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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  
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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.

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BIOMERICA, INC.

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

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

	Nine Months Ended February 28,		
	2002	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	
	-----	-----	-----

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Operating Expenses:		
Selling, general and administrative .....	2,372,740	2,315,944
Research and development .....	125,755	254,324
	<u>2,498,495</u>	<u>2,570,268</u>
Operating (loss) income from continuing operations	<u>(430,247)</u>	<u>(346,570)</u>
Other Expense (income):		
Interest expense .....	26,087	16,467
Other (income) expense, net .....	(5,248)	(40,961)
	<u>20,839</u>	<u>(24,494)</u>
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 .....	<u>(449,474)</u>	<u>(191,217)</u>

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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 .....	<u>(461,366)</u>	<u>(2,005,470)</u>
Other comprehensive gain (loss), net of tax		
Unrealized loss on available-for-sale securities	(11,001)	(972)
Comprehensive loss .....	<u>\$ (472,367)</u>	<u>\$ (2,006,442)</u>
Basic net loss per common share:		
Net income (loss) from continuing operations ...	\$ (.09)	\$ (.04)
Net loss from discontinued operations .....	(.00)	(.38)

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Basic net loss per common share .....	\$ (0.09)	\$ (.42)	\$
	=====	=====	=====
Diluted net loss per common share:			
Net gain (loss) from continuing operations .....	\$ (0.09)	\$ (.04)	\$
Net gain (loss) from discontinued operations ...	(0.00)	(.38)	
	-----	-----	-----
Diluted net loss per common share .....	\$ (0.09)	\$ (.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.

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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.

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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

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	-----	-----
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
	-----	-----

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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

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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		Additional Paid-in Capital	Common Stock Subscribed		Accumulate Other Comprehens Loss
	Number of Shares	Amount		Shares	Amount	
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			

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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



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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.

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	For the Nine Months Ended	
	Income (Numerator)	Shares (Denominator)
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 (Denominator)
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

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	For the Three Months Ended	
	Income (Numerator)	Shares (Denominator)
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

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	For the Three Months Ended	
	Income (Numerator)	Shares (Denominator)
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

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	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.

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

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

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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

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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.

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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.

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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.

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PART II. OTHER INFORMATION

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- 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.

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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 9, 2002

BIOMERICA, INC.

By: /S/ Zackary S. Irani

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Zackary Irani  
Chief Executive Officer

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