BIOMERICA INC
Form 10QSB
October 16, 2006

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 August 31, 2006 — 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 by check mark whether the Registrant is an accelerated filer (as Defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 5,922,681 shares of common stock as of October 15, 2006.

BIOMERICA, INC.

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PART I

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

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

	Three Months Ended August 31, 2006	Three Months Ended August 31, 2005
Net sales	$1,153,266	$ 2,350,150
Cost of sales	(777,615)	(1,607,942
Gross profit	375,651	742,208

Operating Expenses:		
Selling, general and administrative	290,455	753,160
Research and development	41,001	84,777
	331,456	837,937
Operating gain (loss) from continuing operations	44,195	(95,729
Other Expense (income):		
Interest expense	7,502	11,013
Other income, net	(10)	(37,897
	7,492	(26,884
Income (loss) from continuing operations, before minority interest in net loss of consolidated subsidiaries and income taxes	36,703	(68,845
Minority interest in net losses of consolidated subsidiaries	--	132,236
Income from continuing operations, before income taxes	36,703	63,391
Income tax expense	0	0
Net income from continuing operations	$ 36,703	$ 63,391

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

Discontinued operations:		
Income from discontinued operations, net	27,869	--
Net income	64,572	63,391
Other comprehensive gain (loss), net of tax		
Unrealized gain (loss) on available-for-sale securities	165	(3,358)
Comprehensive gain (loss)	$ 64,737	$ 60,033
Basic net income per common share:		
Net income from continuing operations	$ .01	$ .01
Net income from discontinued operations	.00	.00
Basic net income per common share	$ .01	$ .01

Diluted net income per common share:		
Net income from continuing operations	$ .01	$ .01
Net income from discontinued operations	.00	.00
Diluted net income per common share	$ .01	$ .01
Weighted average number of common and common equivalent shares:		
Basic	5,922,681	5,753,686
Diluted	6,376,894	6,620,621

The accompanying notes are an integral part of these statements.

BIOMERICA, INC.

CONSOLIDATED BALANCE SHEET (UNAUDITED)

	August 31, 2006
Assets	
Current Assets	
Cash and cash equivalents	$ 89,550
Available for-sale securities	3,444
Accounts receivable, less allowance for doubtful accounts of $7,030	570,494
Inventories, net	1,171,000
Notes receivable	3,750
Prepaid expenses and other	74,619
Net assets from discontinued operations	598
Total Current Assets	1,913,455
Inventory, non-current	23,663
Property and Equipment, net of accumulated depreciation and amortization	181,823
Intangible assets, net of accumulated amortization	6,469
Available-for-sale securities	410,137
Other Assets	13,419
	$2,548,966

The accompanying notes are an integral part of these statements.

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BIOMERICA, INC.

CONSOLIDATED BALANCE SHEET - Continued (UNAUDITED)

	August 31, 2006
Liabilities and Shareholders' Equity	
Current Liabilities	
Accounts payable and accrued liabilities	$ 634,018
Accrued compensation	500,551
Current portion of shareholder loan	248,812
Capital lease - short term portion	3,884
Total Current Liabilities	1,387,265
Capital lease-long-term portion	7,549
Shareholders' Equity	
Common stock, $0.08 par value authorized 25,000,000 shares, issued and outstanding 5,922,681	473,813
Additional paid-in-capital	17,127,432
Accumulated other comprehensive loss	(226,805)
Accumulated deficit	(16,220,288)
Total Shareholders' Equity	$ 1,154,152
Total Liabilities and Equity	$ 2,548,966

The accompanying notes are an integral part of these statements.

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

For the three months ended August 31,	2006	2005
Cash flows from operating activities:		
Net income from continuing operations	$ 36,703	$ 63,391
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	13,520	37,644
Minority interest in net loss of consolidated Subsidiary	--	(132,236)

Common stock, warrants and options issued for services rendered	708	234
Provision for losses on accounts receivable	--	17,143
Changes in current assets and liabilities:		
Accounts Receivable	(9,772)	(83,641)
Inventories	(66,633)	(158,620)
Prepaid expenses and other current assets	(20,701)	(8,347)
Accounts payable and other accrued liabilities	53,251	59,644
Accrued compensation	17,243	(9,985)
Net cash provided by (used in) operating activities	24,319	(214,773)
Cash flows from investing activities:		
Purchases of property and equipment	(66,658)	(160,043)
Net cash used in investing activities	(66,658)	(160,043)
Cash flows from financing activities:		
Change in minority interest	--	20,500
Decrease in shareholder loan	(12,130)	(6,061)
Proceeds from sale of common stock	24,960	--
Exercise of stock options	--	398
Decrease in line of credit at subsidiary	--	(150,000)
Common stock to be issued at subsidiary	--	384,800
Payments on capital lease	(855)	--
Net cash provided by financing activities	11,975	249,637
Net cash used in discontinued operations	--	--
Net decrease in cash and cash equivalents	(30,364)	(125,179)
Cash and cash equivalents at beginning of period	119,914	351,881
Cash and cash equivalents at end of period	$ 89,550	$ 226,702
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the quarter for:		
Interest	$ 6,564	$ 5,938
Change in unrealized holding loss on available-for-sale securities	$ 165	$ (3,358)
Change in minority interest due to subsidiary stock issuance	$ --	$ (50,185)

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

August 31, 2006

(1) Reference is made to Note 2 of the Notes to Consolidated Financial Statements contained in Biomerica, Inc.'s (the "Company") Annual Report on Form 10-KSB for the fiscal year ended May 31, 2006, for a summary of significant accounting policies utilized by the Company.

(2) As of August 31, 2006, the Company had cash and available-for-sale securities in the amount of $92,994 and working capital of $526,190. The Company also has $410,137 of long term available-for-sale securities.

These consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has operating and liquidity concerns due to historically reporting net losses and negative cash flows from operations. Biomerica's shareholder's line of credit expired on September 13, 2003 and was not renewed. The unpaid principal and interest was converted into a note payable in the amount of $313,318 bearing interest at 8% and payable September 1, 2004. The due date on this note was extended until September 1, 2005 and subsequently to September 1, 2006 at the same terms. Minimum payments are $4,000 per month plus an additional $3,500 per month, depending on quarterly results of the Company. Although the Company is currently out of compliance with the terms of the loan agreement, in August 2006 the note holder agreed to extend the due date on the note payable until September 1, 2007. The terms of the note are the same except that additional payments of $3,500 per month, depending on quarterly results of the Company, have been reduced to $2,000 per month. Of the additional payments of $10,500 per quarter due for the quarters ended August 31, 2005, November 30, 2005 and February 28, 2006, and May 31, 2006, only $5,250 has been paid.

Until two years ago Biomerica had suffered substantial recurring losses from operations. Biomerica has funded its operations through profits as well as debt and equity financings for the past two years. ReadyScript operations were discontinued in May 2001. ReadyScript was a contributor to the Company's losses in prior fiscal years. During the fiscal years ended May 31, 2006 and 2005, certain ReadyScript liabilities were forgiven and thus income from discontinued operations for the years then ended was recorded. The subsidiary is being reported in the financial statements as a discontinued operation because it is no longer an operating entity.

In the last several years the Company has been focusing on reducing costs where possible and concentrating on its core business to increase sales. Management believes that cash flows from current operations will be sufficient to fund operations for at least the next twelve months. Should the Company have a downturn in sales or unanticipated, increased expenses, the result for the Company could be the inability to continue as a going concern. The Company will continue to have limited cash resources. Biomerica has no open or existing, operating line of credit or loans on which it can draw any new or additional debt financing, however management is currently investigating the possibility of obtaining a line of credit from a bank.

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

The following table presents on a pro forma basis a breakdown by company of the Statement of Operations for the three months ended August 31, 2005.

PRO FORMA STATEMENT OF OPERATIONS BY COMPANY (UNAUDITED)

	Three Months Ended August 31, 2005			
	Actual	Intercompany Eliminations	Pro-forma Lancer	Bi
NET SALES	$2,350,150		$(1,377,098)	$
COST OF SALES	1,607,942	8,625 (1)	(1,064,705)	
GROSS PROFIT	742,208	(8,625)(1)	(312,393)	
OPERATING EXPENSES:				
SELLING, GENERAL AND ADMIN	753,160		(481,012)	
RESEARCH AND DEVELOPMENT	84,777		(20,156)	
TOTAL OPERATING EXPENSES	837,937		(501,168)	
OPERATING INCOME (LOSS)	(95,729)	(8,625)	188,775	
OTHER EXPENSE (INCOME)				
Interest	11,013		(2,891)	
Other expense (income)	(37,897)	(8,625)(2)	19,011	
	(26,884)	(8,625)(2)	16,120	
INCOME (LOSS) FROM OPERATIONS BEFORE INTEREST IN NET INCOME (LOSS) OF CONSOLIDATED SUBSIDIARIES AND INCOME TAXES	(68,845)		172,655	
MINORITY INTEREST IN NET LOSS (INCOME) OF LANCER	132,236	(172,655)(3) 40,419 (4)		
INCOME (LOSS) FROM OPERATIONS BEFORE INCOME TAXES	63,391	(132,236)	172,655	
INCOME TAX EXPENSE	--	--	--	
NET INCOME (LOSS)	$63,391	$ (132,236)	$ 172,655	$

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

(3) In December 2004, the Financial Accounting Standards Board ("FASB") Issued Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS No. 123R). SFAS No. 123R revised SFAS No. 123, Accounting For Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance. SFAS No. 123R requires compensation costs related to share-based payment transactions to be recognized in the financial statement (with limited exceptions). The amount of compensation cost is measured based on the grant- date fair value of the equity or liability instruments issued. Compensation cost is recognized over the period that an employee provides service in exchange for the award. As of the beginning of fiscal 2007, June 1, 2006, the Company was required to account for stock-based compensation using this method.

The Black Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

If the Company had accounted for its options in accordance with SFAS 123(R) in fiscal 2006, the total value of options granted during the three month period ended August 31, 2005 would have been expensed over the vesting period of the options. Thus, the Company's consolidated net income (loss) would have been as follows:

Net Income (Loss)	2005
As reported	$ 63,391
Add: Stock-based employee compensation expense included in reported net income (loss)	--
Less: Stock-based employee compensation expense determined using fair value based method for all awards	(14,692)
Pro forma	$ 48,699
Pro forma net income from continuing operations per share - basic	$ 0.01
Pro forma net income from	

continuing operations per share - diluted	$ 0.01

For the three months ended August 31, 2006, the Company expensed approximately $708 of stock option expense due to SFAS 123(R) in its financial statements.

(4) The following summary presents the options granted, exercised, expired, cancelled and outstanding as of August 31, 2006:

	Number of Options and Warrants			Weighted Average Exercise
	Employee	Non-employee	Total	Price
Outstanding May 31, 2006	1,748,284	152,666	1,900,950	$ 0.64
Granted	10,000	--	10,000	$ 0.50
Exercised	--	--	--	--
Cancelled or expired	(81,338)	--	(81,338)	$ 1.02
Outstanding August 31, 2006	1,676,946	152,666	1,829,612	$ 0.59

(5) The information set forth in these condensed consolidated statements is unaudited and may be subject to normal year-end adjustments. The information reflects all adjustments which, in the opinion of management, are necessary to present a fair statement of the consolidated results of operations of Biomerica, Inc., for the periods indicated. It does not include all information and footnotes necessary for a fair presentation of financial position, results of operations, and cash flow in conformity with generally accepted accounting principles.

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

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

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

(9) Aggregate cost exceeded market value of available-for-sale securities by approximately $226,800 at August 31, 2006.

(10) Earnings Per Share

In February 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards (SFAS) No. 128, EARNINGS PER SHARE ("EPS"). SFAS No. 128 requires dual presentation of basic EPS and diluted

EPS on the face of all income statements issued after December 15, 1997 for all entities with complex capital structures. Basic EPS is computed as net income divided by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur from common shares issuable through stock options, warrants and other convertible securities.

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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.

	AUGUST 31, 2006	AUGUST 31, 2005
Numerator:		
Income from continuing operations	$ 36,703	$ 63,391
Income from discontinued operations	27,869	--
Numerator for basic and diluted net income per common share	$ 64,572	$ 63,391
Denominator for basic net income per common share	5,922,681	5,753,686
Effect of dilutive securities:		
Options and warrants	454,213	866,935
Denominator for diluted net income per common share	6,376,894	6,620,621
Basic net income per common share:		
Income from continuing operations	$ 0.01	$ 0.01
Income from discontinued operations	0.00	0.00
Basic net income per common share	$ 0.01	$ 0.01
Diluted net income per common share:		
Income from continuing operations	$ 0.01	$ 0.01
Net income from discontinued operations	0.00	0.00
Diluted net income per common share	$ 0.01	$ 0.01

(11) In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS No. 123R). FAS No. 123R revised SFAS No. 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance. SFAS No. 123R will require compensation costs related to share-based payment transactions to be recognized in the financial statement (with limited exceptions). The amount of compensation cost will be measured based on the grant-date fair value of the equity or liability instruments issued. Compensation cost will be

recognized over the period that an employee provides service in exchange for the award.

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

In April 2005, the Securities and Exchange Commission adopted a new rule that amends the compliance dates for SFAS No. 123R. The Statement requires that compensation cost relating to share-based payment transactions be recognized in financial statements and that this cost be measured based on the fair value of the equity or liability instruments issued. SFAS No. 123R covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. The Company adopted SFAS No. 123R on June 1, 2006.

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

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

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

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

	For the Three Months Ended 8/31/06	8/31/05
Revenues from sales to unaffiliated customers:		
United States	$ 226,000	$ 943,000
Asia	132,000	129,000
Europe	624,000	786,000
South America	17,000	145,000
Middle East	5,000	38,000
Oceania	131,000	143,000
Other	18,000	166,000
	$1,153,000	$2,350,000

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

(14) During fiscal 2006 an employee of the Company exercised a stock option for 750 shares at the purchase price of $.20 per share and 750 shares at the purchase price of $.33 per share. The total proceeds to the Company was $398.

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

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

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

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

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

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

Options or warrants granted are assigned values according to current market value, using the Black-Scholes model for option valuation. The term used in the calculation of the options or warrants is the vesting period. A discount rate equivalent to five-year (or other life of the option or warrant) Treasury constant maturity interest rates is utilized. The historical volatility of the stock is calculated using weekly historical closing prices for the prior year as reported by Yahoo Finance. For purposes of the SFAS 123 footnote disclosure, the Black-Scholes Model is also used for calculating employee options and warrants valuations.

When shares are issued for services or other non-cash consideration, fair value is measured using the current market value on the day of the Board of Directors approval of such issuance.

(15) Reportable business segments for the quarter ended August 31, 2006 and 2005 are as follows:

	2006	2005
Domestic sales:		
Orthodontic products	$ --	$ 748,000
Medical diagnostic products	$ 226,000	$ 195,000
Foreign sales:		
Orthodontic products	$ --	$ 629,000
Medical diagnostic products	$ 927,000	$ 778,000
Net sales:		
Orthodontic products	$ --	$ 1,377,000
Medical diagnostic products	1,153,000	973,000
Total	$ 1,153,000	$ 2,350,000
Operating gain (loss):		
Orthodontic products	$ --	$ (188,000)
Medical diagnostic products	44,000	92,000
Total	$ 44,000	$ (96,000)

Operating loss from discontinued segment:		
ReadyScript	--	--
Total	$ --	$ --
Domestic long-lived assets:		
Orthodontic products	$ --	$ 576,000
Medical diagnostic products	154,000	110,000
Total	$ 154,000	$ 686,000
Foreign long-lived assets:		
Orthodontic products	$ --	$ 245,000
Medical diagnostic products	28,000	10,000
Total	$ 28,000	$ 255,000
Total assets:		
Orthodontic products	$ --	$ 4,268,000
Medical diagnostic products	2,549,000	1,750,000
Total	$ 2,549,000	$ 6,018,000
Depreciation and amortization expense:		
Orthodontic products	$ --	$ 20,000
Medical diagnostic products	14,000	18,000
Total	$ 14,000	$ 38,000
Capital expenditures:		
Orthodontic products	$ --	$ 156,000
Medical diagnostic products	67,000	4,000
Total	$ 67,000	$ 160,000

The net sales as reflected above consist of sales of unaffiliated customers only as there were no significant intersegment sales during the quarters ended August 31, 2006 and 2005.

(17) In April 2003, Lancer de Mexico entered into a manufacturing subcontractor agreement with Biomerica, Inc., to provide manufacturing services in Mexicali, Mexico. The agreement requires reimbursement from Biomerica for discrete

expenses such as payroll, shipping, and customs fees and service fees of approximately $2,900 per month.

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

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

(21) Under its bylaws, the Company has agreed to indemnify its officers and directors for certain events or occurrences arising as a result of the officer or director's serving in such capacity. The term of the indemnification period is for the officer's or director's lifetime. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited. However, the Company has a directors and officer liability insurance policy that limits its exposure and enables it to recover a portion of any future amounts paid.

As a result of its insurance policy coverage, the Company believes the estimated fair value of these indemnification agreements is minimal and has no liabilities recorded for these agreements as of August 31, 2006. The Company enters into indemnification provisions under (i) its agreements with other companies in its ordinary course of business, typically with business partners, contractors, and customers, landlords and (ii) its agreements with investors. Under these provisions the Company generally indemnifies and hold harmless the indemnified party for losses suffered or incurred by the indemnified party as a result of the Company's activities or, in some cases, as a result of the indemnified party's activities under the agreement. These indemnification provisions often include indemnifications relating to representations made by the Company with regard to intellectual property rights. These indemnification provisions generally survive termination of the underlying agreement. The maximum potential amount of future payments the Company could be required to make under these indemnification provisions is unlimited. The Company has not incurred material costs to defend lawsuits or settle claims related to these indemnification agreements. As a result, the Company believes the estimated fair value of these agreements is minimal. Accordingly, the Company has no liabilities recorded for these agreements as of August 31, 2006.

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

CERTAIN INFORMATION CONTAINED HEREIN (AS WELL AS INFORMATION INCLUDED IN ORAL STATEMENTS OR OTHER WRITTEN STATEMENTS MADE OR TO BE MADE BY BIOMERICA) CONTAINS STATEMENTS THAT ARE FORWARD-LOOKING, SUCH AS STATEMENTS RELATING TO ANTICIPATED FUTURE REVENUES OF THE COMPANY AND SUCCESS OR CURRENT PRODUCT OFFERINGS. SUCH

FORWARD-LOOKING INFORMATION INVOLVES IMPORTANT RISKS AND UNCERTAINTIES THAT COULD SIGNIFICANTLY AFFECT ANTICIPATED RESULTS IN THE FUTURE, AND ACCORDINGLY, SUCH RESULTS MAY DIFFER MATERIALLY FROM THOSE EXPRESSED IN ANY FORWARD-LOOKING STATEMENTS MADE BY OR ON BEHALF OF BIOMERICA. THE POTENTIAL RISKS AND UNCERTAINTIES INCLUDE, AMONG OTHERS, FLUCTUATIONS IN THE COMPANY'S OPERATING RESULTS. THESE RISKS AND UNCERTAINTIES ALSO INCLUDE THE SUCCESS OF THE COMPANY IN RAISING NEEDED CAPITAL, THE ABILITY OF THE COMPANY TO MAINTAIN REQUIREMENTS TO BE LISTED ON NASDAQ, THE CONTINUAL DEMAND FOR THE COMPANY'S PRODUCTS, COMPETITIVE AND ECONOMIC FACTORS OF THE MARKETPLACE, AVAILABILITY OF RAW MATERIALS, HEALTH CARE REGULATIONS AND THE STATE OF THE ECONOMY. READERS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS, WHICH SPEAK ONLY AS OF THE DATE HEREOF, AND THE COMPANY UNDERTAKES NO OBLIGATION TO UPDATE THESE FORWARD-LOOKING STATEMENTS.

RESULTS OF OPERATIONS

Consolidated net sales for Biomerica were $1,153,266 for the first quarter of fiscal 2007 as compared to $2,350,150 for the same period in the previous year. This represents a decrease of $1,196,884, or 50.9%. The overall decrease in sales from fiscal 2006 to 2007 is a result of the deconsolidation of Lancer as of December 1, 2005. On a stand-alone basis, the sales of Biomerica increased from $973,052 to $1,153,266, or $180,214 (18.5%).

Cost of sales decreased from $1,607,942, or 68.4% of sales, to $777,615, or 67.4% of sales. The overall dollar decrease in cost of goods from fiscal 2006 to 2007 is a result of the deconsolidation of Lancer as of December 1, 2005. On a stand-alone basis, cost of sales increased by $225,753, or from 56.7% of sales to 67.4% of sales. This increase was primarily due to increased burden expenses and expenses due to hiring of additional personnel in production in anticipation of higher production volumes in the forthcoming months.

Selling, general and administrative costs decreased by $462,705, or 61.4%. The overall decrease in selling, general and administrative from fiscal 2006 to 2007 is a result of the deconsolidation of Lancer as of December 1, 2005. On a stand-alone basis, selling, general and administrative costs increased by $18,307, primarily as a result of increased wages.

Research and development decreased by $43,776, or 51.6%. The overall decrease in research and development expenses is a result of the deconsolidation of Lancer as of December 1, 2005. On a stand-alone basis, research and development costs decreased by $23,620 due to a research contract payment in fiscal 2006.

For the three months ended August 31, 2006, other income of $10 was realized as compared to $37,897 in the prior year, which resulted in a decrease of $37,887. The overall decrease in other income is a result of the deconsolidation of Lancer as of December 1, 2005. On a stand-alone basis, other income decreased by $27,501 due to a one-time sales contract payment in fiscal 2006.

Interest expense decreased from $11,013 to $7,502. The overall decrease in interest expense is a result of the deconsolidation of Lancer as of December 1, 2005. On a stand-alone basis, interest expense decreased by $620 due to the payment of principal on the note payable.

LIQUIDITY AND CAPITAL RESOURCES

As of August 31, 2006, the Company had cash and available-for-sale securities in the amount of $92,994 and working capital of $526,190.

These consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has operating and liquidity concerns due to historically reporting net losses and negative cash flows from operations. Biomerica's shareholder's line of credit expired on September 13, 2003 and was not renewed. The unpaid principal and interest was converted into a note payable in the amount of $313,318 bearing interest at 8% and payable September 1, 2004. The due date on this note was extended until September 1, 2005 and subsequently to September 1, 2006 at the same terms. Minimum payments are $4,000 per month plus an additional $3,500 per month, depending on quarterly results of the Company. Although the Company is currently out of compliance with the terms of the loan agreement, in August 2006 the note holder agreed to extend the due date on the note payable until September 1, 2007. The terms of the note are the same except that additional payments of $3,500 per month, depending on quarterly results of the Company, have been reduced to $2,000 per month. Of the additional payments of $10,500 per quarter due for the quarters ended August 31, 2005, November 30, 2005, February 28, 2006 and May 31, 2006 $5,250 has been paid.

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Until two years ago Biomerica had suffered substantial recurring losses from operations. Biomerica has funded its operations through profits as well as debt and equity financings for the past two years. ReadyScript operations were discontinued in May 2001. ReadyScript was a contributor to the Company's losses in prior fiscal years. During the fiscal years ended May 31, 2006 and 2005, certain ReadyScript liabilities were forgiven and thus income from discontinued operations for the years then ended was recorded. The subsidiary is being reported in the financial statements as a discontinued operation because it is no longer an operating entity.

In the last several years the Company has been focusing on reducing costs where possible and concentrating on its core business to increase sales. Management believes that cash flows from current operations will be sufficient to fund operations for at least the next twelve months. Should the Company have a downturn in sales or unanticipated, increased expenses, the result for the Company could be the inability to continue as a going concern. The Company will continue to have limited cash resources. Biomerica has no open or existing, operating line of credit or loans on which it can draw any new or additional debt financing, however management is currently investigating the possibility of obtaining a line of credit from a bank.

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

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During the quarter ended August 31, 2006, the Company operations provided cash of $24,319 as compared to cash used in operations of $214,773 in the same period in the prior fiscal year. The increase was primarily due to increased payables and accrued compensation, which was offset by increased inventories. Cash provided by financing activities for fiscal 2007 was $11,975 due to payments on the shareholder note payable as compared to cash provided by financing activities of $249,637 in fiscal 2006, which was a result of a private placement at Lancer due to the deconsolidation of Lancer as of December 1, 2005. Purchases of property and equipment for fiscal 2007 were $66,658 compared to $160,043 in fiscal 2006. In fiscal 2006 this included the purchases made by Lancer, whereas fiscal 2007 only included purchases made by Biomerica. The overall decrease in cash and cash equivalents for the three months ended August 31, 2006 was $30,364 as compared to the prior year of $125,179.

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial condition and results of operations are based on the consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. Note 2 of the Notes to Consolidated Financial Statements contained in the Company's annual report on Form 10KSB for the period ended May 31, 2006, describes the significant accounting policies essential to the consolidated financial statements. The preparation of these financial statements requires estimates and assumptions that affect the reported amounts and disclosures.

We believe the following to be critical accounting policies as they require more significant judgments and estimates used in the preparation of our consolidated financial statements. Although we believe that our judgments and estimates are appropriate and correct, actual future results may differ from our estimates.

In general the critical accounting policies that may require judgments or estimates relate specifically to the Allowance for Doubtful Accounts, Inventory Reserves for Obsolescence and Declines in Market Value, Impairment of Long-Lived Assets, Stock Based Compensation and Income Tax Accruals.

Revenues from product sales are recognized at the time the product is shipped, customarily FOB shipping point, at which point title passes. When necessary an allowance is established for estimated returns as revenue is recognized.

The Allowance for Doubtful Accounts is established for estimated losses resulting from the inability of our customers to make required payments. The assessment of specific receivable balances and required reserves is performed by management and discussed with the audit committee. We have identified specific customers where collection is not probable and have established specific reserves, but to the extent collection is made, the allowance will be released. Additionally, if the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Reserves are provided for excess and obsolete inventory, which are estimated based on a comparison of the quantity and cost of inventory on hand to management's forecast of customer demand. Customer demand is dependent on many factors and requires us to use significant judgment in our forecasting process. We must also make assumptions regarding the rate at which new products will be accepted in the marketplace and at which customers will transition from older products to newer products. Once a reserve is established, it is maintained until the product to which it relates is sold or otherwise disposed of, even if in subsequent periods we forecast demand for the product. The Company has classified certain inventory as long-term since it is estimated that it will not be used within the next year. Biomerica currently has $23,663 classified as long-term.

We have been in a loss position for tax purposes in prior years, and have established a valuation allowance against deferred tax assets, as we do not believe it is likely that we will generate sufficient taxable income in future periods to realize the benefit of our deferred tax assets. Predicting future taxable income is difficult, and requires the use of significant judgment. At August 31, 2006, all of our deferred tax assets were reserved. Accruals are made for specific tax exposures and are generally not material to our operating results or financial position, nor do we anticipate material changes to these reserves in the near future.

The consolidated financial statements reflect, for all periods presented, the adoption of the classification or disclosure requirements pursuant to Emerging Issues Task Force ("EITF") 00-10, "Accounting for Shipping and Handling Fees and Costs." The Company has historically classified income from freight charges to customers as sales, which has been offset by shipping and handling costs. The income from freight for the quarters ended August 31, 2006 and 2005, respectively, was $25,069 and $28,006. The financial statements presented herein show the income from shipping and handling as a component of sales for both periods and the costs of shipping and handling as a component of cost of goods sold. Fiscal 2006 revenue and cost of sales were adjusted to reflect compliance with EITF 00-10.

Please refer to the annual report on Form 10-KSB for the period ended May 31, 2006 for an in-depth discussion of risk factors.

FACTORS THAT MAY AFFECT FUTURE RESULTS

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

You should read the following factors in conjunction with the factors discussed elsewhere in this and our other filings with the SEC and in materials incorporated by reference in these filings. The following is intended to highlight certain factors that may affect the financial condition and results of operations of Biomerica and are not meant to be an exhaustive discussion of risks that apply to companies such as Biomerica. Like other businesses, Biomerica is susceptible to macroeconomic downturns in the United States or abroad, that may affect the general economic climate and performance of Biomerica or its' customers. Aside from general macroeconomic downturns, the additional material factors that could affect future financial results include, but are not limited to: Terrorist attacks and the impact of such events; diminished access to raw materials that directly enter into our manufacturing process; shipping labor disruption or other major degradation of the ability to ship our products to end users; inability to successfully control our margins which are affected by many factors including competition and product mix; protracted shutdown of the U.S. Border due to an escalation of terrorist or counter terrorist activity; any changes in our business relationships with international distributors or the economic climate they operate in; any event that has a material adverse impact on our foreign manufacturing operations may adversely affect our operation as a whole; failure to manage the future expansion of our business could have an adverse affect on our revenues and profitability; possible costs in complying with government regulations and the delays in receiving required regulatory approvals or the enactment of new adverse regulations or regulatory requirements; numerous competitors, most of which have substantially greater financial and other resources than we do; potential claims and litigation brought by patients or medical professionals alleging harm caused by the use of or exposure to our products; quarterly variations in operating results caused by a number of factors, including business and industry conditions and other factors beyond our control. All of these factors make it difficult to predict operating results for any particular period.

Item 4. CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Chief Financial Officer (the Company's principal executive officer and principal financial officer, respectively) have concluded, based on their evaluation as of August 31, 2006, that the design and operation of the Company's "disclosure controls and procedures" (as defined in rules 13a-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act") are effective to ensure that information required to be disclosed by the Company in the reports filed or submitted by the Company under the Exchange Act is accumulated, recorded, processed, summarized and reported to the Company's management, including the Company's principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding whether or not disclosure is required.

During the quarter ended August 31, 2006, there were no changes in the Company's "internal controls over financial reporting" (as defined in Rule 13a-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS. Inapplicable.

Item 2. CHANGES IN SECURITIES AND USE OF PROCEEDS. Inapplicable.

Item 3. DEFAULTS UPON SENIOR SECURITIES. Inapplicable.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS. Inapplicable.

Item 5. OTHER INFORMATION. Inapplicable.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K. Inapplicable.

(a) Exhibits

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: October 16, 2006

BIOMERICA, INC.

By: /S/ Zackary S. Irani

Zackary S. Irani
Chief Executive Officer

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Zackary S. Irani, certify that:

1. I have reviewed this Quarterly Report on Form 10-QSB of Biomerica, Inc.;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects, the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this 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-15(e) and 15d-15(e)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

and

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

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 16, 2006

/s/ Zackary S. Irani

Zackary S. Irani
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

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 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 report;

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

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

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 16, 2006

/s/ Janet Moore

Janet Moore
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Biomerica, Inc. (the "Company") on Form 10-QSB for the period ending August 31, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Zackary Irani, Chief Executive Officer of the Company, certify, to the best of my knowledge, Pursuant to Exchange Act Rule 15d-14(b) and 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes Oxley Act of 2002,

i. The Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934, and

ii. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Zackary S. Irani

Zackary S. Irani
Chief Executive Officer

Date: October 16, 2006

EXHIBIT 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Biomerica, Inc. (the "Company") on Form 10-QSB for the period ending August 31, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Janet Moore, Chief Financial Officer of the Company, certify, to the best of my knowledge, Pursuant to Exchange Act Rule 15d-14(b) and 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes Oxley Act of 2002,

iii. The Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934, and

iv. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Janet Moore

Janet Moore
Chief Financial Officer

Date: October 16, 2006