BIOMERICA INC
Form 10QSB
January 21, 2003

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 November 30, 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: 5,258,475 shares of common stock as of January 10, 2003.

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)

	Six Months Ended November 30,		Three
	2002	2001	2002
Net sales	$ 4,226,038	$ 4,138,255	$ 2,136,52

Cost of sales	2,952,354	2,826,192	1,517,92
Gross profit	1,273,684	1,312,063	618,60
Operating Expenses:			
Selling, general and administrative	1,457,869	1,640,076	701,71
Research and development	110,206	88,650	62,32
	1,568,075	1,728,726	764,04
Operating loss from continuing operations	(294,391)	(416,663)	(145,43
Other Expense (income):			
Interest expense	17,700	15,253	6,90
Other (income) expense, net	(51,922)	12,120	(3,94
	(34,222)	27,373	2,96
Loss from continuing operations, before minority interest in net loss of consolidated subsidiaries and income taxes	(260,169)	(444,036)	(148,39
Minority interest in net losses (profits) of consolidated subsidiaries	(17,867)	38,880	(19,87
Loss (income) from continuing operations, before income taxes	(278,036)	(405,156)	(168,26
Income Tax Expense	1,794	1,600	19
Net (loss) income from continuing operations	(279,830)	(406,756)	(168,46

	Six Months Ended November 30, 2002	Six Months Ended November 30, 2001	Three No 2002
Discontinued operations:			
Loss from discontinued operations, net	38,531	39,242	14,43
Net loss	(318,361)	(445,998)	(182,89
Other comprehensive loss, net of tax Unrealized loss on available-for-sale securities	(1,757)	(5,186)	(31
Comprehensive loss	$ (320,118)	$ (451,184)	$ (183,21

Basic net loss per common share:			
Net loss from continuing operations................	$ (.05)	$ (.08)	$ (.0
Net loss from discontinued operations.............	(.01)	(.01)	(.0
Basic net loss per common share.......................	$ (.06)	$ (.09)	$ (.0
Diluted net loss per common share:			
Net loss from continuing operations................	$ (.05)	$ (.08)	$ (.0
Net loss from discontinued operations.............	(.01)	(.01)	(.0
Diluted net loss per common share	$ (.06)	$ (.09)	$ (.0
Weighted average number of common and common equivalent shares:			
Basic and diluted...............................	5,208,818	4,999,466	5,245,67

The accompanying notes are an integral part of these statements.

BIOMERICA, INC.

CONSOLIDATED BALANCE SHEET (UNAUDITED)

	November 30, 2002
Assets	
Current Assets	
Cash and cash equivalents	$ 489,963
Available-for-sale securities	775
Accounts receivable, less allowance for doubtful accounts of $195,532	1,285,097
Inventory, net	2,695,669
Prepaid expenses and other	118,443
Total Current Assets	4,589,947
Inventory, non-current	15,000
Note receivable	2,419
Property and Equipment, net of accumulated depreciation and amortization	255,482
Intangible assets, net of accumulated amortization	98,786
Other Assets	35,546
	$4,997,180

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The accompanying notes are an integral part of these statements.

BIOMERICA, INC.

CONSOLIDATED BALANCE SHEET (UNAUDITED), CONTINUED

	November 30, 2002
Liabilities and Shareholders' Equity	
Current Liabilities	
Line of credit	$ -0-
Accounts payable and accrued liabilities	860,037
Accrued compensation	348,791
Shareholder loan..	322,950
Net liabilities from discontinued operations	362,423
Total Current Liabilities	1,894,201
Minority interest	2,113,260
Shareholders' Equity	
Common stock, $0.08 par value authorized 25,000,000 shares, subscribed or issued and outstanding 5,376,657	462,277
Additional paid-in-capital	17,056,374
Accumulated other comprehensive loss	(21,994)
Accumulated deficit	(16,506,938)
Total Shareholders' Equity	989,719
Total Liabilities and Shareholders' Equity	$ 4,997,180

The accompanying notes are an integral part of these statements.

BIOMERICA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

SIX MONTHS ENDED NOVEMBER 30, 2002 AND 2001

	2002	2001
Cash flows from operating activities:		
Net loss from continuing operations	$(279,830)	$(406,756)
Adjustments to reconcile net loss to net cash (used in) operating activities:		
Depreciation and amortization	72,650	107,891
Realized gain on sale of available for-sale securities	--	(3,626)
Minority interest in net gain (loss) of consolidated subsidiaries	28,368	(38,880)
Common stock issued for services rendered	66,767	42,625
Provision for losses on accounts receivable	(920)	(361)
Warrants and options issued for services rendered	32,364	35,308
Changes in current assets and liabilities:		
Accounts Receivable	220,167	39,424
Insurance claim receivable	--	--
Inventories	225,343	(87,470)
Prepaid expenses and other current assets	4,031	(7,062)
Accounts payable and other accrued liabilities	(46,153)	49,402
Accrued compensation	40,809	40,757
Net cash provided by (used in) operating activities	363,596	(228,748)
Cash flows from investing activities:		
Sale of available for-sale securities	--	26,670
Purchases of property and equipment	(60,910)	(9,890)
Other assets	--	3,220
Purchases of intangible assets	(21,986)	(10,591)
Net cash (used in) provided by investing activities	(82,896)	9,409
Cash flows from financing activities:		
Private placement net of offering costs	--	10,199
Exercise of stock options	--	1,128
Increase (decrease) in line of credit	(65,669)	32,845
Increase (decrease) in shareholder loan	(52,050)	165,000

BIOMERICA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(CONTINUED)

SIX MONTHS ENDED NOVEMBER 30, 2002 AND 2001

	2002	2001
Net cash (used in) provided by financing activities........	(117,719)	209,172
Net cash used in discontinued operations..................	(2,295)	(72,204)
Net increase (decrease) in cash and cash equivalents.......	160,686	(82,371)
Cash at beginning of period...............................	329,277	136,299
Cash at end of period.....................................	$ 489,963	$ 53,928

The accompanying notes are an integral part of these statements.

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BIOMERICA, INC.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDI
FOR THE SIX MONTHS ENDED NOVEMBER 30, 2002

	Common Stock			Common Stock Subscribed		
	Number of Shares	Amount	Additional Paid-in Capital	Shares	Amount	Accumula Other Comprehe Loss
Balance at May 31, 2002	5,172,364	$ 413,788	$ 16,981,982	28,333	$ 23,750	$ (20,2
Compensation expense in connection with options and warrants granted			32,364			
Change in unrealized gain on available for sale securities						(1,7
Common stock						

subscribed for Services				10,000	4,500	
Common stock Issued for services	67,778	5,422	35,245			
Common stock Issued	18,333	1,467	6,783	(18,333)	(8,250)	
Common stock Subscribed for services				98,182	21,600	
Net loss						
Balance at November 30, 2002	5,258,475	$ 420,677	$ 17,056,374	118,182	$ 41,600	(21,9

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

November 30, 2002

(1) Reference is made to Note 2 of the Notes to Financial Statements contained in the Company's Annual Report on Form 10-KSB for the fiscal year ended May 31, 2002, 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 Financial Statements contained in the Company's Annual Report on Form 10-KSB for the fiscal year ended May 31, 2002, for a description of the investments in affiliates and consolidated subsidiaries.

(5) Reference is made to Notes 5 & 10 of the Notes to Financial Statements contained in the Company's Annual Report on Form 10-KSB for the fiscal year ended May 31, 20012 for information on commitments and contingencies.

(6) Aggregate cost of available-for-sale securities exceeded aggregate market value by approximately $21,994 at November 30, 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.

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

	For the Six Months Ended November 30, 2002		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS -			
Loss from continuing operations ...	$ (279,830)		$ (.05)
Loss from discontinued operations .	(38,531)		(.01)
	(318,361)	5,208,818	(.06)
Diluted EPS -			
Loss from continuing operations -	$ (279,830)		$ (.05)
Loss from discontinued operations .	(38,531)		(.01)
	$ (318,361)	5,208,818	$ (.06)

	For the Six Months Ended November 30, 2001		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS -			
Loss from continuing operations ...	$ (406,756)		$ (.08)
Loss from discontinued operations .	(39,242)		(.01)
	$ (445,998)	4,994,466	(.09)
Diluted EPS -			
Loss from continuing operations ...	$ (406,756)		$ (.08)
Loss from discontinued operations .	(39,242)		(.01)

	$ (445,998)	4,994,466	$ (.09)

	For the Three Months Ended November 30, 2002		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS -			
Loss from continuing operations ...	$ (168,461)		$ (.03)
Loss from discontinued operations .	(14,437)		(.00)
	(182,898)	5,245,673	(.03)
Diluted EPS -			
Loss from continuing operations ...	$ (168,461)		$ (.03)
Loss from discontinued operations .	(14,437)		(.00)
	$ (182,898)	5,245,673	$ (.03)

	For the Three Months Ended November 30, 2001		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS -			
Income from continuing operations .	$ (139,364)		$ (.03)
Loss from discontinued operations .	(2,636)		(.00)
	$ (142,000)	5,031,349	(.03)
Diluted EPS -			
Loss from continuing opertions	$ (139,364)		$ (.03)
Loss from discontinued operations .	(2,636)		(.00)
	$ (142,000)	5,031,349	$ (.03)

The computation of diluted loss per share excludes the effect of incremental common shares attributable to the exercise of outstanding common stock options and warrants because their effect was antidilutive due to losses incurred by the Company.

As of November 30, 2002, there was a total of 2,983,345 potentially dilutive shares of common Stock.

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 adoption of FASB 142 did not have a material impact on the Company's financial position or results of operations.

In August 2001, the FASB issued Statement of Financial Accounting Standards FAS No. 143 ("SFAS 143"), "Accounting for Asset Retirement Obligations." This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It applies to all entities and legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal operations of long-lived assets, except for certain obligations of leases. This statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. Management has not yet determined the impact of the adoption of SFAS No. 143 on the Company's financial position or results of operations.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144 ("SFAS 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets, " or SFAS No. 144 requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. SFAS No. 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001 and, generally, is to be applied prospectively. The adoption of SFAS 144 did not have a material impact on the Company's financial position or results of operations.

In April 2002, the FASB issued Statement of Financial Accounting Standards No. 145 ("SFAS 145"), "Rescission of FASB Statements No. 4 and 64, Amendment of FASB State- ment No. 13, and Technical Corrections, "to update, clarify and simplify existing accounting pronouncements. FASB Statement No. 4, which required all gains and losses from debt extinguishments to be aggregated and, if material, classified as an extraordinary item, net of related tax effect, was rescinded. Consequently, FASB Statement No. 64, which amended FASB Statement No. 4, was rescinded because it was no longer necessary. The adoption of SFAS 145 did not have a material impact on the Company's financial position or results of operations.

In June 2002, the FASB issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS 146 addresses accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit An Activity (Including Certain Costs Incurred in a Restructuring). "SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value when the liability is incurred. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. We do not expect the adoption of this statement to have a material effect on our financial statements.

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

	For the Six Months Ended 11/30/02	11/30/01
Revenues from sales to unaffiliated customers:		
United States	$2,362,000	$1,964,000
Asia	117,000	115,000
Europe	954,000	1,151,000
South America	167,000	285,000
Oceania	208,000	183,000
Other	418,000	440,000
	$4,226,000	$4,138,000

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

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(9) On January 15, 2002, the Company had 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 were, 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 De- termination. 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.

The Company was unable to satisfy the conditions within the deadlines established by the Panel. Pursuant to a decision by the Nasdaq Listing Qualifications Panel, the Company's common stock was delisted from the Nasdaq Stock Market effective June 20, 2002, for failure to comply with the net tangible assets or shareholders' equity requirements as set forth in Marketplace Rule 4310(c)(2)(B). The Company's securitites were immediately eligible to trade on the OTC Bulletin Board and are traded under the symbol BMRA.OB.

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 was subject to delisting from the Nasdaq SmallCap Market. In accordance with Marketplace Rule 4310(c)(8)(D), the Company would have been provided 180 calendar days, or until August 13, 2002, to regain compliance. However, prior to that time, the Company was delisted according to the above mentioned reasons.

Shares traded on the OTC Bulletin Board are not as liquid as those traded on Nasdaq National market or the Nasdaq SmallCap market.

The 1-for-3 reverse stock split approved by shareholders at the 2001 share-holders' meeting for the purpose of increasing the price per share of the common stock will not be implemented.

(10) 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.

As of November 30, 2002, the Company had cash and available-for-sale securities in the amount of $490,738 and working capital of $2,695,746. Cash and working capital totaling $434,312 and $2,889,348, 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.

During the six months ended November 30, 2002, the Company operations provided cash of $363,596. This compares to cash used in operations of $228,748 in the same period in the prior fiscal year. Cash used by financing activities was $117,719, which resulted from the payment on the line of credit at Lancer of $65,669 and payment of the share- holder loan at Biomerica of $52,050.

(11) Lancer has a $400,000 line of credit with GE Capital Healthcare Financial Services, expiring October 24, 2003. Borrowings are made at prime plus 2.0%, in no event less than 8.0%, (8.0% at November 30, 2002) and are limited to 80% of accounts receivable less than 90 days old with a liquidity factor of 94%. The outstanding balance at November 30, 2002 was $.00 and the unused portion available was approximately $336,000.

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.

Proceeds from this line cannot be used to support the operations of Biomerica.

(12) Biomerica, Inc. entered into a line of credit agreement on September 12, 2000 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, 2003. The unused portion of the line of credit at November 30, 2002, was $187,050. 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.

(13) In July 2002, 67,778 shares of Biomerica restricted common stock (at $0.60 per share), were approved for issuance in payment of accrued salary for two officers/directors. In connection with this issuance, Biomerica recorded compensation expense of $40,667, the fair market value of the stock at the time of issuance. During the six months ended November 30, 2002, 10,000 shares of Biomerica's restricted common stock valued at $4,500 were earned in payment to its Chief Executive Officer for certain management services.

(14) On September 24, 2002, the Company agreed to issue 20,000 options at the then fair market value of $.30 per share to employees. These options will vest over four years. No compensation expense was recorded for this transaction.

(15) The Company agreed to a bonus plan for employees of 10% to 20% of the profit of the diagnostics' division for the year ending May 31, 2003.

(16) On April 10, 2002, the Company filed a Form S-4 for the proposed registration of between 488,200 and 984,274 shares of Biomerica common stock. The shares were to be issued for the purchase of the assets of the subsidiary Lancer Orthodontics, Inc. Due to market conditions, both boards of directors have agreed not to proceed with the proposed purchase and in July 2002 Biomerica requested that the registration statement be withdrawn.

(17) In June of 2002 the Company signed a distribution agreement with a company in Japan for the distribution of certain kits. The Company received a deposit of $35,000, which is included in other liabilities, in the month of June 2002 related to this agreement.

(18) On September 24, 2002, the Board of Directors approved the grant of a stock option for 7,000 shares of Biomerica common stock at an exercise price of $.30 per share to an outside consultant. The Company also entered into a one year consulting agreement with this consultant whereby the consultant will help with business develop- ment and other services during that period and upon achievement of certain milestones has the opportunity to be granted two additional 7,000 share options at a fifteen percent discount to market.

(19) On November 12, 2002, the Board of Directors approved the issuance of 98,182 shares of restricted common stock at the price of $.22 per share in lieu of $21,600 in accrued salary to two officers/directors.

(20)During the six months ended November 30, 2002, $32,364 was recorded as amortization expense for previously issued warrants and options.

(21)Lancer Orthodontics, Inc. issued non-qualified options granted to the Chief Executive Officer to purchase 113,000 shares of Common Stock at $.30. These options were granted on December 1, 2001 and are exercisable at the rate of one-third per year and have a term of five years.

(22)For the six months ended November 30, 2002, other income of $52,655 was realized from the insurance claim settlement of $134,413 for the theft of inventory at the Lancer Orthodontics, Inc.'s Mexicali facility, less $81,758 insurance claim receivable valued at cost.

(23) Lancer Orthodontics, Inc. issued non-qualified stock options to three employees totaling 70,000 shares during the quarter ended November 30, 2002. The shares are at $.28 per share and expire in five years.

(24) In October 2002 the Company signed an agreement with Medical Device Safety Service GmbH ("MDSS") wherein MDSS will act as the Company's Authorized Representative for the purpose of obtaining a CE-Mark in Europe.

(25) Reportable business segments for the six months and quarter ended November 30, 2002 and 2001 are as follows:

	Six Months Ended November 30, 2002	Six Months Ended November 30, 2001	Three Months Ended November 3 2002	20
Domestic sales:				
Orthodontic products	$1,566,000	$1,476,000	$ 812,000	$
Medical diagnostic products	796,000	488,000	$ 269,000	$
Foreign sales:				
Orthodontic products	$1,224,000	$1,588,000	$ 693,000	$
Medical diagnostic products	640,000	586,000	$ 363,000	$
Net sales:				
Orthodontic products	$2,790,000	$3,064,000	$1,505,000	$1,
Medical diagnostic products	1,436,000	1,074,000	632,000	
Total	$4,226,000	$4,138,000	$2,137,000	$2,
Operating profit (loss):				
Orthodontic products	$ (20,379)	$ (27,766)	$ 25,252	$
Medical diagnostic products	(274,012)	(388,897)	(170,687)	(
Total	$(294,391)	$ (416,663)	$ (145,435)	$
Operating loss from discontinued segment:				
AIT	$ -0-	$ 43,946	$ -0-	$
ReadyScript	38,531	(4,704)	14,437	
Total	$ 38,531	$ 39,242	$ 14,437	$

Domestic long-lived assets:				
Orthodontic products	$ 52,464	$ 21,038	$ 52,464	$
Medical diagnostic products	183,723	218,630	183,723	
Total	$ 236,187	$ 239,668	$ 236,187	$
Foreign long-lived assets:				
Orthodontic products	$ 19,295	$ 26,549	$ 19,295	$
Medical diagnostic products	-0-	-0-	-0-	
Total	$ 19,295	$ 26,549	$ 19,295	$
Total assets:				
Orthodontic products	$3,532,523	$3,717,208	$3,532,523	$3,
Medical diagnostic products	1,464,657	1,484,151	1,464,657	1,
Total	$4,997,180	$5,201,359	$4,997,180	$5,
Depreciation and amortization expense:				
Orthodontic products	$ 48,234	$ 53,712	$ 24,117	$
Medical diagnostic products	24,417	54,179	12,647	
Total	72,650	107,891	$ 36,764	$
Capital expenditures:				
Orthodontic products	$ (35,609)	-0-	$ (33,545)	$
Medical diagnostic products	(25,302)	(9,890)	(24,400)	
Total	$ (60,911)	$ (9,890)	$ (57,945)	$

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The net sales as reflected above consist of sales of unaffiliated customers only as there were no significant intersegment sales during the six months or quarter ended November 30, 2002 and 2001.

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

RESULTS OF OPERATIONS

Consolidated net sales for Biomerica were $4,226,038 for the six months ended November 30, 2002 as compared to $4,138,255 for the same period in the previous year. This represents an increase of $87,783, or 2%. For the quarter then ended sales were $2,136,529 as compared to $2,211,187 for the same period in the prior fiscal year. This represents a decrease of $74,658, or 3%. The increases for the six months were attributable to an increase in the diagnostic product's sales of $361,501 which was offset by lower orthodontics sales of $273,718. For the quarter sales in the diagnostics' area increased by $49,771. With respect to orthodontics, sales were lower by $124,429 due to lower international sales, particularly in Europe and South America.

Cost of sales for the six months increased as a percentage of sales from 68% to 70% and for the three months increased from 63% to 71%. The increase at Lancer was attributable to higher production costs. For the six months, cost of sales at Biomerica were constant between the two periods. Increases at Biomerica during the quarter were attributable to a lower margin sales mix and certain costs that remain fixed.

Selling, general and administrative costs decreased by $182,207, or 11% for the six months and by $150,243, or 18% for the three months ended November 30, 2001. Lancer had a decrease of $195,084 for the six months and $104,183 for the three months due to a decrease in marketing support personnel. At Biomerica these expenses increased by $12,877 for the six months and decreased by $46,060 for the three months. This decrease was due to lower wages, rent, consulting expenses and other cost cutting measures.

Research and development increased by $21,556, or 24% for the six months and $31,514, or 103% for the three months. The increases were due to increases at Lancer of $31,182 and $15,996 for the six and three months, respectively, a result of resumption of product development at Lancer. Biomerica had decreases of $9,626 for the six months and an increase of $15,518 for the three months due to the hiring of new employees in the research and development during the second quarter, where earlier in the year there had been cutbacks.

Interest expense increased by $2,447 for the six months and $2,140 for the three months compared to the previous year due to borrowings on the line of credit at Biomerica offset by reduction of borrowing on the line of credit at Lancer.

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At November 30, 2002, the Company retained a direct 31.1% interest in Lancer Orthodontics. The Company maintains a 53.76% indirect voting control over Lancer Orthodontics via agreements with certain shareholders. The Company also retains 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, 2002, for a more in-depth discussion of subsidiaries.

LIQUIDITY AND CAPITAL RESOURCES

As of November 30, 2002, the Company had cash and available-for-sale securities in the amount of $490,738 and working capital of $2,695,746. Cash and working capital totaling $434,312 and $2,889,348, 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. 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 six months ended November 30, 2002, the Company used net cash in operations of $363,596. This compares to net cash provided by operations of $228,748 in the same period in the prior fiscal year. Cash used by financing activities was $117,719, which resulted from the payment on the line of credit at Lancer of $65,669 and payment of the shareholder loan at Biomerica of $52,050.

On January 15, 2002, the Company had 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 were, 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 De- termination. 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.

The Company was unable to satisfy the conditions within the deadlines established by the Panel. Pursuant to a decision by the Nasdaq Listing Qualifications Panel, the Company's common stock was delisted from the Nasdaq Stock Market effective June 20, 2002, for failure to comply with the net tangible assets or shareholders' equity requirements as set forth in Marketplace Rule 4310(c)(2)(B). The Company's securities were immediately eligible to trade on the OTC Bulletin Board and are traded under the symbol BMRA.OB.

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 was subject to delisting from the Nasdaq SmallCap Market. In accordance with Marketplace Rule 4310(c)(8)(D), the Company would have been provided 180 calendar days, or until August 13, 2002, to regain compliance. However, prior to that time, the Company was delisted according to the above mentioned reasons.

Shares traded on the OTC Bulletin Board are not as liquid as those traded on Nasdaq National market or the Nasdaq SmallCap market.

Lancer has a $400,000 line of credit with GE Capital Healthcare Financial Services, expiring October 24, 2003. Borrowings are made at prime plus 2.0%, in no event less than 8.0%, (8.0% at November 30, 2002) and are limited to 80% of accounts receivable less than 90 days old with a liquidity factor of 94%. The outstanding balance at November 30, 2002 was $.00 and the unused portion available was approximately $336,000.

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. Proceeds from this line cannot be used to support the operations of 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, 2003. The unused portion of the line of credit at November 30, 2002, was $187,050. 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.

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

Our 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 our business, results of operations and financial condition. Furthermore, we may experience an increase in operating costs, such as costs for transportation, insurance and security as a result of the activities and potential activities. We 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 our ability to grow our business.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK. A discussion of the Company's exposure to, and management of, market risk appears in Item 2 of this Form 10-QSB under the heading "Management's Discussion and Analysis of Financial Condition and Selected Financial Data."

Item 4. PROCEDURES AND CONTROLS. Within the 90 days prior to the date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective. There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls to the date of their evaluation.

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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. A report on Form 8-K was filed with the Securities and Exchange Commission on June 6, 2002.

(a) Exhibits

99.1 Certifications of Chief Executive Officer and Chief Financial Officer pursuant To 18 U.S.C., Section 1350, as adopted pursuant to Section 302 and 906 of the Sarbanes-Oxley Act of 2002.

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: January 21, 2003

BIOMERICA, INC.

By: /S/ Zackary S. Irani

Zackary Irani
Chief Executive Officer

STATEMENT PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002 BY PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER REGARDING FACTS AND CIRCUMSTANCES RELATING TO EXCHANGE ACT FILINGS

I, Janet Moore, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Biomerica, Inc.

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the period presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and Maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14 for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and;

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: January 21, 2003

/s/ Janet Moore

Chief Financial Officer

STATEMENT PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002 BY PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER REGARDING FACTS AND CIRCUMSTANCES RELATING TO EXCHANGE ACT FILINGS

I, Zackary Irani, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Biomerica, Inc.

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the period presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and;

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: January 21, 2003

/s/ Zackary S. Irani

Chief Executive Officer

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