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BIOMERICA INC
Form 10QSB
April 16, 2007

FORM 10-QSB
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended February 28, 2007

Commission File No. 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 No

Indicate by check mark whether the Registrant is an accelerated filer (as Defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 5,939,214 shares of common stock as of April 13, 2007.

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BIOMERICA, INC.

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PART I

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THE DECONSOLIDATION OF LANCER ORTHODONTICS FROM BIOMERICA OCCURRED DECEMBER 1, 2005. THEREFORE, THE NINE MONTHS ENDED FEBRUARY 28, 2006, INCLUDES THE OPERATIONS OF BIOMERICA FOR THE NINE MONTHS THEN ENDED AND SIX MONTHS OF OPERATIONS FOR LANCER ORTHODONTICS. THE NINE MONTHS ENDED FEBRUARY 28, 2007 INCLUDES THE OPERATIONS OF BIOMERICA ONLY. THE THREE MONTHS ENDED FEBRUARY 28, 2007 AND 2006 INCLUDES THE OPERATIONS OF BIOMERICA ONLY. IN ORDER TO UNDERSTAND HOW THE BIOMERICA OPERATIONS COMPARE, PLEASE REFER TO NOTE 2 FOR A BREAKDOWN OF THE RESULTS BY COMPANY FOR THE PERIOD ENDED FEBRUARY 28, 2006.

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

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

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(SEE NOTE 2)

| | Nine Months Ended February 28, | |
|--|-----------------------------------|--------------|
| | 2007 | 2006 |
| | ----- | ----- |
| Net sales | \$ 3,797,051 | \$ 5,717,260 |
| Cost of sales | (2,427,578) | (3,820,715) |
| Gross profit | 1,369,473 | \$ 1,896,545 |
| | ----- | ----- |
| Operating Expenses: | | |
| Selling, general and administrative | 943,601 | 1,866,470 |
| Research and development | 170,759 | 193,360 |
| | 1,114,360 | 2,059,830 |
| | ----- | ----- |
| Operating income (loss) from continuing operations | 255,113 | (163,285) |
| | ----- | ----- |
| Other Expense (income): | | |
| Interest expense | 22,626 | 36,751 |
| Other income, net | (40,040) | (45,575) |
| | (17,414) | (8,824) |
| | ----- | ----- |
| Income (loss) from continuing operations, before minority interest in net loss of consolidated subsidiaries and income taxes | 272,527 | (154,461) |
| Minority interest in net losses of consolidated subsidiary | -- | 251,670 |
| | ----- | ----- |
| Income from continuing operations, before income taxes | 272,527 | 97,209 |
| Income tax expense | 8,006 | 2,400 |
| | ----- | ----- |
| Net income from continuing operations | 264,521 | 94,809 |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS. PLEASE

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BIOMERICA, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE LOSS - Continued (UNAUDITED)
(SEE NOTE 2)

| | Nine Months Ended February 28, | |
|--|-----------------------------------|-------|
| | 2007 | 2006 |
| | ----- | ----- |
| Discontinued operations: | | |
| Income from discontinued operations, net | (27,869) | -- |

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| | | |
|---|------------|--------------|
| Net income | 292,390 | 94,809 |
| Other comprehensive loss, net of tax: | | |
| Unrealized loss on available-for-sale securities | (36,868) | (240,100) |
| Comprehensive income (loss) income | \$ 255,522 | \$ (145,291) |
| Basic net income per common share: | | |
| Net income from continuing operations | \$.04 | \$.01 |
| Net income from discontinued operations | .00 | .00 |
| Basic net income per common share | \$.04 | \$.01 |
| Diluted net income per common share | | |
| Net income from continuing operations | \$.04 | \$.01 |
| Net income from discontinued operations | .00 | .00 |
| Diluted net income per common share | \$.04 | \$.01 |
| Weighted average number of common and common equivalent shares: | | |
| Basic | 5,925,860 | 5,753,831 |
| Diluted | 6,368,245 | 6,617,955 |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS. PLEASE

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BIOMERICA, INC.

BALANCE SHEET (UNAUDITED)

| | |
|--|----------------------|
| | February 28, 2007 |
| Assets | ----- |
| Current Assets | |
| Cash and cash equivalents | \$ 66,491 |
| Available for-sale securities | 588 |
| Accounts receivable, less allowance for doubtful accounts of \$23,415 .. | 674,484 |
| Inventories, net of reserve of \$2,864 | 1,411,066 |
| Notes receivable | 2,850 |
| Prepaid expenses and other | 57,356 |
| Net assets from discontinued operations | 598 |
| | ----- |
| Total Current Assets | 2,213,433 |
| Inventory, non-current | 20,529 |
| Available-for-sale securities | 375,959 |

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| | |
|---|-------------|
| Property and Equipment, net of accumulated depreciation and amortization .. | 179,514 |
| Intangible assets, net of accumulated amortization | 3,882 |
| Other Assets | 13,419 |
| | ----- |
| | \$2,806,736 |
| | ===== |

The accompanying notes are an integral part of these financial statements.

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BIOMERICA, INC.

CONSOLIDATED BALANCE SHEET - Continued (UNAUDITED)

| | |
|--|----------------------|
| | February 28, 2007 |
| | ----- |
| Liabilities and Shareholders' Equity | |
| Current Liabilities | |
| Accounts payable and accrued liabilities | \$ 720,580 |
| Accrued compensation | 487,451 |
| Current portion of shareholder loan | 234,426 |
| Capital lease - short-term portion | 4,054 |
| | ----- |
| Total Current Liabilities | 1,446,511 |
| Capital lease-long-term portion | 5,512 |
| Shareholders' Equity | |
| Common stock, \$0.08 par value authorized 25,000,000 shares, subscribed or issued and outstanding 5,939,214 | 475,136 |
| Additional paid-in-capital | 17,135,886 |
| Accumulated other comprehensive loss | (263,839) |
| Accumulated deficit | (15,992,470) |
| | ----- |
| Total Shareholders' Equity | 1,354,713 |
| | ----- |
| Total Liabilities and Equity | \$ 2,806,736 |
| | ===== |

The accompanying notes are an integral part of these financial statements.

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BIOMERICA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

For the nine months ended February 28,

2007

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| | | |
|--|-------------|---------|
| Cash flows from operating activities: | | |
| Net income from continuing operations | \$ 264,521 | \$ 9 |
| Adjustments to reconcile net income to net cash (used in) operating activities: | | |
| Depreciation and amortization | 41,896 | 10 |
| Minority interest in net loss of consolidated subsidiary | -- | (25) |
| Common stock, warrants and options issued for services rendered | 5,357 | |
| Provision for losses on accounts receivable | 16,385 | 1 |
| (Gain) loss on disposal of equipment | (40,000) | |
| Provision for losses on inventory | -- | |
| Changes in current assets and liabilities: | | |
| Accounts receivable | (130,149) | (41) |
| Inventories | (303,565) | (31) |
| Prepaid expenses and other current assets | (2,538) | (2) |
| Accounts payable and other accrued liabilities | 139,813 | 34 |
| Accrued compensation | 4,143 | |
| Net cash (used in) operating activities | (4,137) | (43) |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (100,138) | (24) |
| Proceeds from sale of equipment | 50,000 | |
| Net cash used in investing activities | (50,138) | (24) |
| Cash flows from financing activities: | | |
| Payments on capital lease | (2,722) | |
| Change in minority interest | -- | 3 |
| Decrease in shareholder loan | (26,516) | (33) |
| Exercise of stock options | 5,130 | |
| Increase in line of credit at subsidiary | -- | 6 |
| Payments of capital leases at subsidiary | -- | (2) |
| Private placement at subsidiary | -- | 46 |
| Proceeds from sale of common stock | 24,960 | |
| Net cash provided by financing activities | 852 | 51 |
| Net decrease in cash and cash equivalents | (53,423) | (17) |
| Net decrease in cash-reclassification of Lancer Orthodontics Inc. to the cost method | -- | (13) |
| Cash at beginning of period | 119,914 | 35 |
| Cash at end of period | \$ 66,491 | \$ 4 |
| Supplemental Disclosure of Cash Flow Information | | |
| Cash Paid During The Year For: | | |
| Interest | \$ 21,675 | \$ 3 |
| Income taxes | \$ 1,600 | \$ |
| Supplemental disclosures on non-cash investing & financing activity | | |
| Change in unrealized holding loss on available-for-sale securities | \$ (36,868) | \$ (24) |
| Change in minority interest due to subsidiary stock issuance | \$ -- | \$ (5) |
| Capital lease for purchase of fixed assets | \$ 12,841 | \$ 36 |

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Increase in investment due to de-consolidation of Lancer \$ -- \$ 63
 =====

The accompanying notes are an integral part of these financial statements.

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

| For the nine months ended February 28, | 2007 | 2006 |
|--|-------|--------------|
| | ----- | ----- |
| Changes due to de-consolidation of Lancer | | |
| Accounts Receivable | \$ -- | \$ 1,590,504 |
| Inventories | -- | 1,838,698 |
| Prepaid expenses and other current assets | -- | 90,676 |
| Net fixed assets | -- | 1,197,310 |
| Other | -- | 48,821 |
| Subtotal assets | ----- | ----- |
| | -- | 4,766,009 |
| Accounts payable and other accrued liabilities | -- | 899,483 |
| Line of credit | -- | 240,000 |
| Capital lease | -- | 334,794 |
| Subscribed stock | -- | 85,850 |
| Common stock | -- | 5,670,565 |
| Accumulated deficit | -- | (2,330,680) |
| Subtotal liabilities & equity | ----- | ----- |
| | -- | (4,900,012) |
| Net decrease in cash | \$ -- | \$ (134,003) |
| | ===== | ===== |

The accompanying notes are an integral part of these financial statements.

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NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

February 28, 2007

(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, 2006, for a summary of significant accounting policies utilized by the Company.

(2) As of February 28, 2007 the Company had cash and available-for-sale securities in the amount of \$67,079 and working capital of \$766,922. The Company also has \$375,959 of long term available-for-sale securities of Lancer Orthodontics. This stock is restricted and should the Company desire to sell this stock on the open market, it may be subject to certain trading restrictions as imposed by the Federal Securities Act of 1933.

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These consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has had operating and liquidity concerns due to historically reporting net losses and negative cash flows from operations. Biomerica's shareholder's line of credit expired on September 13, 2003 and was not renewed. The unpaid principal and interest was converted into a note payable in the amount of \$313,318 bearing interest at 8% and payable September 1, 2004. The due date on this note has been extended each year and is currently due September 1, 2007. This loan has been subordinated to the Commercial Bank of California loans dated February 20, 2007. Minimum payments are \$4,000 per month plus an additional \$2,000 per month (reduced from \$3,500 per month at September 1, 2006), depending on quarterly results of the Company. The Company is currently out of compliance with this agreement due to the fact that of the additional payments for fiscal 2006 and 2007, only \$5,250 has been paid. As of February 28, 2007 \$234,426 in principal was owed.

Until two years ago Biomerica had suffered substantial recurring losses from operations. Biomerica has funded its operations through profits as well as debt and equity financings for the past three years and has recently obtained a commercial line of credit from a bank which will help fund operations and growth. Operations of ReadyScript, which was a contributor to the Company's consolidated losses in prior fiscal years, were discontinued in May 2001. Since then, certain ReadyScript liabilities were forgiven and thus income from discontinued operations was recorded. The subsidiary is being reported in the financial statements as a discontinued operation because it is no longer an operating entity.

In the last several years the Company has been focusing on reducing costs where possible and concentrating on its core business to increase sales. Management believes that cash flows from current operations will be sufficient to fund operations for at least the next twelve months. Should the Company have a downturn in sales or unanticipated, increased expenses, the result for the Company could be the inability to continue as a going concern.

Our independent registered public accounting firm has concluded that there is substantial doubt as to the Company's ability to continue as a going concern for a reasonable period of time, and have, therefore modified their report in the form of an explanatory paragraph describing the events that have given rise to this uncertainty. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

The following tables present on a pro forma basis a breakdown by company of the Statement of Operations for the nine months ended February 28, 2006 in order that the operations of Biomerica for that period may be compared to the nine months ended February 28, 2007 on pages 3 and 4.

PRO FORMA STATEMENT OF OPERATIONS BY COMPANY (UNAUDITED)

| | Nine Months Ended February 28, 2006 | | |
|-------|--|------------------------------|-------------|
| | Actual | Intercompany Eliminations | Pro- Lan |
| ----- | | | |

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| | | | |
|--|--------------|-----------------------------|--------|
| NET SALES | \$ 5,717,260 | -- | \$ (2, |
| COST OF SALES | 3,820,715 | 15,780 (1) | (2, |
| <hr/> | | | |
| GROSS PROFIT | 1,896,545 | (15,780) (1) | (|
| <hr/> | | | |
| OPERATING EXPENSES: | | | |
| SELLING, GENERAL AND ADMIN | 1,866,470 | -- | (1, |
| RESEARCH AND DEVELOPMENT | 193,360 | -- | |
| <hr/> | | | |
| TOTAL OPERATING EXPENSES | 2,059,830 | -- | (1, |
| <hr/> | | | |
| OPERATING INCOME (LOSS) | (163,285) | (15,780) (1) | |
| <hr/> | | | |
| OTHER EXPENSE (INCOME) | | | |
| Interest | 36,751 | -- | |
| Other expense (income) | (45,575) | (15,780) (2) | |
| <hr/> | | | |
| | (8,824) | (15,780) (2) | |
| <hr/> | | | |
| INCOME (LOSS) FROM OPERATIONS BEFORE INTEREST IN NET INCOME (LOSS) OF CONSOLIDATED SUBSIDIARIES AND INCOME TAXES | (154,461) | -- | |
| <hr/> | | | |
| MINORITY INTEREST IN NET LOSS (INCOME) OF LANCER | 251,670 | (319,146) (3) 67,476 (4) | |
| <hr/> | | | |
| INCOME (LOSS) FROM OPERATIONS BEFORE INCOME TAXES | 97,209 | (251,670) | |
| <hr/> | | | |
| INCOME TAX EXPENSE | 2,400 | -- | |
| <hr/> | | | |
| NET INCOME (LOSS) | \$ 94,809 | \$ (251,670) | \$ |

- (1) To record the charge for rent by Lancer at the manufacturing facility in Mexico which was eliminated in consolidation.
- (2) To record the income from Biomerica received by Lancer for rent at the Mexico facility, which was eliminated in consolidation.
- (3) To de-consolidate Lancer's loss.
- (4) Elimination of Biomerica's portion of Lancer's operations as if the termination of the voting agreement occurred May 31, 2005.

(3) 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

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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 was required to account for stock-based compensation 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.

If the Company had accounted for its options in accordance with SFAS 123(R) in fiscal 2006, the total value of options granted during the nine month period ended February 28, 2006 would have been expensed over the vesting period of the options. Thus, the Company's consolidated net income would have been as follows:

| | |
|---|-----------|
| Net Income | 2006 |
| ----- | |
| As reported | \$ 94,809 |
| Add: Stock-based employee compensation expense included in reported net income | 702 |
| Less: Stock-based employee compensation expense determined using fair value based method for all awards | (17,483) |
| ----- | |
| Pro forma | \$ 78,028 |
| ===== | |
| Pro forma net income from continuing operations per share - basic | \$.01 |
| ===== | |
| Pro forma net income from continuing operations per share - diluted | \$.01 |
| ===== | |

For the nine months ended February 28, 2007, the Company expensed approximately \$5,357 of stock option expense due to SFAS 123(R) in its financial statements.

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(4) The following summary presents the options granted, exercised, expired, and outstanding as of February 28, 2007:

| | Number of Employee | Options and Warrants Non-employee | Total | Weighted Average Exercise Price |
|-----------------------------|-----------------------|--------------------------------------|-----------|--|
| | ----- | ----- | ----- | ----- |
| Outstanding May 31, 2006 | 1,748,284 | 152,666 | 1,900,950 | \$ 0.64 |
| Granted | 60,000 | -- | 60,000 | 0.56 |
| Exercised | (16,533) | | (16,533) | 0.31 |

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| | | | | |
|----------------------|-----------|----------|-----------|---------|
| Expired or cancelled | (190,668) | (4,000) | (194,668) | 0.69 |
| | ----- | ----- | ----- | ----- |
| Outstanding | | | | |
| February 28, 2007 | 1,601,083 | 148,666 | 1,749,749 | \$ 0.60 |
| | ===== | ===== | ===== | ===== |

(5) 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.

(6) Consolidated results of operations for the interim periods covered by this report may not necessarily be indicative of results of operations for the full fiscal year.

(7) Reference is made to Note 3 of the Notes to Consolidated Financial Statements contained in the Company's Annual Report on Form 10-KSB for the fiscal year ended May 31, 2006, for a description of the investments in affiliates and consolidated subsidiaries.

(8) Reference is made to Notes 5 & 9 of the Notes to Consolidated Financial Statements contained in the Company's Annual Report on Form 10-KSB for the fiscal year ended May 31, 2006, for information on commitments and contingencies.

(9) Aggregate cost exceeded market value of available-for-sale securities by approximately \$263,839 at February 28, 2007.

(10) Earnings Per Share

In February 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards (SFAS) No. 128, EARNINGS PER SHARE ("EPS"). SFAS No. 128 requires dual presentation of basic EPS and diluted EPS on the face of all income statements issued after December 15, 1997 for all entities with complex capital structures. 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.

| February 28, | Nine Months Ended | | Three Months Ended | |
|-------------------------------------|-------------------|-----------|--------------------|----|
| | 2007 | 2006 | 2007 | |
| ----- | | | | |
| Numerator: | | | | |
| Income from continuing operations | \$ 264,521 | \$ 94,809 | \$ 121,370 | \$ |
| Income from discontinued operations | 27,869 | -- | -- | |
| ----- | | | | |

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| | | | | | |
|---|------------|-----------|-----------|-----|--|
| Numerator for basic and diluted net income per common share | \$ 292,390 | 94,809 | 121,370 | | |
| Denominator for basic net income per common share | 5,925,860 | 5,753,791 | 5,939,214 | 5,7 | |
| Effect of dilutive securities: | | | | | |
| Options and warrants | 442,385 | 864,164 | 431,978 | 8 | |
| Denominator for diluted net income per common share | 6,368,245 | 6,617,955 | 6,371,192 | 6,6 | |
| Basic net income per common share: | | | | | |
| Income from continuing operations | \$.04 | \$.01 | \$.02 | \$ | |
| Income from discontinued operations | -- | -- | -- | -- | |
| Basic net income per common share | \$.04 | \$.01 | \$.02 | \$ | |
| Diluted net income per common share: | | | | | |
| Income from continuing operations | \$.04 | \$.01 | \$.02 | \$ | |
| Net income from discontinued operations | -- | -- | -- | -- | |
| Diluted net income per common share | \$.04 | \$.01 | \$.02 | \$ | |

(11) 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.

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In March 2005, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 107 ("SAB No. 107"), Share-Based Payment, providing guidance on option valuation methods, the accounting for income tax effects of share-based payment arrangements upon adoption of SFAS No. 123R, and the disclosures in MD&A subsequent to the adoption. The Company has provided SAB No. 107 required disclosures upon adoption of SFAS No. 123R on June 1, 2006.

In April 2005, the Securities and Exchange Commission adopted a new rule that amends the compliance dates for SFAS No. 123R. The Statement requires that compensation cost relating to share-based payment transactions be recognized in financial statements and that this cost be measured based on the fair value of the equity or liability instruments issued. SFAS No. 123R covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. The Company adopted SFAS No. 123R on June 1,

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2006.

In June 2005, the FASB issued SFAS No. 154, Accounting Changes and Errors Corrections, a replacement of APB Opinion No. 20 and FAS No. 3. The Statement applies to all voluntary changes in accounting principle, and changes the requirements for accounting for and reporting of a change in accounting principle. SFAS No. 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is impractical. APB Opinion No. 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. SFAS No. 154 improves the financial reporting because its requirements enhance the consistency of financial reporting between periods. The Company does not believe the adoption of this standard will have an impact on its results of operations.

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140 ("SFAS, 155"). This statement resolves issues addressed in SFAS No. 133 Implementation Issue No. D1, Application of Statement 133 to Beneficial Interest in Securitized Financial Assets. SFAS No. 155: a) permits fair value remeasurement for any hybrid financial instrument that contains an imbedded derivative that otherwise would require bifurcation; (b) clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133; (c) establishes a requirement to evaluate beneficial interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an imbedded derivative requiring bifurcation; (d) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives; and, (e) eliminates restriction on a qualifying special-purpose entity's ability to hold passive derivative financial instruments that pertain to beneficial interests that are or contain a derivative financial instrument. SFAS No. 155 also requires presentation within the financial statements that identifies those hybrid financial instruments for which the fair value election has been applied and information on the income statement impact of the changes in fair value of those instruments. The Company is required to apply SFAS No. 155 to all financial instruments acquired, issued or subject to a remeasurement event beginning June 1, 2007. The Company does not expect the adoption of SFAS No. 155 to have a material impact on the Company's financial statements.

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In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140 (Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities). This Statement requires that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. This Statement permits, but does not require, the subsequent measurement of separately recognized servicing assets and servicing liabilities at fair value. The Company would be required to adopt this statement as of June 1, 2007. The Company has not yet determined the impact, if any, of adopting SFAS 156 on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, Defining Fair Value Measurement. The purpose of SFAS No. 157 is to eliminate the diversity in practice that exists due to the different definitions of fair value and the limited guidance for applying those definitions in GAAP that are dispersed among the many accounting pronouncements that require fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The

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Company has not yet determined the impact, if any, of adopting SFAS 157 on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158, Employers' Accounting For Defined Benefit Pension and Other Postretirement Plans. Effective in calendar-year 2006 (with certain exceptions) for public companies and calendar-year 2007 (with certain exceptions) for private companies, SFAS No. 158 represents the "first phase" of a planned "two-phased" project where the FASB is working on improving financial reporting related to pension and other postretirement (OPB) plans. SEC registrants have been required to disclose the "expected impact" of implementing SFAS No. 158 in filings made after September 30, 2006 and before the effective date of SFAS No. 158. The Company does not expect the adoption of SFAS No. 158 to have a material impact on the Company's financial statements.

In July 2006, the FASB issued FIN 48, entitled Accounting for Uncertainty in Income Taxes. FIN 48 interprets the guidance in SFAS No. 109, entitled Accounting for Income Taxes. Through the interpretive guidance, the FASB clarifies the accounting for uncertainty in income taxes, provides recognition and measurement guidance related to accounting for income taxes, and provides guidance related to classification and disclosure of income tax-related financial statement components. The Company has not yet determined the impact, if any, of adopting FIN 48 on its consolidated financial statements.

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(12) Financial information about consolidated foreign and domestic operations and export sales is as follows. The period ended February 28, 2007, includes nine months of sales for Biomerica. The period ended February 28, 2006 shows consolidated sales for the nine months ended February 28, 2006, as well as a breakdown by company:

| For the nine months ended 2/28/07: | Consolidated ----- | Lancer ----- | Biomerica ----- |
|--|-----------------------|-----------------|--------------------|
| Revenues from sales to unaffiliated customers: | | | |
| United States | \$ 994,000 | -- | \$ 994,000 |
| Asia | 387,000 | -- | 387,000 |
| Europe | 1,854,000 | -- | 1,854,000 |
| South America | 56,000 | -- | 56,000 |
| Oceania | 447,000 | -- | 447,000 |
| Other | 59,000 | -- | 59,000 |
| | ----- | ----- | ----- |
| | \$ 3,797,000 | -- | \$ 3,797,000 |
| | ===== | ===== | ===== |

| For the nine months ended 2/28/06: | Consolidated ----- | Lancer ----- | Biomerica ----- |
|--|-----------------------|-----------------|--------------------|
| Revenues from sales to unaffiliated customers: | | | |
| United States | \$ 2,286,000 | (\$1,584,000) | \$ 702,000 |
| Asia | 267,000 | (23,000) | 244,000 |
| Europe | 2,010,000 | (678,000) | 1,332,000 |
| South America | 441,000 | (379,000) | 62,000 |
| Oceania | 427,000 | (17,000) | 410,000 |
| Other | 286,000 | (244,000) | 42,000 |
| | ----- | ----- | ----- |
| | \$ 5,717,000 | (\$2,925,000) | \$ 2,792,000 |

=====

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

(13) During fiscal 2006 an employee of the Company exercised a stock option for 750 shares at the purchase price of \$.20 per share and 750 shares at the purchase price of \$.33 per share. The total proceeds to the Company was \$398. Options for an additional 12,750 shares were exercised at the end of February 2006. Of these shares, 9,000 were at the purchase price of \$.20 per share and 3,750 were at a price of \$.33 per share. The proceeds to the Company for these options was \$3,038.

In June 2005 the Company granted 111,000 stock options to purchase shares of common stock at an exercise price of \$.53 to several of the Company's officers. The options vest over four years and have a term of five years. Management assigned a value of \$37,405 to these options.

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On September 14, 2005, the Company granted 10,000 stock options to purchase shares of common stock at an exercise price of \$.47 to an employee of the Company. The options vest over four years and have a term of five years. Management assigned a value of \$3,200 to these options.

On February 28, 2006, the Company granted 20,000 stock options to purchase shares of common stock at an exercise price of \$.48 to employees of the Company. The options vest over four years and have a term of five years. Management assigned a value of \$5,520 to these options.

In May 2006 the Company granted 498,500 stock options to purchase shares of common stock at an exercise price of \$.40 per share to various employees, consultants, officers and directors. The options vest over three years, and have a term of five years. Management assigned a value of \$118,643 to these options.

In May 2006 the Company granted warrants to purchase 52,000 shares of restricted common stock at an exercise price of \$.65 as part of the private placement conducted at that time. The options vested immediately and have a term of five years. Management assigned a value of \$9,880 to these warrants.

In July 2006 the board of directors granted a stock option for 10,000 options to an employee of the Company. The options vested one quarter immediately and then will vest one quarter per year thereafter. The option is at the exercise price of \$.50 per share and expires in five years. Management assigned a value of \$2,830 to this option.

In February 2007 the board of directors granted a stock option for 50,000 options to directors of the Company. The options vested one quarter immediately and one quarter vesting in May 2007. One quarter will vest each year thereafter on the grant date. The exercise price is \$.57 per share and the option expires in five years. Management assigned a value of \$15,900 to these options.

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 vesting period. A discount rate equivalent to five-year (or other life of the option or warrant) Treasury constant maturity interest rates is utilized. The historical volatility of the stock is calculated using weekly historical closing prices for the prior year as reported by Yahoo Finance. For purposes of the SFAS 123 footnote disclosure, the

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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.

During the quarter ended February 28, 2006, the Company recognized an increase in its accumulated other comprehensive loss in the amount of \$236,286 which was a result of the write-down of the stock which the Company owns in Lancer Orthodontics. This occurred because the Company de-consolidated its financials from Lancer, as discussed in Note 1, and the investment was written down to current market value as reported on Yahoo Finance (Lancer is traded on the Pink Sheets under the symbol LANZ.PK). Previous to that time, the investment was eliminated in consolidation.

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(14) Reportable business segments for the nine months and three months ended February 28, 2007 and 2006 are as follows. THE NINE MONTH FIGURES FOR FISCAL 2006 INCLUDE SIX MONTHS OF SALES FOR LANCER ORTHODONTICS SINCE DECONSOLIDATION OCCURRED DECEMBER 1, 2005. THE NINE MONTHS ENDED FEBRUARY 28, 2007 AND THE THREE MONTHS ENDED FEBRUARY 28, 2007 AND 2006 INCLUDE SALES FOR BIOMERICA ONLY.

| | Nine Months Ended February 28, | | Three Months Ended February 28, | |
|-------------------------------|-----------------------------------|--------------|------------------------------------|------------|
| | 2007 | 2006 | 2007 | 2006 |
| Domestic sales: | | | | |
| Orthodontic products | \$ -- | \$ 1,584,000 | \$ -- | \$ -- |
| Medical diagnostic products | \$ 994,000 | \$ 702,000 | \$ 284,000 | \$ 323,000 |
| Foreign sales: | | | | |
| Orthodontic products | \$ -- | \$ 1,341,000 | \$ -- | \$ -- |
| Medical diagnostic products | \$ 2,803,000 | \$ 2,090,000 | \$ 1,028,000 | \$ 675,000 |
| Net sales: | | | | |
| Orthodontic products | \$ -- | \$ 2,925,000 | \$ -- | \$ -- |
| Medical diagnostic products | 3,797,000 | 2,792,000 | 1,312,000 | 998,000 |
| Total | \$ 3,797,000 | \$ 5,717,000 | \$ 1,312,000 | \$ 998,000 |
| Operating gain (loss) income: | | | | |
| Orthodontic products | \$ -- | \$ (321,000) | \$ -- | \$ -- |
| Medical diagnostic products | 255,000 | 158,000 | 96,000 | 37,000 |
| Total | \$ 255,000 | \$ (163,000) | \$ 96,000 | \$ 37,000 |

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| | | | | |
|---------------------------------|-----------|-------|-------|-------|
| | ===== | ===== | ===== | ===== |
| Gain from discontinued segment: | | | | |
| ReadyScript | \$ 27,869 | \$ -- | \$ -- | \$ -- |
| | ----- | ----- | ----- | ----- |
| Total | \$ 27,869 | \$ -- | \$ -- | \$ -- |
| | ===== | ===== | ===== | ===== |

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| | | |
|-----------------------------|--------------------|-------------|
| | As of February 28, | |
| | 2007 | 2006 |
| | ----- | ----- |
| Domestic long-lived assets: | | |
| Medical diagnostic products | \$ 150,000 | \$ 103,000 |
| | ----- | ----- |
| Total | \$ 150,000 | \$ 103,000 |
| | ===== | ===== |
| Foreign long-lived assets: | | |
| Medical diagnostic products | \$ 30,000 | \$ 20,000 |
| | ----- | ----- |
| Total | \$ 30,000 | \$ 20,000 |
| | ===== | ===== |
| Total assets: | | |
| Medical diagnostic products | \$2,807,000 | \$2,346,000 |
| | ----- | ----- |
| Total | \$2,807,000 | \$2,346,000 |
| | ===== | ===== |
| Capital expenditures: | | |
| Orthodontics products | \$ -- | \$ 575,000 |
| Medical diagnostic products | 100,000 | 33,000 |
| | ----- | ----- |
| Total | \$ 100,000 | \$ 608,000 |
| | ===== | ===== |

The net sales as reflected above consist of sales of unaffiliated customers only as there were no significant intersegment sales during the nine months ended February, 2007 and 2006.

(15) In April 2003, Lancer de Mexico entered into a manufacturing subcontractor agreement with Biomerica, Inc., to provide manufacturing services in Mexicali, Mexico. The agreement requires reimbursement from Biomerica for discrete expenses such as payroll, shipping, and customs fees; the lease is \$2,335 and service fees are approximately \$2,900 per month.

(16) On July 29, 2005, Biomerica entered into an agreement for the research, development and transfer of certain technology. The total of the project is estimated to be \$55,000.

(17) In August 2006, the Company and the holder of the Note payable- shareholder agreed to the extension of the note due date until September 1, 2007, at the same terms and conditions as the previous agreement except that additional payments of \$3,500 per month, contingent upon certain earnings, have been reduced to \$2,000 per month.

(18) 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, 2007. 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, 2007. As a result of the Company's deconsolidation of Lancer which occurred December 1, 2005, both companies have been required to purchase their own Directors' and Officers' insurance, rather than have a combined policy.

(19) Commitments and Contingencies

The Company entered into an agreement with the Commercial Bank of California for a commercial line of credit dated February 20, 2007. The maximum principal amount on the line of credit is \$200,000. The principal balance owed on the loan will be due September 1, 2008 with monthly interest payments of all unpaid accrued interest at the rate of 9.75%. The loan is collateralized by all assets of the Company. The Company has not yet borrowed any funds on this line of credit.

The Company entered into an agreement with the Commercial Bank of California for an equipment line of credit dated February 20, 2007. The maximum principal amount on this line of credit shall be \$200,000. Nine monthly consecutive interest payments, beginning April 1, 2007, with an initial interest rate of 9.500% shall be due on the loan balance. For a balance of \$200,000 forty seven monthly consecutive principal and interest payments in the initial amount of \$5,038.21 each, beginning January 1, 2008 will be due. The line of credit shall be used for equipment. As of April 16, 2007 the Company has drawn \$61,670 on this line which has been used as a down-payment on equipment which will be delivered later in the year.

The Company also signed a Subordination Agreement dated February 20, 2007 wherein the Company and the Company's existing note payable holder agreed that the collateral for the note payable of \$234,426 will be subordinate to the

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\$200,000 line of credit with the Commercial Bank of California.

The Company signed a Second Amendment of the Note, Loan and Modification Agreement with a shareholder/officer/director ("Moore") dated February 20, 2007, wherein Moore agreed to enter into the Subordination Agreement with the Commercial Bank of California, and the Company agreed to increase the existing collateral to include the Lancer common stock (all of which is subordinated to the bank per the Subordination Agreement). In addition, the Company agreed to bring the past due amounts on the existing note payable agreement up to date by August 31, 2007. Moore also was granted the right to approve of any increase in the line of credit which may be offered in the future (while the shareholder note payable is unpaid). Amounts due on the note that are contingent upon certain performance by the Company have been reduced from \$3,500 per month to \$2,000.

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According to the terms of the agreement with Commercial Bank of California, the Company must comply with the following financial covenants and ratios:

Cash flow/Current Maturity (LTD) Ratio: Maintain a ratio of Cash Flow/Current Maturity (LTD) in excess of 1.300 to 1.000.

Debt/Worth Ratio: Maintain a ratio of Debt/Worth not in excess of 2.000 to 1.000.

(20) 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. The preparation of these consolidated 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 recognition of revenue, the Allowance for Doubtful Accounts, Inventory Reserves for Obsolescence and Declines in Market Value, Impairment of Long-Lived Assets, Stock Based Compensation and Deferred Income Tax Valuation, Valuation of Available-for-sale Securities and Allowances.

We recognize product revenues when an arrangement exists, delivery has occurred, the price is determinable and collection is reasonably assured.

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 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

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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.

In the past we have been in a loss position for tax purposes, and have established a valuation allowance against deferred tax assets, as we do not believe it is likely that we will generate sufficient taxable income in future periods to realize the full benefit of our deferred tax assets. Predicting future taxable income is difficult, and requires the use of significant judgment. At February 28, 2007, all of our deferred tax assets were reserved. 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.

We have provided a full valuation reserve related to our substantial deferred tax assets. In the future, if sufficient evidence of our ability to generate sufficient future taxable income in certain tax jurisdictions becomes apparent, we may be required to reduce our valuation allowances, resulting in income tax benefits in our consolidated statement of operations. We evaluate the realizability of the deferred tax assets and assess the need for valuation allowance quarterly. The utilization of the net operating loss carryforwards could be substantially limited due to restrictions imposed under federal and state laws upon a change of ownership.

(21) Risks and Uncertainties

License Agreements - Certain of the Company's sales of products are governed by license agreements with outside third parties. All of such license agreements to which the Company currently is a party, are for fixed terms which will expire after ten years from the commencement of the agreement or upon the expiration of the underlying patents. After the expiration of the agreements or the patents, the Company is free to use the technology that had been licensed. There can be no assurance that the Company will be able to obtain future license agreements as deemed necessary by management. The loss of some of the current licenses or the inability to obtain future licenses could have an adverse affect on the Company's financial position and operations. Historically, the Company has successfully obtained all the licenses it believed necessary to conduct its business.

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Distribution - The Company has entered into various exclusive and non-exclusive distribution agreements (the "Agreements") which generally specify territories of distribution. The agreements range in term from one to five years. The Company may be dependent upon such distributors for the marketing and selling of its products worldwide during the terms of these agreements. Such distributors are generally not obligated to sell any specified minimum quantities of the Company's product. There can be no assurance of the volume of product sales that may be achieved by such distributors.

Government Regulations - The Company's products are subject to regulation by the FDA under the Medical Device Amendments of 1976 (the "Amendments"). The Company has registered with the FDA as required by the Amendments. There can be no assurance that the Company will be able to obtain regulatory clearances for its current or any future products in the United States or in foreign markets.

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European Community - The Company is required to obtain certification in the European Community to sell products in those countries. The certification requires the Company to maintain certain quality standards. The Company has been granted certification on certain products. The Company recently had its yearly CE Mark Surveillance Audit and has been notified that it has been recommended for recertification. There is no assurance that the Company will be able to retain its certification in future years.

Risk of Product Liability - Testing, manufacturing and marketing of the Company's products entail risk of product liability. The Company currently has product liability insurance. There can be no assurance, however, that the Company will be able to maintain such insurance at a reasonable cost or in sufficient amounts to protect the Company against losses due to product liability. An inability to maintain such insurance at a reasonable cost or in sufficient amounts could prevent or inhibit the commercialization of the Company's products. In addition, a product liability claim or recall could have a material adverse effect on the business or financial condition of the Company.

Subsequent Events

On March 13, 2007 the Company made a commitment of \$181,200 to purchase equipment to be utilized in production. An initial down-payment of \$61,670 was made with the order, with another 50% due upon acceptance of the equipment and 15% due twenty days after delivery. The equipment line of credit with Commercial Bank of California may be used to fund this purchase.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND SELECTED FINANCIAL DATA ITEM 2.

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 OF 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 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

Nine and Three Months Comparison for the period ended February 28, 2007 versus 2006.

LANCER ORTHODONTICS WAS DECONSOLIDATED FROM BIOMERICA ON DECEMBER 1, 2005. THEREFORE, THE NINE MONTH PERIOD ENDED FEBRUARY 28, 2006 INCLUDES SIX MONTHS OF RESULTS FOR LANCER ORTHODONTICS (JUNE 1, 2005 THROUGH NOVEMBER 30, 2005). THE THREE MONTHS ENDED FEBRUARY 28, 2007 AND 2006 INCLUDES RESULTS FROM BIOMERICA

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DIAGNOSTICS ONLY.

Consolidated net sales for Biomerica were \$3,797,051 for the nine months ended February, 2007 as compared to \$5,717,260 for the same period in the prior fiscal year. This represents a decrease of \$1,920,209, or 33.6% for the nine month period. The overall decrease in sales from February 28, 2007 compared to February 28, 2006 is a result of the deconsolidation of Lancer as of December 1, 2005. On a stand-alone basis, the sales of Biomerica increased from \$2,792,222 to \$3,797,051, or \$1,004,829 (36.0%) for the nine months ended February 28, 2007 as compared to 2006. For the three months ended February 28, 2007 and 2006, sales increased by \$313,539, or 31.4%. Sales increased due to higher sales to foreign distributors, as well as increased sales of certain product lines.

For the nine months of fiscal 2007 compared to 2006, cost of sales as a percentage of sales decreased from 66.8% of sales to 63.9% of sales. For the nine months of fiscal 2007 compared to 2006, Biomerica on a stand-alone basis had an increase from 58.9% to 63.9%. For the three months ended February 28, 2007 compared to 2006, cost of goods as a percentage of sales decreased from 65.1% to 63.8%. This decrease was primarily due to the higher sales volume relative to some fixed costs.

Selling, general and administrative costs decreased by \$922,869, or 49.4% for the nine months ended 2007. The overall decrease in selling, general and administrative costs from February 28, 2006 to 2007 is a result of the deconsolidation of Lancer as of December 1, 2005. On a stand-alone basis the selling, general and administrative expenses of Biomerica increased from \$837,411 to \$943,601, which represents an increase of \$106,190, or 12.7%. Selling, general and administrative expenses increased by \$35,513 for the quarter ended February 28, 2007. The increases at Biomerica for the nine and three month periods were attributable to increased wages and advertising.

Research and development expenses decreased by \$22,601, or 11.7%, for the nine months ended February 28, 2007. The overall decrease in research and development expenses from February 28, 2006 to 2007 is a result of the deconsolidation of Lancer as of December 1, 2005. On a stand-alone basis, the research and development expenses of Biomerica increased by \$19,869, primarily due to materials and personnel required for new research projects. For the three months ended February 28, 2007 research and development expenses increased by \$32,467 (83.7%) for the same reason that these expenses increased for the nine months.

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For the nine months ended February 28, 2007, other income decreased from \$45,575 to \$40,040, compared to the same period in the prior year. The overall decrease in other income from February 28, 2006 to 2007 is a result of the deconsolidation of Lancer as of December 1, 2005. On a stand-alone basis, Biomerica's other income increased by \$11,781 due to the non-sale income realized from a contract with a customer in fiscal 2006 as compared to the one time sale of some equipment which had been purchased in fiscal 2007. For the three months ended February 28, 2007, other income increased by \$39,275, which was due to the one time sale of equipment which had been purchased in fiscal 2007.

Interest expense decreased by \$14,125 (38.4%) for the nine months ended February 28, 2007 compared to the previous year. On a stand-alone basis, Biomerica had increased interest expense of \$331. For the three months ended February 28, 2007 as compared to 2006 interest expense decreased by \$863, which was due to the reduced shareholder note payable which was offset by the small

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equipment leases.

Net income from continuing operations for the nine months ended February 28, 2007 was \$264,521 as compared to \$94,809 for the same period in the prior fiscal year. On a stand-alone basis, net income for the nine month period was \$264,521 as compared to \$162,285, an increase of \$102,236, or 63.0%. Net income from continuing operations for the three months ended February 2007 was \$121,370 as compared to \$29,615 for the three months ended February 2006. This represents an increase of \$91,755, or 309.8%.

LIQUIDITY AND CAPITAL RESOURCES

As of February 28, 2007 the Company had cash and available-for-sale securities in the amount of \$67,079 and working capital of \$766,922. The Company also has \$375,959 of long term available-for-sale securities of Lancer Orthodontics. This stock is restricted and should the Company desire to sell this stock on the open market, it may be subject to certain trading restrictions as imposed by the Federal Securities Act of 1933.

These consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has had operating and liquidity concerns due to historically reporting net losses and negative cash flows from operations. Biomerica's shareholder's line of credit expired on September 13, 2003 and was not renewed. The unpaid principal and interest was converted into a note payable in the amount of \$313,318 bearing interest at 8% and payable September 1, 2004. The due date on this note has been extended each year and is currently due September 1, 2007. This loan has been subordinated to the Commercial Bank of California loans dated February 20, 2007. Minimum payments are \$4,000 per month plus an additional \$2,000 per month (as revised from \$3,500 per month), depending on quarterly results of the Company. The Company is currently out of compliance with this agreement due to the fact that of the additional payments due for fiscal 2006 and 2007, only \$5,250 has been paid. As of February 28, 2007, \$234,426 in principal was owed.

Until two years ago Biomerica had suffered substantial recurring losses from operations. Biomerica has funded its operations through profits as well as debt and equity financings for the past three years and has recently obtained a commercial line of credit from a bank which will help fund operations and growth. Operations of ReadyScript, which was a contributor to the Company's consolidated losses in prior fiscal years, were discontinued in May 2001. Since then, certain ReadyScript liabilities were forgiven and thus income from discontinued operations was recorded. The subsidiary is being reported in the financial statements as a discontinued operation because it is no longer an operating entity.

In the last several years the Company has been focusing on reducing costs where possible and concentrating on its core business to increase sales. Management believes that cash flows from current operations will be sufficient to fund operations for at least the next twelve months. Should the Company have a downturn in sales or unanticipated, increased expenses, the result for the Company could be the inability to continue as a going concern.

Our independent registered public accounting firm has concluded that there is substantial doubt as to the Company's ability to continue as a going concern for a reasonable period of time, and have, therefore modified their report in the form of an explanatory paragraph describing the events that have given rise to this uncertainty. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

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

The Company's Chief Executive Officer and Chief Financial Officer (the Company's principal executive officer and principal financial officer, respectively) have concluded, based on their evaluation as of February 28, 2007, that the design and operation of the Company's "disclosure controls and procedures" (as defined in rules 13a-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act")) are effective to ensure that information required to be disclosed by the Company in the reports filed or submitted by the Company under the Exchange Act is accumulated, recorded, processed, summarized and reported to the Company's management, including the Company's principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding whether or not disclosure is required.

During the quarter ended February 28, 2007, there were no changes in the Company's "internal controls over financial reporting" (as defined in Rule 13a-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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PART II. OTHER INFORMATION

- Item 1. LEGAL PROCEEDINGS. Inapplicable.
- Item 2. CHANGES IN SECURITIES AND USE OF PROCEEDS. Inapplicable.
- Item 3. DEFAULTS UPON SENIOR SECURITIES. Inapplicable.
- Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS. Inapplicable.
- Item 5. OTHER INFORMATION. Inapplicable.
- Item 6. EXHIBITS AND REPORTS ON FORM 8-K. Inapplicable.
- (a) Exhibits
- 31.1 Certification of CEO pursuant to Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of CFO pursuant to Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of CEO Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of CFO Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.1 Business Loan Agreement dated February 20, 2007 with Commercial Bank of California.
- 99.2 Commercial Security Agreement (loan #0100000250) dated February 20, 2007 with Commercial Bank of California.
- 99.3 Promissory Note (loan #0100000250) dated February 20, 2007 with Commercial Bank of California.
- 99.4 Promissory Note (loan #0100000251) dated February 20, 2007 with Commercial Bank of California.
- 99.5 Subordination Agreement (loan #0100000250) dated February 20, 2007 with Commercial Bank of California and Janet Moore Trust.
- 99.6 Second Amendment of the Note, Loan and Modification Agreement dated March 9, 2007 between Biomerica and Janet Moore Trust.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has fully caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: April 13, 2007

BIOMERICA, INC.

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By: /S/ Zackary S. Irani

Zackary S. Irani
Chief Executive Officer