BIOMERICA INC
Form 10QSB
April 15, 2002

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, 2002 — 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 X No ____

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 5,123,616 shares of common stock as of April 9, 2002.

BIOMERICA, INC.

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PART I

Item 1. Financial Statements:





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

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

| | Nine Months Ended February 28, 2002 | Nine Months Ended February 28, 2001 | |
|---|---|---|---|
| Net sales ........................................ | $ 6,510,232 | $ 6,537,392 | $ 2, |
| Cost of sales .............................. | 4,441,984 | 4,313,694 | 1, |
| Gross profit ............................... | 2,068,248 | 2,223,698 | |

| | | |
|---|---|---|
| Operating Expenses: | | |
| Selling, general and administrative .......... | 2,372,740 | 2,315,944 |
| Research and development .................... | 125,755 | 254,324 |
| | 2,498,495 | 2,570,268 |
| Operating (loss) income from continuing operations | (430,247) | (346,570) |
| Other Expense (income): | | |
| Interest expense ........................... | 26,087 | 16,467 |
| Other (income) expense, net ................. | (5,248) | (40,961) |
| | 20,839 | (24,494) |
| Loss from continuing operations, before minority interest in net loss of consolidated subsidiaries ................... and income taxes ........................... | (451,086) | (322,076) |
| Minority interest in net losses (profits) of consolidated subsidiaries ................... | 4,012 | 132,459 |
| (Loss) income from continuing operations, before income taxes .................................... | (447,074) | (189,617) |
| Income Tax Expense .............................. | 2,400 | 1600 |
| Net (loss) income from continuing operations ...... | (449,474) | (191,217) |



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

| | Nine Months Ended February 28, 2002 | 2001 |
|---|---|---|
| Discontinued operations: | | |
| Loss from discontinued operations, net ......... | (11,892) | (1,814,253) |
| Net loss ........................................ | (461,366) | (2,005,470) |
| Other comprehensive gain (loss), net of tax | | |
| Unrealized loss on available-for-sale securities | (11,001) | (972) |
| Comprehensive loss ............................ | $ (472,367) | $(2,006,442) |
| Basic net loss per common share: | | |
| Net income (loss) from continuing operations ... | $ (.09) | $ (.04) |
| Net loss from discontinued operations .......... | (.00) | (.38) |

| | | | |
|---|---|---|---|
| Basic net loss per common share .................. | $ (.09) | $ (.42) | $ |
| Diluted net loss per common share: | | | |
| Net gain (loss) from continuing operations ..... | $ (.09) | $ (.04) | $ |
| Net gain (loss) from discontinued operations ... | (.00) | (.38) | |
| Diluted net loss per common share ................ | $ (.09) | $ (.42) | $ |
| Weighted average number of common and common equivalent shares: | | | |
| Basic and diluted .......................... | 5,065,534 | 4,745,003 | 5, |

The accompanying notes are an integral part of these statements.



BIOMERICA, INC.

CONSOLIDATED BALANCE SHEET (UNAUDITED)

| | February 28, 2002 |
|---|---|
| Assets | |
| Current Assets | |
| Cash and cash equivalents ............................................ | $ 118,872 |
| Available-for-sale securities ........................................ | 1,479 |
| Accounts receivable, less allowance for doubtful accounts of $187,654 | 1,642,541 |
| Inventory, net ....................................................... | 2,924,536 |
| Notes receivable ..................................................... | 18,394 |
| Prepaid expenses and other ........................................... | 112,631 |
| Total Current Assets .......................................... | 4,818,453 |
| Inventory, non-current ................................................. | 15,000 |
| Property and Equipment, net of accumulated depreciation and amortization | 246,503 |
| Intangible assets, net of accumulated amortization ..................... | 238,905 |
| Other Assets ........................................................... | 41,509 |
| | $5,360,370 |

The accompanying notes are an integral part of these statements.

BIOMERICA, INC.

CONSOLIDATED BALANCE SHEET (UNAUDITED), CONTINUED

| | February 28, 2002 |
|---|---|
| **Liabilities and Shareholders' Equity** | |
| **Current Liabilities** | |
| Line of credit | $ 117,185 |
| Accounts payable and accrued liabilities | 1,069,179 |
| Accrued compensation | 314,759 |
| Net liabilities from discontinued operations | 373,831 |
| Total Current Liabilities | 1,874,954 |
| Shareholder loan | 310,000 |
| Total Liabilities | 2,184,954 |
| Minority interest | 2,042,944 |
| **Shareholders' Equity** | |
| Common stock, $0.08 par value authorized 25,000,000 shares, subscribed or issued and outstanding 5,160,616 | 409,889 |
| Additional paid-in-capital | 16,973,081 |
| Accumulated other comprehensive loss | (21,290) |
| Accumulated deficit | (16,229,208) |
| Total Shareholders' Equity | 1,132,472 |
| Total Liabilities and Shareholders' Equity | $ 5,360,370 |

The accompanying notes are an integral part of these statements.

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BIOMERICA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

NINE MONTHS ENDED FEBRUARY 28, 2002 AND 2001

| | 2002 | 2001 |
|---|---|---|

| | | |
|---|---|---|
| Cash flows from operating activities: | | |
| Net loss from continuing operations ........................ | $(449,474) | $(191,217) |
| Adjustments to reconcile net loss to net cash (used in) provided by operating activities: | | |
| Depreciation and amortization ......................... | 149,211 | 169,827 |
| Realized gain on sale of available for-sale securities | (10,026) | (30,408) |
| Minority interest in net income (loss) of consolidated subsidiaries ..................................... | (4,012) | (158,351) |
| Common stock issued for services rendered ............ | 61,886 | 248,489 |
| Provision for losses on accounts receivable ........... | (4,905) | - |
| Warrants and options issued for services rendered ..... | 64,560 | 97,035 |
| Changes in current assets and liabilities: | | |
| Accounts Receivable ................................ | (112,381) | 256,992 |
| Inventories ........................................ | (58,580) | (217,209) |
| Prepaid expenses and other current assets ........... | (23,209) | 130,343 |
| Accounts payable and other accrued liabilities ...... | 138,214 | (163,592) |
| Accrued compensation ............................... | 51,482 | 252,962 |
| Net cash (used in) provided by operating activities ........ | (197,234) | 394,871 |
| Cash flows from investing activities: | | |
| Sale of available for-sale securities ................ | 39,116 | 73,408 |
| Increase in notes receivable ......................... | - | (7,325) |
| Purchases of property and equipment .................. | (8,341) | (135,251) |
| Other assets ......................................... | (1,971) | 8,199 |
| Purchases of intangible assets ....................... | (10,591) | (16,038) |
| Net cash provided by (used in) investing activities ........ | 18,213 | (77,007) |
| Cash flows from financing activities: | | |
| Proceeds from sale of common stock subscribed ........ | - | 53,000 |
| Proceeds from issuance of convertible promissory notes | - | 835,000 |
| Private placement net of offering costs ............. | 4,400 | 152,512 |
| Exercise of stock options ........................... | 1,128 | 6,018 |
| (Decrease) increase in line of credit ............... | (22,815) | 20,000 |
| Increase in shareholder loan ........................ | 215,000 | 30,000 |



BIOMERICA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(CONTINUED)

NINE MONTHS ENDED FEBRUARY 28, 2002 AND 2001

| | 2002 | 2001 |
|---|---|---|
| Net cash provided by financing activities .. | 197,713 | 1,096,530 |

| | | |
|---|---|---|
| Net cash (used in) discontinued operations .. | (36,119) | (1,814,253) |
| Net decrease in cash and cash equivalents .. | (17,427) | (399,859) |
| Cash at beginning of period ............... | 136,299 | 634,210 |
| Cash at end of period ..................... | $ 118,872 | $ 234,351 |

The accompanying notes are an integral part of these statements.

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BIOMERICA, INC.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)
FOR THE NINE MONTHS ENDED FEBRUARY 28, 2002

| | Common Stock | | | Common Stock Subscribed | | |
|---|---|---|---|---|---|---|
| | Number of Shares | Amount | Additional Paid-in Capital | Shares | Amount | Accumulate Other Comprehens Loss |
| Balances at May 31, 2001 | 4,890,679 | $391,254 | $16,748,968 | 146,075 | $110,774 | $(10, |
| Compensation expense in connection with options and warrants granted | | | 64,560 | | | |
| Change in unrealized gain on available for sale securities | | | | | | (11, |
| Exercise of stock options | 1,625 | 130 | 998 | | | |
| Common stock issued for private placement | 140,241 | 11,219 | 83,955 | (126,075) | (90,774) | |
| Common stock Issued for consulting services | 91,071 | 7,286 | 46,100 | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Common stock In lieu of wages | | | | 17,000 | 8,500 | |
| Net loss | | | | | | |
| Balances at February 28, 2002 | 5,123,616 | $409,889 | $16,944,581 | 37,000 | $28,500 | $ (21, |

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NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

February 28, 2002

(1) Reference is made to Note 2 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, 2001, for a summary of significant accounting policies utilized by the Company.

(2) The information set forth in these 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 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.

(3) 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.

(4) 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, 2001, for a description of the investments in affiliates and consolidated subsidiaries.

(5) Reference is made to Notes 5 & 10 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, 2001, for information on commitments and contingencies.

(6) Aggregate cost of available-for-sale securities exceeded aggregate market value by approximately $21,290 at February 28, 2002.

(7) 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. For all periods presented, no common stock equivalents have been included in the computation of diluted earnings per share as they were determined to be anti-dilutive.

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



| | For the Nine Months Ended | |
|---|---|---|
| | Income (Numerator) | Shares (Denominat |
| Basic EPS - | | |
| (Loss) gain from continuing operations | $ (449,474) | |
| (Loss) gain from discontinued operations | (11,892) | 5,065,534 |
| Diluted EPS - | | |
| Loss attributable to common share- holders plus assumed conversions............. | $ (461,366) | 5,065,534 |

| | For the Nine Months Ended | |
|---|---|---|
| | Income (Numerator) | Shares (Denominat |
| Basic EPS - | | |
| Loss from continuing operations | $ (191,217) | |
| Loss from discontinued operations | (1,814,253) | 4,745,003 |
| Diluted EPS - | | |
| Loss attributable to common share- holders plus assumed conversions............. | $ (2,005,470) | 4,745,003 |



| | For the Three Months Ended | |
|---|---|---|
| | Income (Numerator) | Shares (Denominat |
| Basic EPS - | | |
| Gain (loss) from continuing operations | $ 1,230 | |
| Gain from discontinued operations | (16,597) | 5,120,654 |
| Diluted EPS - | | |
| Loss attributable to common share- holders plus assumed conversions............. | $ (15,367) | 5,120,654 |

| | For the Three Months Ended | |
|---|---|---|
| | Income (Numerator) | Shares (Denominat |
| Basic EPS - | | |
| Income from continuing operations | $ (166,057) | |
| Loss from discontinued operations | (347,788) | 4,537,795 |
| Diluted EPS - | | |
| Loss attributable to common share-holders plus assumed conversions............. | $ (513,845) | 4,537,795 |

(8) Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141 ("SFAS 141"), "Business Combinations", which eliminates the pooling method of accounting for business combinations initiated after June 30, 2001. In addition, SFAS 141 addresses the accounting for intangible assets and goodwill acquired in a business combination. This portion of SFAS 141 is effective for business combinations completed after June 30, 2001. The Company does not expect SFAS 141 will have a material impact on the Company's financial position or results of operations.

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill And Intangible Assets", which revises the accounting for purchased goodwill and intangible assets. Under SFAS 142, goodwill and intangible assets with indefinite lives will no longer be amortized and will be tested for impairment annually. SFAS 142 is effective for fiscal years beginning after December 15, 2001, with earlier adoption permitted. The Company does not expect that SFAS 142 will have a material impact on the Company's financial position or results of operations as a result of the future adoption of SFAS 142.

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In August 2001, FASB issued SFAS No. 144, Impairment or Disposal of Long-Lived Assets, which addresses accounting and financial reporting for the impairment or disposal of long-lived assets. This standard is effective for the Company's financial statements beginning December 1, 2002. The Company is currently evaluating the impact, if any, the implementation of this Statement will have on the Company's financial position and results of operations.

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

For the Nine Months Ended

| | 2/28/02 | 2/28/01 |
|---|---|---|
| Revenues from sales to unaffiliated customers: | | |
| United States | $3,281,000 | $3,609,000 |
| Asia | 143,000 | 129,000 |
| Europe | 1,761,000 | 1,620,000 |
| South America | 372,000 | 322,000 |
| Oceania | 284,000 | 220,000 |
| Other | 669,000 | 637,000 |
| | $6,510,000 | $6,537,000 |

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

| | 2/28/02 | 2/28/01 |
|---|---|---|
| Operating profit (loss): | | |
| United States | $ (215,000) | $ (327,000) |
| Asia | (22,000) | (24,000) |
| Europe | (86,000) | 34,000 |
| South America | (21,000) | 4,000 |
| Oceania | (58,000) | (9,000) |
| Other | (28,000) | (25,000) |
| | $ (430,000) | $ (347,000) |

(10) On January 15, 2002, the Company received a Nasdaq Staff Determination indicating that the Company failed to comply with the net tangible assets or shareholders' equity requirements for continued listing set forth in Marketplace Rule 4310(c)(2)(B), and that its securities are, therefore, subject to delisting from the Nasdaq SmallCap Market effective January 23, 2002. The Company requested a hearing before a Nasdaq Listing Qualifications Panel to review the Staff Determination. The request for a hearing stayed the delisting of the Company's securities pending the Panel's decision. On February 21, 2002 the hearing took place. In response to the hearing, on March 25, 2002, the Company received a Nasdaq Staff Determination letter stating their decision with respect to the continued listing of the Company's

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securities. The Panel determined to continue the listing of the Company's securities on the Nasdaq SmallCap Market via an exception from the net tangible assets requirement. While the Company failed to meet this requirement, the Company was granted a temporary exception from the standard subject to the Company meeting certain conditions by specified deadlines. For the duration of the exception, the Company's symbol will be BMRAC. There can be no assurance the Company will be able to meet these conditions by the specified deadlines. Should the Company's securities be delisted, they will be eligible to trade on the OTC Bulletin Board.

On February 14, 2002, the Company received a Nasdaq Staff Determination letter indicating that the Company failed to comply with the minimum $1.00 per share requirement for continued inclusion of its common stock under Marketplace Rule 4310(c)(4), and therefore is subject to delisting from the Nasdaq SmallCap Market. In accordance with

Marketplace Rule 4310(c)(8)(D), the Company will be provided 180 calendar days, or until August 13, 2002, to regain compliance.

(11) The Company has suffered substantial recurring losses from operations over the last couple of years. The Company has funded its operations through debt and equity financings, and may have to do so in the future. ReadyScript operations were discontinued in May 2001. ReadyScript was a primary contributor to the Company's losses. The Company also plans to reduce operating costs through certain cost reduction efforts and concentrate on its core business in Lancer and Biomerica to increase sales. There can be no assurances that the Company will be able to become profitable, generate positive cash flow from operations or obtain the necessary equity or debt financing to fund operations in the future.

(12) At February 28, 2002, Lancer had a $400,000 revolving line of credit with a financial institution. Borrowings are made at prime plus 2.00% (6.75% at February 28, 2002) and are limited to specified percentages of eligible accounts receivable. The unused portion available under the line of credit at February 28, 2002 was $229,000. The line of credit expires October 24, 2003.

The line of credit is collateralized by substantially all the assets of Lancer, including inventories, receivables and equipment. The lending agreement requires, among other things, that Lancer maintain a tangible net worth of $2,100,000 and that receivables payments be sent to a controlled lockbox. In addition to interest, a management fee of .0425% on the average monthly unused portion available are required. Lancer is not required to maintain compensating balances in connection with this lending agreement. Lancer's line of credit restricts Biomerica's ability to draw on Lancer's resources and, as such, said cash, working capital and equity are not available to Biomerica.

Biomerica, Inc. entered into a line of credit agreement on September 12, 2001 with a shareholder whereby the shareholder will loan to the Company, as needed, up to $500,000 for working capital needs. The line of credit bears interest at 8%, is secured by Biomerica accounts receivable and inventory and expires September 12, 2002. The unused portion of the line of credit at February 28, 2002, was $200,000. Additionally, the Company received a $10,000 unsecured loan from a different shareholder. Such amount is included in shareholder loan in the accompanying financial statements.

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(13) On February 25, 2002, Biomerica and Lancer Orthodontics, Inc. signed an "Asset Purchase Agreement by and between Lancer Orthodontics, Inc., and Biomerica, Inc." Under this asset purchase agreement, Biomerica has agreed to purchase all of the assets and most of the liabilities of Lancer for $610,250. The purchase is to be consummated through the exchange of 488,200 to 984,274 shares of Biomerica common stock. The number of shares issued will be determined by the price of Biomerica stock in the five trading days before the closing of the transaction.

(14) On March 15, 2002, the laboratory business of the subsidiary, Allergy Immuno Technologies, Inc., was discontinued due to continued operating losses and lack of capital to sustain those losses. AIT is currently exploring other business options. AIT intends to keep current with its SEC filings as required.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND SELECTED FINANCIAL DATA

THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 PROVIDES A "SAFE HARBOR" FOR FORWARD-LOOKING STATEMENTS. 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 DUE TO ITS NEW BUSINESS MODEL AND EXPANSION PLANS AND THE COMPETITIVE ENVIRONMENT IN WHICH THE COMPANY WILL BE DOING BUSINESS. 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, THE EFFECTS OF TERRORISM, HEALTH CARE REGULATIONS AND THE STATE OF THE ECONOMY. READERS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS, WHICH SPEAK ONLY AS OF THE DATE HEREOF, AND THE COMPANY UNDERTAKES NO OBLIGATION TO UPDATE THESE FORWARD-LOOKING STATEMENTS.

RESULTS OF OPERATIONS

Consolidated net sales for Biomerica were $6,510,232 for the nine months ended February 28, 2002 as compared to $6,537,392 for the same period in the previous year. This represents a decrease of $27,160, or .4%. For the quarter then ended sales were $2,318,817 as compared to $2,282,809 for the same period in the prior fiscal year. This represents an increase of $36,008, or 1.6%. The decreases for the nine months were primarily attributable to a decrease in the diagnostic product sales which were slow in the first fiscal quarter.

Cost of sales for the nine months increased as a percentage of sales from 66.0% to 68.2%, primarily because of increased production costs at Lancer. Cost of sales for the three months then ended decreased from 65.4% to 65.0% primarily because of increased sales of higher margin products at the diagnostics' division.

Selling, general and administrative costs increased by $56,796, or 2.5% for the nine months. For the three months then ended these costs decreased by $142,757, or 16.1%. The decreases were primarily due to decreased marketing labor and travel costs at Lancer.

Research and development decreased by $128,569, or 50.6% for the nine months. For the three months these costs decreased by $36,643, or 49.7%. The decreases were primarily due to overall decreases of $79,373 and $9,649 for the nine and three months, respectively at Lancer. Biomerica also had decreases in wages and related costs.

Interest expense increased by $9,620 for the nine months and $4,227 for the three months compared to the previous year due to borrowings on the line of credit at Biomerica.

At February 28, 2002, the Company retained a 30.78% interest in Lancer Orthodontics. The Company maintains a 51.19% indirect voting control over Lancer Orthodontics via agreements with certain shareholders. The Company also retains a 74.6% interest in Allergy Immuno Technologies and an 88.9% interest in

ReadyScript. Please refer to Note 3 in the Notes to the Consolidated Financial Statements in the report on Form 10-KSB for the year ended May 31, 2001, for a more in-depth discussion of subsidiaries.

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LIQUIDITY AND CAPITAL RESOURCES

As of February 28, 2002, the Company had cash and available-for-sale securities in the amount of $120,351 and working capital of $2,943,500. Cash and working capital totaling $120,184 and $2,751,508, respectively, relates to the Lancer subsidiary. Lancer's line of credit restricts Biomerica's ability to draw on Lancer's resources and, as such, said cash, working capital and equity are not available to Biomerica. Biomerica, Inc. and its subsidiaries, are expected to fund their operations for at least the next twelve months through their existing available financing, working capital, and its shareholder line of credit.

The Company has suffered substantial recurring losses from operations over the last couple of years. The Company has funded its operations through debt and equity financings, and may have to do so in the future. ReadyScript operations were discontinued in May 2001. ReadyScript was a primary contributor to the Company's losses. Allergy Immuno Technologies' operations, which also has been contributing to the companies losses, were discontinued March 15, 2002. The Company also plans to reduce operating costs through certain cost reduction efforts and concentrate on its core business in Lancer and Biomerica to increase sales. There can be no assurances that the Company will be able to become profitable, generate positive cash flow from operations or obtain the necessary equity or debt financing to fund operations in the future.

During the nine months ended February 28, 2002, the Company used net cash in operations of $197,234. This compares to net cash provided by operations of $394,871 in the same period in the prior fiscal year.

On January 15, 2002, the Company received a Nasdaq Staff Determination indicating that the Company failed to comply with the net tangible assets or shareholders' equity requirements for continued listing set forth in Marketplace Rule 4310(c)(2)(B), and that its securities are, therefore, subject to delisting from the Nasdaq SmallCap Market effective January 23, 2002. The Company requested a hearing before a Nasdaq Listing Qualifications Panel to review the Staff Determination. The request for a hearing stayed the delisting of the Company's securities pending the Panel's decision. On February 21, 2002 the hearing took place. On March 25, 2002, the Company received a Nasdaq Staff Determination letter stating their decision with respect to the continued listing of the Company's securities. The Panel determined to continue the listing of the Company's securities on the Nasdaq SmallCap market via an exception from the net tangible assets requirement. While the Company failed to meet this requirement, the Company was granted a temporary exception from the standard subject to the Company meeting certain conditions by specified deadlines. For the duration of the exception, the Company's symbol will be BMRAC. There can be no assurance the Company will be able to meet the conditions by the specified deadlines. Should the Company's securities be delisted, they will be eligible to trade on the OTC Bulletin Board.

On February 14, 2002, the Company received a Nasdaq Staff Determination letter indicating that the Company failed to comply with the minimum $1.00 per share requirement for continued inclusion of its common stock under Marketplace Rule 4310(c)(4), and therefore is subject to delisting from the Nasdaq SmallCap Market. In accordance with Marketplace Rule 4310(c)(8)(D), the Company will be provided 180 calendar days, or until August 13, 2002, to regain compliance.

At February 28, 2002, Lancer had a $400,000 revolving line of credit with a financial institution. Borrowings are made at prime plus 2.00% (6.75% at February 28, 2002) and are limited to specified percentages of eligible accounts receivable. The unused portion available under the line of credit at February 28, 2002 was $229,000. The line of credit expires October 24, 2003. The line of credit is collateralized by substantially all the assets of Lancer, including inventories, receivables and equipment. The lending agreement requires that receivables payments be sent to a controlled lockbox. In addition to interest, a management fee of .0425% on the average monthly unused portion available are required. Lancer is not required to maintain compensating balances in connection with this lending agreement.



Biomerica, Inc. entered into a line of credit agreement on September 12, 2001 with a shareholder whereby the shareholder will loan to the Company, as needed, up to $500,000 for working capital needs. The line of credit bears interest at 8%, is secured by Biomerica accounts receivable and inventory and expires September 12, 2002. The unused portion of the line of credit at February 28, 2002, was $200,000. Additionally, the Company received a $10,000 unsecured loan from a different shareholder. Such amount is included in shareholder loan in the accompanying financial statements.

On February 25, 2002, Biomerica and Lancer Orthodontics, Inc. signed an "Asset Purchase Agreement by and between Lancer Orthodontics, Inc., and Biomerica, Inc." Under this asset purchase agreement, Biomerica has agreed to purchase all of the assets and most of the liabilities of Lancer for $610,250. The purchase is to be consummated through the exchange of 488,200 to 984,274 shares of Biomerica common stock. The number of shares issued will be determined by the price of Biomerica stock in the five trading days before the closing of the transaction.

THE COMPANY MAY FACE INTERRUPTION OF PRODUCTION AND SERVICES DUE TO INCREASED SECURITIES MEASURES IN RESPONSE TO TERRORISM:

Biomerica's and Lancer's business depends on the free flow of products and services through the channels of commerce. Recently, in response to terrorists' activities and threats aimed at the United States, transportation, mail, financial and other services have been slowed or stopped altogether. Further delays or stoppages in transportation, mail, financial or other services could have a material adverse effect on the Company's business, results of operations and financial condition. Furthermore, the Company may experience an increase in operating costs, such as costs for transportation, insurance and security as a result of the activities and potential activities. The Company may also experience delays in receiving payments from payers that have been affected by the terrorist activities and potential activities. The U.S. economy in general is being adversely affected by the terrorist activities and potential activities and any economic downturn could adversely impact our results of operations, impair our ability to raise capital or otherwise adversely affect the ability to grow the Company's business.



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. None.



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 9, 2002

BIOMERICA, INC.

By: /S/ Zackary S. Irani
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Zackary Irani
Chief Executive Officer