BIOMERICA INC
Form 10QSB
April 14, 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 February 28, 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: 5,766,681 shares of common stock as of April 14, 2006.

BIOMERICA, INC.

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PART I

THE FOLLOWING CONSOLIDATED STATEMENT OF OPERATIONS HAS BEEN PREPARED ON A PROSPECTIVE BASIS. THE DECONSOLIDATION OF LANCER ORTHODONTICS FROM BIOMERICA OCCURRED DECEMBER 1, 2005. THEREFORE, THE NINE MONTHS ENDED FEBRUARY 28, 2006, INCLUDE THE OPERATIONS FOR BIOMERICA DIAGNOSTICS FOR NINE MONTHS BUT ONLY SIX MONTHS OF OPERATIONS FOR LANCER ORTHODONTICS. THE NINE MONTHS ENDED FEBRUARY 28, 2005, INCLUDE NINE MONTHS OF OPERATIONS OF BOTH BIOMERICA DIAGNOSTICS AND LANCER ORTHODONTICS. THE THREE MONTHS ENDED FEBRUARY 28, 2006 INCLUDE ONLY THE RESULTS OF OPERATIONS FOR BIOMERICA DIAGNOSTICS AND THE THREE MONTHS ENDED FEBRUARY 28, 2005 INCLUDE THREE MONTHS OF OPERATIONS OF BOTH BIOMERICA DIAGNOSTICS AND LANCER ORTHODONTICS. PLEASE REFER TO THE FOLLOWING NOTE 1, WHICH GIVES A BREAKDOWN OF THE RESULTS BY COMPANY.

PART I - FINANCIAL INFORMATION

SUMMARIZED FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

BIOMERICA, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE LOSS (UNAUDITED)
(SEE NOTE 1)

	Nine Months Ended February 28, 2006	Nine Months Ended February 28, 2005
Net sales	$ 5,717,260*	$ 6,691,509
Cost of sales	(3,820,715)	(4,461,838)
Gross profit	1,896,545	$ 2,229,671
Operating Expenses:		
Selling, general and administrative	1,866,470	2,195,439
Research and development	193,360	203,816
	2,059,830	2,399,255
Operating (loss) income from continuing operations	(163,285)	(169,584)
Other Expense (income):		
Interest expense	36,751	28,692
Other income, net	(45,575)	(19,501)
	(8,824)	9,191
(Loss) income from continuing operations, before minority interest in net loss of consolidated subsidiaries and income taxes	(154,461)	(178,775)
Minority interest in net losses of consolidated subsidiary	251,670	127,270
Income (loss) from continuing operations, before income taxes	97,209	(51,505)
Income tax expense	2,400	1,938
Net income (loss) from continuing operations	94,809	(53,443)

*THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS. PLEASE REFER TO NOTE 1 FOR A BREAKDOWN OF RESULTS BY COMPANY.

BIOMERICA, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE LOSS - Continued (UNAUDITED)
(SEE NOTE 1)

	Nine Months Ended February 28, 2006	2005
Discontinued operations:		
Income from discontinued operations, net	--	6,60
Net income (loss)	94,809	(46,84
Other comprehensive loss, net of tax		
Unrealized loss on available-for-sale securities	(240,100)	(12,90
Comprehensive (loss) income	$ (145,291)	$ (59,74
Basic net income (loss) per common share:		
Net income (loss) from continuing operations	$ .01	$ (.0
Net income (loss) from discontinued operations	.00	.0
Basic net income (loss) per common share	$ .01	$ (.0
Diluted net income (loss) per common share		
Net income (loss) from continuing operations	$ .01	$ (.0
Net income (loss) from discontinued operations	.00	.0
Diluted net income (loss) per common share	$ .01	$ (.0
Weighted average number of common and common equivalent shares: ..		
Basic	5,753,831	5,752,43
Diluted	6,617,955	5,752,43

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS. PLEASE REFER TO NOTE 1 FOR A BREAKDOWN OF RESULTS BY COMPANY.

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THE FOLLOWING BALANCE SHEET PRESENTS FINANCIAL INFORMATION AFTER THE DECONSOLIDATION OF LANCER ORTHODONTICS FROM BIOMERICA.

BIOMERICA, INC.

BALANCE SHEET (UNAUDITED)

	February 28, 2006
Assets	
Current Assets	
Cash and cash equivalents	$ 47,176
Available for-sale securities	400,286
Accounts receivable, less allowance for doubtful accounts of $10,750	532,834
Inventories, net of reserve of $2,972	1,166,778
Notes receivable	4,650
Prepaid expenses and other	41,415
Total Current Assets	2,193,139
Inventory, non-current	7,810
Property and Equipment, net of accumulated depreciation and amortization	122,854
Intangible assets, net of accumulated amortization	9,057
Other Assets	13,419
	$2,346,279

The accompanying notes are an integral part of these statements.

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BIOMERICA, INC.

CONSOLIDATED BALANCE SHEET - Continued (UNAUDITED)

	February 28, 2006
Liabilities and Shareholders' Equity	
Current Liabilities	
Accounts payable and accrued liabilities	$ 677,778
Accrued compensation	442,709
Current portion of shareholder loan	267,602
Net liabilities from discontinued operations	104,579
Total Current Liabilities	1,492,668
Shareholders' Equity	
Common stock, $0.08 par value authorized 25,000,000 shares, ...	

subscribed or issued and outstanding 5,753,831	460,313
Additional paid-in-capital	17,053,722
Accumulated other comprehensive loss	(240,100)
Accumulated deficit	(16,420,324)
Total Shareholders' Equity	853,611
Total Liabilities and Equity	$ 2,346,279

The accompanying notes are an integral part of these statements.

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

For the nine months ended February 28,	2006	2005
Cash flows from operating activities:		
Net income (loss) from continuing operations	$ 94,809	$ (53,443
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Depreciation and amortization	107,597	120,747
Minority interest in net loss of consolidated subsidiary	(251,670)	(127,270
Gain on sales of marketable securities	--	(8,888
Common stock, warrants and options issued for services rendered	3,739	10,712
Common stock issued by subsidiary for services rendered	--	58,250
Provision for losses on accounts receivable	16,092	(61,414
Loss on disposal of fixed assets	1,704	1,258
Provision for losses on inventory	(714)	--
Changes in current assets and liabilities:		
Accounts receivable	(417,219)	(181,100
Inventories	(311,394)	(162,643
Prepaid expenses and other current assets	(22,098)	58,622
Accounts payable and other accrued liabilities	340,800	126,772
Accrued compensation	2,065	82,709
Net cash used in operating activities	(436,289)	(135,688
Cash flows from investing activities:		
Purchases of property and equipment	(247,577)	(177,950
Other assets	--	(13,419
Net cash used in investing activities	(247,577)	(191,369
Cash flows from financing activities:		
Sales of available for sale securities	--	8,888
Change in minority interest	37,250	--
Decrease in shareholder loan	(33,485)	--
Exercise of stock options	398	
Exercise of stock option at subsidiary	--	1,170
Increase in line of credit at subsidiary	65,000	195,415
Payments of capital leases at subsidiary	(25,799)	--
Private placement at subsidiary	469,800	--

Net cash provided by financing activities	513,164	205,473
Net cash used in discontinued operations	--	(9,744
Net decrease in cash and cash equivalents	(170,702)	(131,328
Net decrease in cash-reclassification of Lancer Orthodontics Inc. to the cost method	(134,003)	--
Cash at beginning of period	351,881	352,374
Cash at end of period	$ 47,176	$ 221,046
Supplemental Disclosure of Cash Flow Information		
Cash Paid During The Year For:		
Interest	$ 36,751	$ 28,692
Income taxes	$ 2,400	$ 1,938
Supplemental disclosures on non-cash investing & financing activity		
Change in unrealized holding loss on available-for-sale securities	$(240,626)	$ (12,904
Change in minority interest due to subsidiary stock issuance	$ (57,769)	$ (26,872
Capital lease for purchase of fixed assets	$ 360,593	$ --
Increase in investment due to de-consolidation of Lancer	$ 632,732	$ --

The accompanying notes are an integral part of these statements.

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

For the nine months ended February 28,	2006	2005
Changes due to de-consolidation of Lancer		
Accounts Receivable	$ 1,590,504	$ --
Inventories	1,838,698	--
Prepaid expenses and other current assets	90,676	--
Net fixed assets	1,197,310	--
Other	48,821	--
Subtotal assets	4,766,009	--

Accounts payable and other accrued liabilities	899,483	--
Line of credit	240,000	--
Capital lease	334,794	--
Subscribed stock	85,850	--
Common stock	5,670,565	--
Accumulated deficit	(2,330,680)	--
Subtotal liabilities & equity	(4,900,012)	--
Net decrease in cash	$ (134,003)	$ --

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

February 28, 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, 2005, for a summary of significant accounting policies utilized by the Company.

In Note 2 under the section entitled, "Principles of Consolidation", in the description of the Company's consolidated subsidiaries, Lancer Orthodontics, Inc., is listed. Historically, certain Biomerica board members who owned shares of common stock of Lancer Orthodontics, Inc. had agreed to vote their shares of Lancer common stock in the same manner as the Biomerica board voted its shares of Lancer common stock for issues requiring the vote of Lancer's stockholders. These agreements, when combined with Biomerica's ownership interests in Lancer, resulted in Biomerica controlling over 50% of Lancer's voting securities and a consolidation of Lancer's financial statements into Biomerica's financial statements. As of December 1, 2005, the above-mentioned Biomerica board members reserved their right no longer to vote their shares of Lancer in the same manner as the Biomerica board votes Biomerica's shares of Lancer. Therefore, effective as of December 1, 2005, Lancer's financial statements will no longer be consolidated with those of Biomerica because Biomerica will no longer have direct or indirect control of more than 50% of Lancer's common stock. As of December 1, 2005, Biomerica holds less than 20% of Lancer's common stock and therefore Biomerica's investment will be accounted for under the provision of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities", or carried at cost, as appropriate.

THE FOLLOWING TABLES PRESENTS ON A PRO FORMA BASIS A BREAKDOWN BY COMPANY OF THE STATEMENT OF OPERATIONS FOR THE NINE AND THREE MONTHS ENDED FEBRUARY 28, 2006 AND 2005. THE FIRST TABLE PRESENTS BIOMERICA ON A STAND-ALONE BASIS FOR ALL PERIODS SHOWN. THIS IS FOLLOWED BY A BREAKDOWN BY COMPANY FOR THE NINE MONTH PERIODS ENDED FEBRUARY 28, 2006 AND 2005. ALSO INCLUDED IS A BREAKDOWN OF THE THREE MONTHS ENDED FEBRUARY 28, 2005. THE THREE MONTHS ENDED

FEBRUARY 28, 2006 IN THE STATEMENT OF OPERATIONS REPRESENTS BIOMERICA ON AN UNCONSOLIDATED BASIS. THE PROFORMA STAND- ALONE RESULTS OF BIOMERICA (BELOW) ARE PRESENTED AS IF THE DECISION TO NO LONGER VOTE THEIR SHARES OF LANCER IN THE SAME MANNERS AS THE BIOMERICA BOARD VOTES BIOMERICA'S SHARES OF LANCER DISCUSSED ABOVE OCCURRED MAY 31, 2005.

STAND-ALONE RESULTS FOR BIOMERICA (UNAUDITED)

	Nine Months Ended February 28,		Three Mo Febru
	2006	2005	2006
Net sales	$ 2,792,222	$ 2,329,117	$ 998,070
Cost of sales	(1,646,000)	(1,398,084)	(649,468)
Gross profit	1,146,222	931,033	348,602
Operating Expenses:			
Selling, general and administrative	837,411	797,983	272,890
Research and development	150,890	131,060	38,779
	988,301	929,043	311,669
Operating income from continuing operations	157,921	1,990	36,933
Other Expense (income):			
Interest expense	22,295	23,780	7,248
Other income, net	(28,259)	(12,400)	(730)
	(5,964)	11,380	6,518
(Loss) income from continuing operations, before minority interest in net loss of consolidated subsidiaries and income taxes	163,885	(9,390)	30,415
Income tax expense	1,600	800	800
Net income (loss) from continuing operations	162,285	(10,190)	29,615
Income from discontinued operations, net	--	6,600	--
Net income (loss)	$ 162,285	$ (3,590)	$ 29,615

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PRO FORMA STATEMENT OF OPERATIONS BY COMPANY (UNAUDITED)

Nine Months Ended
February 28, 2006

	Actual	Intercompany Eliminations	Lancer Pro-forma adjustments	S
NET SALES	$ 5,717,260		$(2,925,038)	$
COST OF SALES	(3,820,715)	$ (15,780)(1)	2,190,495	
GROSS PROFIT	1,896,545	$ (15,780)	(734,543)	
OPERATING EXPENSES:				
SELLING, GENERAL AND ADMIN	1,866,470		(1,029,059)	
RESEARCH AND DEVELOPMENT	193,360		(42,470)	
TOTAL OPERATING EXPENSES	2,059,830		(1,071,529)	
OPERATING INCOME (LOSS)	(163,285)	(15,780)	336,986	
OTHER EXPENSE (INCOME)				
Interest expense	36,751		(14,456)	
Other expense (income)	(45,575)	(15,780)(2)	33,096	
	(8,824)	(15,780)(2)	18,640	
INCOME (LOSS) FROM OPERATIONS BEFORE INTEREST IN NET INCOME (LOSS) OF CONSOLIDATED SUBSIDIARIES AND INCOME TAXES	(154,461)		318,346	
MINORITY INTEREST IN NET LOSS (INCOME) OF LANCER	251,670	(319,146)(3) 67,476 (4)	--	
INCOME (LOSS) FROM OPERATIONS BEFORE INCOME TAXES	97,209	(251,670)	318,346	
INCOME TAX EXPENSE	2,400		(800)	
NET INCOME (LOSS)	$ 94,809	$ (251,670)	$ 319,146	$

(1) To record the charge for rent by Lancer at the manufacturing facility in Mexico which was el
consolidation.
(2) To record the income from Biomerica received by Lancer for rent at the Mexico facility, whic
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 votin
occurred May 31, 2005.

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PRO FORMA STATEMENT OF OPERATIONS BY COMPANY (UNAUDITED)

Nine Months Ended
February 28, 2005

	Actual	Intercompany Eliminations	Lancer Pro-forma adjustments	S
NET SALES	$ 6,691,509		($4,362,392)	$
COST OF SALES	(4,461,838)	(25,875)(1)	3,089,629	
GROSS PROFIT	2,229,671	(25,875)(1)	(1,272,763)	
OPERATING EXPENSES:				
SELLING, GENERAL AND ADMIN	2,195,439		(1,397,456)	
RESEARCH AND DEVELOPMENT	203,816		(72,756)	
TOTAL OPERATING EXPENSES	2,399,255		(1,470,212)	
OPERATING INCOME (LOSS)	(169,584)	(25,875)(1)	197,449	
OTHER EXPENSE (INCOME)				
Interest expense	28,692		(4,912)	
Other expense (income)	(19,501)	(25,875)(2)	32,976	
	9,191	(25,875)(2)	28,064	
INCOME (LOSS) FROM OPERATIONS BEFORE INTEREST IN NET INCOME (LOSS) OF CONSOLIDATED SUBSIDIARIES AND INCOME TAXES	(178,775)		169,385	
MINORITY INTEREST IN NET LOSS (INCOME) OF LANCER	127,270	(170,523)(3) 43,253 (4)	--	
INTEREST IN NET INCOME OF CONSOLIDATED SUBSIDIARIES - DISCONTINUED OPERATIONS	6,600			
INCOME TAX EXPENSE	1,938		(1,138)	
NET INCOME (LOSS)	$ (46,843)	$ (127,270)	$ 170,523	$

(1) To record the charge for rent by Lancer at the manufacturing facility in Mexico which was el in consolidation.
(2) To record the income from Biomerica received by Lancer for rent at the Mexico facility, whic 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 votin

agreement occurred May 31, 2005.

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PRO FORMA STATEMENT OF OPERATIONS BY COMPANY (UNAUDITED)

Three Months Ended
February 28, 2005

	Actual	Intercompany Eliminations	Lancer Pro-forma adjustments	S
NET SALES	$ 2,344,536		$(1,471,540)	$
COST OF SALES	(1,563,917)	(8,625)(1)	1,047,427	
GROSS PROFIT	780,619	(8,625)(1)	(424,113)	
OPERATING EXPENSES:				
SELLING, GENERAL AND ADMINISTRATIVE	659,421		(439,044)	
RESEARCH AND DEVELOPMENT	61,309		(21,879)	
TOTAL OPERATING EXPENSES	720,730		(460,923)	
OPERATING INCOME (LOSS)	59,889	(8,625)(1)	36,810	
OTHER INCOME (EXPENSE)				
Interest expense	11,113		(3,213)	
Other expense (income)	3,472	(8,625)(2)	4,751	
	14,585	(8,625)(2)	1,538	
INCOME (LOSS) FROM OPERATIONS BEFORE INTEREST IN NET INCOME (LOSS) OF CONSOLIDATED SUBSIDIARIES AND INCOME TAXES	45,304		35,272	
MINORITY INTEREST IN NET LOSS (INCOME) OF LANCER	27,170	(35,610)(3) 8,440 (4)		
Income (loss) from operations Before income taxes	72,474	(27,170)	35,272	
INCOME TAX EXPENSE	338		(338)	
NET INCOME (LOSS)	$ 72,136	$ (27,170)	$ 35,610	$

(1) To record the charge for rent by Lancer at the manufacturing facility in Mexico which was el
consolidation.

(2) To record the income from Biomerica received by Lancer for rent at the Mexico facility, whic

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 votin occurred May 31, 2005.

PRO FORMA STATEMENT OF OPERATIONS BY COMPANY (UNAUDITED)

(2) As of February 28, 2006, the Company had cash and available-for-sale securities in the amount of $447,462 and working capital of $700,471. Of the $447,462 in cash and available-for-sale securities, and $700,471 in working capital, $396,466 relates to stock held in the former subsidiary, Lancer Orthodontics. This stock is restricted and should the Company desire to sell this stock on the open market, it may be subject to certain trading restrictions as imposed by the Federal Securities Act of 1933. Of the total working capital, negative working capital of $104,579 relates to the discontinued operation, ReadyScript.

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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, Inc. entered into an agreement for a line of credit agreement on September 12, 2000 with a shareholder whereby the shareholder would loan to the Company, as needed, up to $500,000 for working capital needs. The line of credit bore interest at 8%, was secured by accounts receivable and inventory, and expired September 13, 2003. In March 2004 the Company signed a note payable for the principal and interest due at that time of $313,318 and agreed to a forbearance of any payments for the length of the agreement. A warrant for 40,000 shares of restricted common stock exercisable at a price of $.51 per share was awarded as compensation for the forbearance. The note payable is secured by all of the Company's assets except for the Lancer common stock owned by Biomerica. The note was due September 1, 2004. On November 19, 2004, the Company entered into an agreement entitled "Amendment of the Note, Loan and Modification Agreement" and "Amended And Restated Promissory Note" which were included as exhibits to the Form 10QSB filed April 14, 2004. The Amendment of the Note, Loan And Modification Agreement was filed as an exhibit to a Form 8K filed November 24, 2004. The agreement extended the maturity date of the note until August 31, 2005 and allows for minimum payments of $4,000 per month and additional contingent payments of up to $3,500 per month based on the Company's quarterly performance. The collateral remains the same under the Amendment. The agreement has since been extended for a one-year period and therefore now expires August 31, 2006. There was $267,602 of outstanding principal and $0 of interest payable under this note payable at February 28, 2006. As of April 14, 2006, the Company was not in compliance with the terms of the above agreements. An additional contingent payment totaling $10,500 that was due after the filing of the Company's Form 10QSB for the quarter ended August 31, 2005, and $10,500 that was due after the filing of the Company's Form 10QSB for the quarter ended November 30, 2005 have not been paid.

The Company has suffered substantial recurring losses from operations over the last several years. Biomerica 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 contributor to the Company's losses in prior fiscal years. During the fiscal years ended May 31, 2005 and 2004, certain 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 the current diagnostics operations is sufficient to fund the diagnostics 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.

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 for the year ended May 31, 2005 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.

During 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "ACCOUNTING FOR STOCK-BASED COMPENSATION," which defines a fair value based method of accounting for stock-based compensation. However, SFAS 123 allows an entity to continue to measure compensation cost related to stock and stock options issued to employees using the intrinsic method of accounting prescribed by Accounting Principles Board Opinion No. 25 ("APB 25"), "ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES."

Entities electing to remain with the accounting method of APB 25 must make pro forma disclosures of net (loss) income and (loss) earnings per share, as if the fair value method of accounting defined in SFAS 123 had been applied. The Company has elected to account for its stock-based compensation to employees under APB 25.

In December 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 148 ("SFAS 148"), "ACCOUNTING FOR STOCK-BASED COMPENSATION - TRANSITION AND DISCLOSURE - AN AMENDMENT TO SFAS NO. 123." SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method on accounting for stock-based employee compensation. The Company currently does not intend to adopt SFAS No. 123 and the implementation of SFAS No. 148 did not have a material effect on the Company's consolidated financial position or results of operations.

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.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the option vesting period. Adjustments are made for options forfeited prior to vesting. The effect on compensation expense, net loss, and net loss per share (basic and diluted) had compensation costs for the Company's stock option plans been determined based on fair value on the date of grant consistent with the provisions of SFAS 123 are as follows:

	Nine Months Ended		Three Months Ended	
February 28,	2006	2005	2006	2005
Net income (loss) from continuing operations, as reported	$ 94,809	$(53,443)	$ 29,615	$ 72,136
Plus: Stock-based employee compensation expense included in reported net income (loss)	702	312	233	69
Less: Stock-based employee compensation expense determined using fair value based method	(17,483)	(22,960)	(1,380)	(8,731)
Net income (loss) from continuing operations, pro forma	$ 78,028	$(76,091)	$ 28,468	$ 63,474
Pro forma net income (loss) from continuing operations per share - basic	$ .01	$ (0.01)	$ .00	$ .01
Pro forma net income (loss) from continuing operations per share - diluted	$ .01	$ (0.01)	$ .00	$ .01

(3) The following summary presents the options granted, exercised, expired, and outstanding as of February 28, 2006:

	Number of Options and Warrants			Weighted Average Exercise Price
	Employee	Non-employee	Total	
Outstanding May 31, 2005	1,427,808	174,829	1,602,637	$ .90
Granted	141,000	--	141,000	.52
Exercised	(14,250)	--	(14,250)	.27
Expired	(235,688)	(37,246)	(272,934)	1.47
Cancelled	(27,050)	--	(27,050)	.56
Outstanding February 28, 2006	1,291,820	137,583	1,429,403	$ 0.77

(4) The information set forth in these 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.

(5) 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.

(6) 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, 2005, for a description of the investments in affiliates and consolidated subsidiaries. As of December 1, 2005, the financials of Lancer have not been consolidated with those of Biomerica. Please refer to footnote 23 contained herein.

(7) Reference is made to Notes 5 & 10 of the Notes to Consolidated Financial Statements contained in the Company's Annual Report on Form 10-KSB for the fiscal year ended May 31, 2005, for information on commitments and contingencies.

(8) Aggregate cost exceeded market value of available-for-sale securities by approximately $3,834 at February 28, 2006.

(9) Earnings Per Share

In February 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards (SFAS) No. 128, EARNINGS PER SHARE ("EPS"). SFAS No. 128 requires dual presentation of basic EPS and diluted EPS on the face of all income statements issued after December 15, 1997 for all entities with complex capital structures. Basic EPS is computed as net income divided by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur from common shares issuable through stock options, warrants and other convertible securities.

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

	For the Nine Months Ended February 28, 2006		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Numerator			
Income from continuing operations	$ 94,809	5,753,831	$ .01
	$ 94,809	5,753,831	$ .01
Effect of dilutive securities:			
Options and warrants		864,024	
Diluted EPS -			
Income attributable to common share holders	$ 94,809	6,617,955	$ .01

	For the Nine Months Ended February 28, 2005		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS -			
Loss from continuing operations	$ (53,443)	5,752,431	$ (.01)
Gain (loss) from discontinued operations	6,600		.00
	$ ($46,843)	5,752,431	$ (.01)
Diluted EPS -			
Loss attributable to common share holders	$ (46,843)	5,752,431	$ (.01)

	For the Three Months Ended February 28, 2006		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS -			
Income from continuing operations	$ 29,615	5,753,912	$ .00
	$ 29,615	5,753,912	$ .00
Effect of dilutive securities..........		850,204	
Diluted EPS -			
Gain attributable to common share - holders	$ 29,615	6,604,035	$ .00

	For the Three Months Ended February 28, 2005		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS -			
Gain from continuing operations	$ 72,136	5,752,431	$ .01
	$ 72,136	5,752,431	$ .01
Effect of dilutive securities..........		815,690	
Diluted EPS -			

Gain attributable to common share - holders	$ 72,136	6,568,121	$ .01

(10) In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities". In December 2003, FIN 46 was replaced by FASB Interpretation No. 46R, "Consolidation of Variable Interest Entities." FIN 46R clarifies some of the provisions of FIN 46 and exempts certain entities from its requirements. FIN 46R was effective at the end of the first interim period ending March 15, 2004. Entities that have adopted FIN 46 prior to this date can continue to apply provisions of FIN 46 until the effective date of FIN 46R or early election of FIN 46R. This interpretation clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," relating to consolidation of certain entities. FIN No. 46 requires identification of the Company's participation in variable interests entities ("VIEs"), which are defined as entities with a level of invested equity that is not sufficient to fund future activities to permit them to operate on a stand-alone basis, or whose equity holders lack certain characteristics of a controlling financial interest. For entities identified as VIEs, FIN No. 46 sets forth a model to evaluate potential consolidation based on an assessment of which party to the VIE, if any, bears a majority of the exposure to its expected losses, or stands to gain from a majority of its expected returns. FIN No. 46 also sets forth certain disclosures regarding interests in VIE that are deemed significant, even if consolidation is not required. The adoption of FIN No. 46 did not have a material impact on the Company's financial position or results of operations.

In December 2004, FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets- An Amendment of APB Opinion No. 29. The guidance in APB Opinion No. 29, Accounting for Nonmonetary Transactions, is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in that Opinion, however, included certain exceptions to that principle. SFAS No. 153 amends Opinion No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The provisions of SFAS No. 153 are effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Early application was permitted and companies must apply the standard prospectively. The adoption of this standard is not expected to have a material effect on the Company's results of operations or financial position.

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 will provide SAB

No. 107 required disclosures upon adoption of SFAS No. 123R on June 1, 2006 and is currently evaluating the impact the adoption of the standard will have on the Company's financial condition, results of operations, and cash flows.

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 will adopt SFAS No. 123R on June 1, 2006 and is currently evaluating the impact the adoption of the standard will have on the Company's results of operations.

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 FAS No. 155, Accounting for Certain Hybrid Financial Instruments-an amendment of FASB Statements No. 133 and 140 ("FAS No. 155"). This statement resolves issues addressed in FAS No. 133 Implementation Issue No. D1, Application of Statement 133 to Beneficial Interest in Securitized Financial Assets. FAS No. 155: (a) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation; (b) clarifies which interest-only strips and principal-only strips are not subject to the requirements of FAS 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 embedded derivative requiring bifurcation; (d) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives; and, (e) eliminates restrictions 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. FAS 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 FAS 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 FAS No. 155 to have a material impact on the Company's financial statements.

(11) Financial information about consolidated foreign and domestic operations and export sales is as follows. The period ended February 28, 2006, includes nine months of sales for Biomerica and six months of sales for Lancer. The

period ended February 28, 2005 shows consolidated numbers for the nine months ended February 28, 2005, as well as a breakdown by company:

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

For the nine months ended 2/28/05:	Consolidated	Lancer	Biomerica
Revenues from sales to unaffiliated customers:			
United States	$ 2,915,000	($2,245,000)	$ 670,000
Asia	184,000	(26,000)	158,000
Europe	2,065,000	(1,260,000)	805,000
South America	299,000	(260,000)	39,000
Oceania	493,000	(226,000)	267,000
Other	736,000	(346,000)	390,000
	$ 6,692,000	($4,363,000)	$ 2,329,000

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

(12) During fiscal 2005, Biomerica granted 169,000 stock options to purchase shares of common stock at an exercise price of $.33 to select employees and consultants of the Company. The options vest over four years, and have a term of five years. Management assigned a value of $3,500 to these options. These options were granted under the Company's existing 1995 and 1999 Stock Option and Restricted Stock Plan.

During fiscal 2005, Biomerica granted 75,000 stock options to purchase shares of common stock at an exercise price of $.40 to outside directors and the President. The options vest over four years, and have a term of five years. Management assigned a value of $0 to these options.

During fiscal 2006 an employee of the Company exercised a stock option for 750 shares at the purchase price of $.20 per share and 750 shares at the purchase price of $.33 per share. The total proceeds to the Company was $398. Options for an additional 12,750 shares were exercised at the end of February 2006. Of these shares, 9,000 were at the purchase price of $.20 per share and 3,750 were at a price of $.33 per share. The proceeds to the Company for these options was $3037.50. These shares have been classified as Common Stock Subscribed as of February 28, 2006, since they had not been issued as of that date.

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 $0 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 $0 to these options.

On February 28, 2006, the Company granted 20,000 stock options to purchase Shares of common stock at an exercise price of $.48 to employees of the Company. The options vest over four years and have a term of five years. Management assigned a value of $0 to these options.

On February 28, 2006, the Board of Directors approved a private placement to raise from $50,000 to $150,000 at a purchase price of $.50 per share. One warrant per every three shares purchased shall be issued. The warrants will be at an exercise price of $.65 and expire five years from date of grant.

Options and warrants granted to employees are assigned values of $0 if the options are granted at current market value as quoted on Yahoo Finance as of the date of grant. If options or warrants are granted at a price which is below market value, the option or warrant is assigned a value according to the amount per share it is below market value times the number of shares granted. Options or shares granted to non-employees are assigned values according to current market value, using the Black-Sholes model for option valuation. The term used in the calculation of the options or warrants is the life of the option. 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.

Effect of Sale of Stock at Subsidiary (for the period of June 1, 2005 through November 30, 2005)

During the years ended May 31, 2005 and 2004 the Company recognized a reduction in its additional paid in capital in the amount of $31,494 and $112,719, respectively, resulting from a decrease in its ownership percentage of Lancer as a result of Lancer's sale of common stock.

During the quarter ended August 31, 2005 the Company recognized a reduction in its additional paid in capital in the amount of $50,185 resulting from a decrease in its ownership percentage of Lancer as a result of Lancer issuing shares of common stock during the quarter.

During the quarter ended November 30, 2005 the Company recognized a decrease in its additional paid in capital in the amount of $7,584 resulting from a decrease in its ownership percentage of Lancer as a result of Lancer's sale of common stock.

During the quarter ended February 28, 2006, the Company recognized an increase in its accumulated other comprehensive loss in the amount of $236,266 which was a result of the write-down of the stock which the Company owns in Lancer Orthodontics. This occurred because the Company de-consolidated its financials from Lancer, as discussed in Note 1, and the investment was written down to current market value as reported on Yahoo Finance (Lancer is traded on the Pink Sheets under the symbol LANZ.PK). Previous to that time, the investment was eliminated in consolidation.

Subsidiary Options, Warrants and Stock Activity (for the period of June 1, 2005 through November 30, 2005)

During the first quarter of fiscal 2006, the Chief Executive Officer of Lancer was granted a stock option for 100,000 shares of Lancer common stock at the purchase price of $.65 per share. The options are exercisable one quarter per year, with the first quarter exercisable immediately, and have a term of five years.

During the first quarter of fiscal 2006, a total of 20,000 shares valued at $13,000 and 11,538 shares valued at $7,500 were accrued to be issued to the Chief Executive Officer/Director and Chairman of the Board, respectively, of Lancer for services rendered. Neither Director is taking a cash salary.

During the second quarter of fiscal 2006, a total of 20,000 shares valued at $13,000 and 5,769 shares valued at $3,750 were accrued to be issued to the Chief Executive Officer/Director and Chairman of the Board, respectively, of Lancer for Services rendered.

In the first quarter of fiscal 2006 Lancer conducted a private placement, the purpose of which was to raise funds to proceed with the terms of the Lingualcare agreement. Lancer sold 592,000 shares of restricted common stock at the price of $.65 per share. Total gross proceeds to Lancer were $384,800. The stock was sold primarily to management and directors of Lancer (the directors are also directors of Biomerica). This private placement further reduced Biomerica's direct control and ownership percentage in Lancer.

During September 2005 Lancer sold an additional 130,769 shares of restricted common stock at a price of $.65 per share, as part of the private placement. Total gross proceeds were approximately $85,000. The stock was sold to a director of Lancer and Biomerica.

(13) Reportable business segments for the nine months and three months ended February 28, 2006 and 2005 are as follows. THE NINE MONTH FIGURES FOR FISCAL 2006 INCLUDE ONLY SIX MONTHS OF SALES FOR LANCER ORTHODONTICS SINCE DECONSOLIDATION OCCURRED AT THE BEGINNING OF THE THIRD QUARTER (SEE NOTE 1). THE THREE MONTH FIGURES FOR FISCAL 2006 ONLY INCLUDE SALES FOR BIOMERICA.

	Nine Months Ended February 28,		Three Months Ended February 28,	
	2006	2005	2006	2005
Domestic sales:				
Orthodontic products	$1,584,000	$2,245,000	$ --	$ 682,000
Medical diagnostic products	$ 702,000	$ 670,000	$ 323,000	$ 271,000
Foreign sales:				
Orthodontic products	$1,341,000	$2,117,000	$ --	$ 789,000

Medical diagnostic products	$2,090,000	$1,660,000	$ 675,000	$ 603,000

	Nine Months Ended February 28,		Three Months Ended February 28,	
	2006	2005	2006	2005
Net sales:				
Orthodontic products	$ 2,925,000	$ 4,362,000	$ --	$ 1,471,000
Medical diagnostic products	2,792,000	2,330,000	998,000	874,000
Total	$ 5,717,000	$ 6,692,000	$ 998,000	$ 2,345,000
Operating (loss) income:				
Orthodontic products	$ (321,000)	$ (198,000)	$ --	$ (37,000)
Medical diagnostic products	158,000	28,000	37,000	97,000
Total	$ (163,000)	$ (170,000)	$ 37,000	$ 60,000
Gain (loss) from discontinued segment:				
ReadyScript	$ --	$ 6,600	$ --	$ --
Total	$ --	$ 6,600	$ --	$ --

	As of February 28,	
	2006	2005
Domestic long-lived assets:		
Orthodontics products	$ --	$ 555,000
Medical diagnostic products	103,000	118,000
Total	$ 103,000	$ 673,000
Foreign long-lived assets:		
Orthodontics products	$ --	$ 102,000
Medical diagnostic products	20,000	15,000
Total	$ 20,000	$ 117,000
Total assets:		
Orthodontic products	--	$4,208,000
Medical diagnostic products	2,346,000	1,632,000

Total	$2,346,000	$5,840,000
Capital expenditures:		
Orthodontics products	$ 575,000	$ 149,000
Medical diagnostic products	33,000	29,000
Total	$ 608,000	$ 178,000

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

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

(15) 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.

(16) On August 20, 2005, the Company and the holder of the Note payable-shareholder agreed to the extension of the note due date until September 1, 2006, at the same terms and conditions as the previous agreement.

(17) In July 2005, Lancer signed a large contract manufacturing agreement with an orthodontic reseller, wherein the reseller has committed to purchase at least $960,000 of product from Lancer during the period of July 1, 2005 to October 1, 2006.

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

As a result of its insurance policy coverage, the Company believes the estimated fair value of these indemnification agreements is minimal and has no liabilities recorded for these agreements as of February 28, 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 February 28, 2006. As a result of the Company's deconsolidation of Lancer which occurred December 1, 2005, both companies will now be required to purchase their own Directors' and Officers' insurance, rather than have a combined policy.

(19) In August and September 2005 Lancer entered into three equipment finance leases for the purchase of manufacturing equipment for the Lingualcare project (these replace the agreements entered into July 21, 2005). The lease payments began in September and October and have a total of $424,574 due and minimum payments per month of $8,845. The term of the leases is forty-eight months. These agreements have varying financing terms. Biomerica has no financial responsibility with respect to these leases.

(20) The Biomerica facilities lease expired October 31, 2005. Management is currently negotiating an extension of that lease.

(21) CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial condition and results of operations are based on the consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires estimates and assumptions that affect the reported amounts and disclosures.

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

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

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

The Allowance for Doubtful Accounts is established for estimated losses resulting from the inability of our customers to make required payments. The assessment of specific receivable balances and required reserves is performed by management and discussed with the audit committee. We have identified specific customers where collection is probable and have established specific reserves, but to the extent collection is made, the allowance will be released. Additionally, if the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Reserves are provided for excess and obsolete inventory, which are estimated based on a comparison of the quantity and cost of inventory on hand to management's forecast of customer demand. Customer demand is dependent on many factors and requires us to use significant judgment in our forecasting process. We must also make assumptions regarding the rate at which new products will be accepted in the marketplace and at which customers will transition from older products to newer products. Once a reserve is established, it is maintained until the product to which it relates is sold or otherwise disposed of, even if in subsequent periods we forecast demand for the product.

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

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

(22) Risks and Uncertainties

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

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

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

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

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

(23) Historically, certain Biomerica board members who owned shares of common stock of Lancer Orthodontics, Inc. had agreed to vote their shares of Lancer common stock in the same manner as the Biomerica board voted its shares of Lancer common stock for issues requiring the vote of Lancer's stockholders. These agreements, when combined with Biomerica's ownership interests in Lancer, resulted in Biomerica controlling over 50% of Lancer's voting securities and a consolidation of Lancer's financial statements into Biomerica's financial statements. As of December 1, 2005, the above-mentioned Biomerica board members reserved their right no longer to vote their shares of Lancer in the same manner as the Biomerica board votes Biomerica's shares of Lancer. Therefore, effective as of December 1, 2005, Lancer's financial statements will no longer be consolidated with those of Biomerica because Biomerica will no longer have direct or indirect control of more than 50% of Lancer's common stock. As of December 1, 2005, Biomerica holds less than 20% of Lancer's common stock and therefore Biomerica's investment in Lancer will be accounted for under the provision of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities", or carried at cost, as appropriate.

Subsequent Events

In March 2006 the FDA conducted a routine inspection of the Company. The FDA noted five observations which need correction. Management of the Company has made a commitment to correct all of these observations within six weeks and does not anticipate any difficulty in being able to comply with this commitment.

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 OF CURRENT PRODUCT OFFERINGS. SUCH FORWARD-LOOKING INFORMATION INVOLVES IMPORTANT RISKS AND UNCERTAINTIES THAT COULD SIGNIFICANTLY AFFECT ANTICIPATED RESULTS IN THE FUTURE, AND ACCORDINGLY, SUCH RESULTS MAY DIFFER MATERIALLY FROM THOSE EXPRESSED IN ANY FORWARD-LOOKING STATEMENTS MADE BY OR ON BEHALF OF BIOMERICA. THE POTENTIAL RISKS AND UNCERTAINTIES INCLUDE, AMONG OTHERS, FLUCTUATIONS IN THE COMPANY'S OPERATING RESULTS. THESE RISKS AND UNCERTAINTIES ALSO INCLUDE THE SUCCESS OF THE

COMPANY IN RAISING NEEDED CAPITAL, THE CONTINUAL DEMAND FOR THE COMPANY'S PRODUCTS, COMPETITIVE AND ECONOMIC FACTORS OF THE MARKETPLACE, AVAILABILITY OF RAW MATERIALS, HEALTH CARE REGULATIONS AND THE STATE OF THE ECONOMY. READERS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS, WHICH SPEAK ONLY AS OF THE DATE HEREOF, AND THE COMPANY UNDERTAKES NO OBLIGATION TO UPDATE THESE FORWARD-LOOKING STATEMENTS.

RESULTS OF OPERATIONS

Nine and Three Months Comparison for the period ended February 28, 2006 versus 2005

IN THE NINE-MONTH PERIOD IN FISCAL 2006, THE LANCER ORTHODONTICS' FINANCIALS WERE ONLY CONSOLIDATED WITH THOSE OF BIOMERICA FOR SIX OF THE NINE MONTHS, WHEREAS THEY WERE INCLUDED FOR NINE MONTHS IN THE NINE-MONTH PERIOD IN FISCAL 2005. THE THREE-MONTH PERIOD ENDED FEBRUARY 28, 2006 DID NOT INCLUDE ANY SALES OF LANCER, WHEREAS THE PRIOR YEAR INCLUDED THREE MONTHS OF SALES FOR LANCER.

Consolidated net sales for Biomerica were $5,717,260 for the nine months ended February, 2006 as compared to $6,691,509 for the same period in the prior fiscal year. This represents a decrease of $974,249, or 14.6% for the nine month period. The overall decrease in sales from February 28, 2005 compared to February 28, 2006 is a result of the deconsolidation of Lancer as of December 1, 2005. On a stand-alone basis, the sales of Biomerica increased from $2,329,117 to $2,792,222, or $463,105 (20.0%) for the nine months ended February 28, 2006 as compared to 2005. For the three months ended February 28, 2006 and 2005, sales decreased by $1,346,466, or 57.4%. The overall decrease in sales for the three months then ended is a result of the deconsolidation of Lancer as of December 1, 2005. On a stand-alone basis, Biomerica sales increased from $872,996 to $998,070, or $125,074 (14.3%). Sales increased due to higher sales to foreign distributors, as well as increased sales of certain product lines.

For the nine months of fiscal 2006 compared to 2005, cost of sales as a percentage of sales increased slightly from 66.7% of sales to 66.8% of sales. For the nine months of fiscal 2006 compared to 2005, Biomerica on a stand-alone basis had a decrease from 60.0% to 58.9%. On a stand-alone basis for the three-month period of fiscal 2006 compared to fiscal 2005, cost of goods as a percentage of sales increased from 60.2% to 65.1%. The increase is attributable to some non-recurring expenses and yearly expenses that occurred in the quarter ended February 28, 2006.

Selling, general and administrative costs decreased by $328,969, or 15.0% for the nine months ended 2006. The overall decrease in selling, general and administrative costs from February 28, 2005 to 2006 is a result of the deconsolidation of Lancer as of December 1, 2005. On a stand-alone basis the selling, general and administrative expenses of Biomerica increased by $39,428, or 4.9%. For the three- month period ended February 28, 2006 selling and administrative costs decreased by $386,531, or 58.6%. The decrease was due to the deconsolidation of Lancer as of December 1, 2005. Therefore, in the prior fiscal year, Lancer costs were included in selling, general and administrative, however during fiscal 2006, there were no costs from Lancer during the quarter ended February 28, 2006. On a stand-alone basis, selling, general and administrative expenses of Biomerica increased by $52,513 for the quarter ended February 28, 2006. The increases at Biomerica for the nine and three month periods were attributable to increases in accounting, wages and commissions.

Research and development expenses decreased by $10,456, or 5.1%, for the nine months ended February 28, 2006. The overall decrease in research and development expenses from February 28, 2005 to 2006 is a result of the deconsolidation of Lancer as of December 1, 2005. On a stand-alone basis, the research and development expenses of Biomerica increased by $19,830, primarily due to a research contract in this fiscal year. For the three- months ended

February 28, 2006 consolidated research and development expenses decreased by $22,530 (36.7%). On a stand-alone basis, the research and development expenses of Biomerica decreased by $651 for the quarter ended February 28, 2006.

For the nine months ended February 28, 2006, other income increased from $19,501 to $45,575, compared to same period in the prior year. On a stand-alone basis, Biomerica's other income increased by $15,859 due to the non-sale income realized from a contract with a customer. For the three months ended February 28, 2006, other income increased by $4,202. On a stand-alone basis Biomerica's other income increased by $328 for the quarter ended February 28, 2006.

Interest expense increased by $8,059 (28.1%) for the nine months ended February 28, 2006 compared to the previous year. On a stand-alone basis, Biomerica had decreased interest expense of $1,485 due to payment of the principal on the shareholder note payable. For the three months ended February 28, 2006 interest expense decreased by $3,865. On a stand-alone basis Biomerica's interest expense decreased from $7,900 to $7,248 for the quarter ended February 28, 2006 due to payment of principal on the shareholder loan.

Please refer to Note 3 in the Notes to the Consolidated Financial Statements in the Company's report on Form 10-KSB for the year ended May 31, 2005, for a more in-depth discussion of subsidiaries.

LIQUIDITY AND CAPITAL RESOURCES

As of February 28, 2006, the Company had cash and available-for-sale securities in the amount of $447,462 and working capital of $700,471. Of the $447,462 in cash and available-for-sale securities and $700,471 in working capital, $396,466 relates to stock held in the former subsidiary, Lancer Orthodontics. This stock is restricted and should the Company desire to sell this stock on the open market, it may be subject to certain trading restrictions as imposed by the Federal Securities Act of 1933. Of the total working capital, negative working capital of $104,579 relates to the discontinued operation, ReadyScript.

Biomerica, Inc. entered into an agreement for a line of credit agreement on September 12, 2000 with a shareholder whereby the shareholder would loan to the Company, as needed, up to $500,000 for working capital needs. The line of credit bore interest at 8%, was secured by accounts receivable and inventory, and expired September 13, 2003. In March 2004 the Company signed a note payable for the principal and interest due at that time of $313,318 and agreed to a forbearance of any payments for the length of the agreement. A warrant for 40,000 shares of restricted common stock exercisable at a price of $.51 per share was awarded as compensation for the forbearance. The note payable is secured by all the Company's assets except for the Lancer common stock owned by Biomerica. The note was due September 1, 2004. On November 19, 2004, the Company entered into an agreement entitled "Amendment of the Note, Loan and Modification Agreement" and "Amended And Restated Promissory Note" which were included as exhibits to the Form 10QSB filed April 14, 2004. The Amendment of the Note, Loan And Modification Agreement was filed as an exhibit to a Form 8K filed November 24, 2004. The agreement extended the maturity date of the note until August 31, 2005 and allows for minimum payments of $4,000 per month and additional contingent payments of up to $3,500 per month based on the Company's quarterly performance. Collateral remains the same under The Amendment. The agreement has since been extended for a one-year period and therefore it now expires August 31, 2006. There was $267,602 of outstanding principal and $0 of interest payable under this note payable at February 28, 2006. As of April 14, 2006, the Company was not in compliance with the terms of the above agreements. Additional contingent payments totaling $10,500 per quarter that were due after the filing of the Company's Form 10QSB for the quarters ended November 20, 2005 and August 31, 2005, have not been paid.

The February, 2005, cash flow analysis was performed on a consolidated basis, whereas the February, 2006, figures are on a deconsolidated basis. Please refer to the supplemental in the cash flow statement which shows the effect of the deconsolidation on the cash flow for the nine months ended February 28, 2006.

On a stand-alone basis Biomerica purchased fixed assets in the amount of $33,079 for the nine months ended February 28, 2006 and paid back the shareholder loan in the amount of $33,485.

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Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

Item 4. CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Chief Financial Officer (the

Company's principal executive officer and principal financial officer, respectively) have concluded, based on their evaluation as of February 28, 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 February 28, 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. A Form 8-K was filed on December 1, 2005 by Biomerica. It describes the deconsolidation of the Lancer subsidiary.

(a) Exhibits

31.1 Certification of CEO pursuant to Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of CFO pursuant to Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of CEO Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of CFO Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

Date: April 14, 2006

BIOMERICA, INC.

By: /S/ Zackary S. Irani

Zackary S. Irani
Chief Executive Officer