidated financial statements that will result in taxable or deductible amounts in future years. These temporary differences are measured using enacted tax rates. A valuation allowance is recorded to reduce deferred tax assets to the extent that management considers it is more likely than not that a deferred tax asset will not be realized. In determining the valuation allowance, management considers factors such as the reversal of deferred income tax liabilities, projected taxable income, and the character of income tax assets and tax planning strategies. A change to these factors could impact the estimated valuation allowance and income tax expense. The Company s annual effective tax rate is approximately 38%, however, due to its federal net operating loss carry forwards, the effective tax rate for the three and nine months ended February 28, 2013 was adjusted for utilization of these carry forwards. During the current quarter, the Company recorded a refund due from the state of California which resulted in an adjustment to the provision for income taxes.

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 (Loss) Per Share

Basic earnings (loss) per share are computed as net income (loss) 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 nine months ended February 29, 2012 was 460,250. The total amount of anti-dilutive warrants or options not included in the earnings (loss) per share calculation for the three months ended February 28, 2013 was 910,625. There were no anti-dilutive warrants or options excluded from the earnings per share calculation for the nine months ended February 28, 2013.

The following table illustrates the required disclosure of the reconciliation of the numerators and denominators of the basic and diluted earnings per share computations.

	Nine Months Ended		Three Months Ended	
	February 28 2013	February 29, 2012	February 28 2013	February 29, 2012
Numerator:				
Income (loss) from continuing operations	$ 492,937	$ 494,329	$ (35,614)	$ 181,445
Denominator for basic net income (loss)				

Per common share		6,972,671		6,871,532		7,000,011		6,877,954
Effect of dilutive securities:								
Options and warrants		438,246		174,926		--		247,606
Denominator for diluted net income								
(loss) per common share		7,410,917		7,046,458		7,000,011		7,125,560
Basic net income (loss) per common share	$	0.07	$	0.07	$	(0.01)	$	0.03
Diluted net income (loss) per common share	$	0.07	$	0.07	$	(0.01)	$	0.03

Note 3: Accounts Payable and Accrued Expenses

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

	February 28, 2013		May 31, 2012	
Accounts payable	$	194,543	$	187,618
Accrued expenses		100,411		40,036
Deferred rent		71,435		74,855
Income taxes payable		--		59,938
Total	$	366,389	$	362,447

7

Note 4: Geographic Information

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

	Nine Months Ended		Three Months Ended	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
Revenues from sales to unaffiliated customers:				
United States	$ 654,000	$ 855,000	$ 217,000	$ 328,000
Asia	2,503,000	1,814,000	559,000	527,000
Europe	1,810,000	1,835,000	627,000	652,000
South America	5,000	2,000	3,000	--
Middle East	28,000	17,000	10,000	7,000
Other	2,000	16,000	1,000	1,000
	$ 5,002,000	$4,539,000	$1,417,000	$1,515,000

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

Note 5: Commitments and Contingencies

In February 2013, the Company renewed the line of credit (the "Line") with its bank which has a borrowing limit of $400,000. The line was 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. The balance at February 28, 2013 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.

Note 6: Subsequent Events

On March 28, 2013, the Company terminated the agreement it had with its distributor for products in China and entered into an agreement with a new distributor for China. Please refer to the Form 8-K filed April 8, 2013, with the Securities and Exchange Commission.

On April 8, 2013, the Company entered into a Stock Purchase Agreement wherein the Company agreed to issue and sell to a private investor 400,000 shares of restricted common stock at the purchase price of $1.25 per share. On April 8, 2013, the initial deposit of $250,000 was received by the Company and therefore 200,000 shares will be issued. Upon receipt of the remaining $250,000 and issuance of the remaining 200,000 shares, the investor will be entitled to nominate one qualified individual to serve on the Company s Board of Directors.

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 $1,416,698 for the three months ended February 28, 2013 as compared to $1,514,673 for the same period in the previous year. This represents a decrease of $97,975 or 6.5%. The decrease for the three month period was due to decreased sales in the United States and Europe during the quarter. For the nine month periods ended February 28, 2013 as compared to February 29, 2012, net sales were $5,002,418 as compared to $4,538,944, an increase of $463,474, or 10.2%. The increase for the nine month period was primarily due to the increase of sales in Asia partially offset with lower sales in the United States and Europe. On April 2, 2013, the Company terminated its distribution agreement with its distributor in China and entered into a new distribution agreement with another distributor in China.

For the three months ended February 28, 2013 as compared to February 29, 2012, cost of sales increased as a percentage of sales from 62.6% of sales or $947,830, to 68.6% of sales, or $971,316. This increase in cost of sales was the result of various factors, which included higher operating expenses and higher material costs for goods sold. These higher costs were due to the change in product sales mix from higher margin products to lower margin products during the third quarter. The increase in costs of sales as a percentage, was a result of lower sales coupled with higher costs. For the nine months ended February 28, 2013 as compared to February 29, 2012, cost of sales increased as a percentage of sales from 61.4% of sales or $2,788,276, to 61.1% of sales or $3,055,575. The increase in cost of sales as a percentage was primarily a result of changes in the product mix of items sold which occurred in this quarter when combined with the results of the first two quarters.

For the three months ended February 28, 2013 compared to February 29, 2012, selling, general and administrative costs increased by $20,953, or 6.2%. The increase was mainly due to the attendance at a trade show in Dubai in fiscal 2013 which was not attended in 2012. For the nine month periods ended February 28, 2013 as compared to February 29, 2012, general and administrative costs increased by $57,697, or 5.6%. The increase in selling, general and administrative costs was due to higher cost of trade show attendance, product promotion and Mexico facility restructuring in the second quarter.

For the three months ended February 28, 2013 compared to February 29, 2012, research and development expenses increased by $55,412, or 58.5%. For the nine month period ended February 28, 2013 as compared to February 29, 2012, these expenses increased by $87,646, or 32.9%. 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 and nine months ended February 28, 2013 as compared to February 29, 2012, dividend and interest income and interest expense remained relatively constant. During the quarter ended February 29, 2012, the Company experienced water damage from a burst pipe. The Company was reimbursed by its insurance carrier for the damages. The net gain is reflected under other income and (expense) as gain from insurance proceeds.

LIQUIDITY AND CAPITAL RESOURCES

As of February 28, 2013 and May 31, 2012, the Company had cash and cash equivalents in the amount of $2,318,677 and $1,077,342 and working capital of $4,354,373 and $3,894,342, respectively.

During the nine months ended February 28, 2013 the Company s operations generated cash of $1,496,040 compared to $103,134 in the same period of the prior fiscal year. Cash provided by operations in fiscal 2013 was a result of net income of $492,937, usage of $111,943 of inventory, collection of trade accounts receivable in the amount of $691,339 and delayed payout of compensation of $30,870. In addition to this, there were non-cash charges of approximately $177,904 which consisted primarily of depreciation expense. Cash used in investing activities in the nine months ended February 28, 2013 was $249,410 compared to the nine months ended February 29, 2012 of $185,528. The increase was due to $249,410 in equipment that was purchased, primarily to automate certain production functions. Cash used in financing activities in the nine months ended February 28, 2013 was $2,586 as compared to cash used of $6,890 in the nine months ended February 29, 2012. 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 $40,414 for the exercise of stock options.

In February 2013, 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. At February 28, 2013, the Company had not drawn any funds on the Line.

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. None.

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: April 15, 2013

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

Date: April 15, 2013

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