



# Edgar Filing: BIOMERICA INC - Form 10QSB/A

BIOMERICA, INC.

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PART I - FINANCIAL INFORMATION

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## SUMMARIZED FINANCIAL INFORMATION ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended	
	August 31,	
	2002	2001
Net sales	\$2,089,507	\$1,927,198
Cost of sales	(1,434,429)	(1,436,899)
Gross profit	655,078	490,299
Operating Expenses:		
Selling, general and administrative	757,759	794,025
Research and development	47,877	57,835
	805,636	851,860
Operating loss from continuing operations	(150,558)	(361,561)
Other Expense (income):		
Interest expense	(10,797)	(6,210)
Other income, net	47,981	5,641
	37,184	(569)
Loss from continuing operations, before minority interest in net loss of consolidated subsidiaries and income taxes	(113,374)	(362,130)
Minority interest in net losses of consolidated Subsidiaries	2,004	95,341
Loss from continuing operations, before income taxes	(111,370)	(266,789)
Income tax expense	0	800
Net loss from continuing operations	(111,370)	(267,589)

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Discontinued operations:		
Loss from discontinued operations, net	(24,094)	(36,605)
	-----	-----
Net loss	(135,464)	(304,194)
Other comprehensive gain (loss), net of tax		
Unrealized gain (loss) on available-for-sale securities	(1,440)	(3,702)
	-----	-----
Comprehensive loss	\$ (136,904)	\$ (307,896)
	=====	=====

Basic net loss per common share:		
Net loss from continuing operations	\$ (.02)	\$ (.05)
Net loss from discontinued operations	(.01)	(.01)
	-----	-----
Basic net loss per common share	\$ (.03)	\$ (.06)
	=====	=====

Diluted net loss per common share:		
Net loss from continuing operations	\$ (.02)	\$ (.05)
Net loss from discontinued operations	(.01)	(.01)
	-----	-----
Diluted net loss per common share	\$ (.03)	\$ (.06)
	=====	=====

Weighted average number of common and common equivalent shares: Basic and diluted	5,249,216	5,043,760
	=====	=====

The accompanying notes are an integral part of these statements.

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PART I - FINANCIAL INFORMATION SUMMARIZED FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS BIOMERICA, INC. CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS (UNAUDITED)

August 31, 2002

Assets

Current Assets

Cash and cash equivalents	\$ 271,482
Available for-sale securities	1,092
Accounts receivable, less allowance for doubtful accounts of \$197,588	1,276,172
Inventories, net	2,858,257
Notes receivable	2,419
Prepaid expenses and other	142,529
	-----
Total Current Assets	4,551,951

Inventory, non-current 15,000

Property and Equipment, net of accumulated

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depreciation and amortization	213,951
Intangible assets, net of accumulated amortization	97,150
Other Assets	35,546
	-----
	\$4,913,598
	=====

The accompanying notes are an integral part of these statements.

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BIOMERICA, INC. CONSOLIDATED BALANCE SHEET (UNAUDITED)

BIOMERICA, INC. CONSOLIDATED BALANCE SHEET - Continued (UNAUDITED)  
August 31, 2002

Liabilities and Shareholders' Equity

Current Liabilities

Line of credit	\$ 1,208
Accounts payable and accrued liabilities	743,048
Accrued compensation	262,165
Net liabilities from discontinued operations	348,486
	-----

Total Current Liabilities 1,354,907

Shareholder loan 337,650

Total Liabilities \$1,692,557

Minority interest 2,088,140

Shareholders' Equity

Common stock, \$0.08 par value authorized 25,000,000 shares, subscribed or issued and outstanding 5,273,475	480,455
Additional paid-in-capital	16,998,164
Accumulated other comprehensive loss	(21,677)
Accumulated deficit	(16,324,041)
	-----

Total Shareholders' Equity 1,132,901

Total Liabilities and Equity \$ 4,913,598

The accompanying notes are an integral part of these statements.

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

For the quarter ended August 31,	2002	2001
Cash flows from operating activities:		
Net loss from continuing operations	\$ (111,370)	\$ (267,589)

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Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	35,887	50,899
Realized gain on sale of available for-sale securities	--	(977)
Minority interest in net loss of consolidated Subsidiaries	(2,004)	(95,341)
Common stock issued for services rendered	12,417	--
Provision for losses on accounts receivable	1,136	(2,059)
Warrants and options issued for services rendered	16,182	23,453
Changes in current assets and liabilities:		
Accounts Receivable	145,278	(9,256)
Insurance claim receivable	81,758	--
Inventories	62,755	(126,749)
Prepaid expenses and other current assets	(20,055)	265
Accounts payable and other accrued liabilities	(163,142)	317,159
Accrued compensation	(15,317)	(18,622)
Net cash provided by (used in) operating activities	43,525	(128,817)
Cash flows from investing activities:		
Sale of available for-sale securities	--	6,217
Purchases of property and equipment	(2,966)	--
Other assets	--	11,007
Net cash (used in) provided by investing activities	(2,966)	17,224
Cash flows from financing activities:		
Change in minority interest	5,252	--
Increase (decrease) in shareholder loan	(37,350)	130,000
Private placement net of offering costs	--	10,199
Increase (decrease) in line of credit	(64,461)	20,000
Net cash (used in) provided by financing activities	(96,559)	160,199
Net cash used in discontinued operations	(1,795)	(35,541)
Net (decrease) increase in cash and cash equivalents	(57,795)	13,065
Cash at beginning of period	329,277	136,299
Cash at end of period	\$271,482	\$149,364

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, 2002

Common Stock	Common Stock
-----	-----
	Subscribed
	-----

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	Number of Shares	Amount	Additional Paid-in Capital	Shares	Amount	Accumulated Other Compre hensive Loss	Accum ulated Deficit	Total
Balance at May 31, 2002	5,172,364	\$413,788	\$16,981,982	28,333	\$23,750	\$(20,237)	\$(16,188,577)	\$1,210,706
Compensation expense in connection with options and warrants granted			16,182					16,182
Change in unrealized gain on available for sale securities						(1,440)		(1,440)
Common stock issued for services rendered				72,778	42,917			42,917
Net loss							(135,464)	(135,464)
Balance at August 31, 2002	5,172,364	\$413,788	\$16,998,164	101,111	\$66,667	\$(21,677)	\$(16,324,041)	\$1,132,901

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BIOMERICA, INC. CONSOLIDATED STATEMENT OF CHANGES IN  
SHAREHOLDERS' EQUITY (UNAUDITED) FOR THE THREE MONTHS ENDED  
AUGUST 31, 2002

NOTES TO FINANCIAL STATEMENTS (UNAUDITED) August 31, 2002

(1) Reference is made to Note 2 of the Notes to Consolidated Financial Statements contained in the Company's Annual Report on Form 10-KSB for the fiscal year ended May 31, 2002, for a summary of significant accounting policies utilized by the Company.

(2) The information set forth in these statements is unaudited and may be subject to normal year-end adjustments. The information reflects all adjustments which, in the opinion of management, are necessary to present a fair statement of 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.

(3) Consolidated results of operations for the interim periods covered

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by this Report may not necessarily be indicative of results of operations for the full fiscal year.

(4) Reference is made to Note 3 of the Notes to Consolidated Financial Statements contained in the Company's Annual Report on Form 10-KSB for the fiscal year ended May 31, 2002, for a description of the investments in affiliates and consolidated subsidiaries.

(5) Reference is made to Notes 5 & 11 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, 2002, for information on commitments and contingencies.

(6) Aggregate cost of available-for-sale securities exceeded aggregate market value by approximately \$21,677 at August 31, 2002.

(7) Earnings Per Share  
-----

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

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

	For the Three Months Ended August 31, 2002		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS -			
Loss from continuing operations	\$(111,370)	-	\$ (.02)
Loss from discontinued operations	(24,094)	-	(.01)
	(135,464)	5,172,364	(.03)
Diluted EPS -			
Loss attributable to common share - Holders plus assumed conversions	\$(135,464)	5,172,364	\$ (.03)
	=====	=====	=====
	For the Three Months Ended August 31, 2001		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS -			
Loss from continuing operations	\$(267,589)	-	\$ (.05)
Loss from discontinued operations	(36,605)	-	(.01)



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	----- (304,194)	----- 5,043,760	----- (.06)
Diluted EPS -			
Loss attributable to common share - Holders			
plus assumed conversions	\$ (304,194)	5,043,760	\$ (.06)
	=====	=====	=====

The computation of diluted loss per share excludes the effect of incremental common shares attributable to the exercise of outstanding common stock options and warrants because their effect was antidilutive due to losses incurred by the Company. As of August 31, 2002, there was a total of 3,084,886 potential dilutive shares of common stock.

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

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

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

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

In April 2002, the FASB issued Statement of Financial Accounting Standards No. 145 ("SFAS 145"), "Rescission of FASB Statements No. 4 and 64,

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

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

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

	For the Three Months Ended	
	8/31/02	8/31/01
Revenues from sales to unaffiliated customers:		
United States	\$1,253,000	\$957,000
Asia	66,000	41,000
Europe	362,000	477,000
South America	97,000	171,000
Middle East	74,000	88,000
Oceania	101,000	80,000
Other	137,000	113,000
	\$2,090,000	\$1,927,000
	=====	=====

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

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

(10) As of August 31, 2002, the Company had cash and available-for-sale securities in the amount of \$272,574 and working capital of \$3,217,044. Cash and working capital totaling \$208,428 and \$2,871,664, respectively, relates to the Lancer subsidiary. Lancer's line of credit restricts Biomerica's ability to draw on Lancer's resources and, as such, said cash, working capital and equity are not available to Biomerica. Biomerica, Inc. and its subsidiaries, are expected to fund their operations for at least the next twelve months through their existing available financing, working capital, and its shareholder line of credit.

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The Company has suffered substantial recurring losses from operations over the last couple of years. The Company has funded its operations through debt and equity financings, and may have to do so in the future. ReadyScript operations were discontinued in May 2001 and Allergy Immuno Technologies, Inc. was sold in May 2002. ReadyScript and Allergy Immuno Technologies were contributors to the Company's losses. The Company has also obtained a line of credit from a shareholder/officer which it has and will continue to rely on to help fund operations. The Company has reduced operating costs through certain cost reduction efforts and plans to concentrate on its core business in Lancer and Biomerica to increase sales. There can be no assurance that the Company will be able to become profitable, generate positive cash flow from operations or obtain the necessary equity or debt financing to fund operations in the future.

During the quarter ended August 31, 2002, the Company operations provided cash of \$43,525. This compares to cash used in operations of \$128,817 in the same period in the prior fiscal year. Cash used by financing activities was \$96,559, which resulted from the payment on the line of credit at Lancer of \$64,461 and payment of the shareholder loan at Biomerica of \$37,350, which were offset by a \$5,252 change in minority interest.

(11) Lancer has a \$400,000 line of credit with a financial institution, expiring October 24, 2003. Borrowings are made at prime plus 2.0%, in no event less than 8.0%, (8.0% at August 31, 2002) and are limited to specified percentages of eligible accounts receivable. The outstanding balance at August 31, 2002 was \$1,208 and the unused portion available was approximately \$312,000.

The line of credit is collateralized by substantially all the assets of Lancer, including inventories, receivables, and equipment. The lending agreement for the line of credit requires, among other things, that Lancer maintain a tangible net worth ratio of \$2,100,000, which was met, and that receivables' payments be sent to a controlled lockbox. In addition to interest, a management fee of .25% of the average monthly outstanding loan balance and an unused balance fee of .0425% on the average monthly unused portion available are required. Lancer is not required to maintain compensating balances in connection with this lending agreement.

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

(12) Biomerica, Inc. entered into a line of credit agreement on September 12, 2000 with Janet Moore, an officer and director, whereby she will loan to the Company, as needed, up to \$500,000 for working capital needs. The line of credit bears interest at 8%, is secured by Biomerica accounts receivable and inventory and expires September 12, 2003. The unused portion of the line of credit at August 31, 2002, was \$162,350.

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(13) In July 2002, 67,778 shares of Biomerica restricted common stock (at \$0.60 per share), were approved for issuance in payment of accrued salary for two officers/directors. In connection with this issuance, Biomerica recorded compensation expense of \$40,667, the fair market value of the stock at the time of issuance. During the three months ended August 31, 2002, 5,000 shares of Biomerica's restricted common stock valued at \$2,250 were earned in payment to its Chief Executive Officer for certain management services.

(14) In October 2002, the Company agreed to issue 20,000 options at the then fair market value to employees. These options will vest over four years.

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

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

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

(18) In September the Board of Directors approved the grant of a stock option for 7,000 shares of Biomerica common stock at current market value to an outside consultant.

(19) During the three months ended August 31, 2002, \$16,182 was recorded as amortization expense for previously issued warrants and options.

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

(21) For the three months ended August 31, 2002, other income of \$52,655 was realized from the insurance claim settlement of \$134,413 for the theft of inventory at the Lancer Orthodontics, Inc.'s Mexicali facility, less \$81,758 insurance claim receivable valued at cost.

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(22) Reportable business segments for the quarter ended August 31, 2002 and 2001 are as follows:

	2002	2001
	-----	-----
Domestic sales: Orthodontic products	\$ 755,000	\$ 742,000
	=====	=====
Medical diagnostic products	\$ 498,000	\$ 215,000
	=====	=====
Foreign sales: Orthodontic products	\$ 531,000	\$ 693,000
	=====	=====
Medical diagnostic products	\$ 306,000	\$ 277,000
	=====	=====
Net sales:		
Orthodontic products	\$1,286,000	\$1,435,000
Medical diagnostic products	804,000	492,000
	-----	-----
Total	\$2,090,000	\$1,927,000
	=====	=====
Operating profit (loss):		
Orthodontic products	\$ (46,000)	\$ (126,000)
Medical diagnostic products	(105,000)	(236,000)
	-----	-----
Total	\$ (151,000)	\$ (362,000)
	=====	=====

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Operating loss from discontinued segment:		
AIT	\$ --	\$ (22,000)
ReadyScript	(24,000)	(15,000)
	-----	-----
Total	\$ (24,000)	\$ (37,000)
	=====	=====
Domestic long-lived assets:		
Orthodontic products	\$ 91,000	\$ 177,000
Medical diagnostic products	197,000	348,000
	-----	-----
Total	\$ 288,000	\$ 525,000
	=====	=====
Foreign long-lived assets:		
Orthodontic products	\$ 23,000	\$ 40,000
Medical diagnostic products	--	--
	-----	-----
Total	\$ 311,000	\$ 565,000
	=====	=====
Total assets:		
Orthodontic products	\$3,467,000	\$3,874,000
Medical diagnostic products	1,447,000	1,553,000
	-----	-----
Total	\$4,914,000	\$5,427,000
	=====	=====
Depreciation and amortization expense:		
Orthodontic products	\$ 24,000	\$ 27,000
Medical diagnostic products	12,000	24,000
	-----	-----
Total	\$ 36,000	\$ 51,000
	=====	=====
Capital expenditures:		
Orthodontic products	\$ 2,000	\$ --
Medical diagnostic products	1,000	--
	-----	-----
Total	\$ 3,000	\$ --
	=====	=====

The net sales as reflected above consist of sales of unaffiliated customers only as there were no significant intersegment sales during the quarter ended August 31, 2002 and 2001.

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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

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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 \$2,089,507 for the first quarter of fiscal 2003 as compared to \$1,927,198 for the same period in the previous year. This represents an increase of \$162,309, or 8.4%. Of the total consolidated net sales for fiscal 2002, \$1,285,499 is attributable to Lancer, and \$804,008 to Biomerica. Lancer sales decreased by \$149,289 over the previous fiscal year due to decreases in Lancer's international sales. Biomerica sales increased by \$311,598 primarily due to greater sales of the EZ Detect product due to a large screening program and the Aware product (which had sales of approximately \$65,000).

Cost of sales decreased by \$2,470 or 0%. Lancer's cost of sales as a percentage of sales decreased from 75.1% to 71.9%. This decrease was attributable to a reduction in scrap and other manufacturing efficiencies. Biomerica's costs decreased from 73.2% of sales to 63.5% due to higher sales in relation to fixed costs.

Selling, general and administrative costs decreased by \$36,266, or 4.6%. Lancer had decreased selling, general and administrative costs of \$90,901 due to decreased labor and travel costs. Biomerica had an increase of \$54,635, which was primarily due to higher commissions associated with higher sales.

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Research and development decreased by \$9,958, or 17.2%. Lancer had an increase in research and development costs of \$15,186 due to the resumption of product development. Biomerica had decreased costs of \$25,144 primarily due to lower wages and related costs.

For the three months ended August 31, 2002, other income of \$52,655 was realized from the insurance claim settlement of \$134,413 for the theft of inventory at the Lancer Orthodontics Inc.'s Mexicali facility, less \$81,758 insurance claim receivable valued at cost.

Interest expense increased by \$4,587 compared to the previous year due to increased borrowings at Biomerica.

Please refer to Note 3 in the Notes to the Consolidated Financial Statements in the report on Form 10-KSB for the year ended May 31, 2002, for a more in-depth discussion of subsidiaries.

### LIQUIDITY AND CAPITAL RESOURCES

As of August 31, 2002, the Company had cash and available-for-sale securities in the amount of \$272,574 and working capital of \$3,217,044. Cash and working capital totaling \$208,428 and \$2,871,664, respectively, relates to the Lancer subsidiary. Lancer's line of credit restricts Biomerica's ability to draw on Lancer's resources and, as such, said cash, working capital and equity are not available to Biomerica. Biomerica, Inc. and its subsidiaries, are expected to fund their operations for at least the next twelve months through their existing

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available financing, working capital, and its shareholder line of credit.

The Company has suffered substantial recurring losses from operations over the last couple of years. The Company has funded its operations through debt and equity financings, and may have to do so in the future. ReadyScript operations were discontinued in May 2001 and Allergy Immuno Technologies was sold in May 2002. ReadyScript and Allergy Immuno Technologies were contributors to the Company's losses. The Company has also obtained a line of credit from a shareholder/officer which it has and will continue to rely on to help fund operations. The Company has reduced operating costs through certain cost reduction efforts and plans to concentrate on its core business in Lancer and Biomerica to increase sales. There can be no assurance that the Company will be able to become profitable, generate positive cash flow from operations or obtain the necessary equity or debt financing to fund operations in the future.

The Company wrote off \$20,000 of impaired fixed assets for its discontinued subsidiary, ReadyScript, during the quarter ended August 31, 2002.

During the quarter ended August 31, 2002, the Company operations provided cash of \$43,525. This compares to cash used in operations of \$128,817 in the same period in the prior fiscal year. Cash used by financing activities was \$96,559, which resulted from the payment on the line of credit at Lancer of \$64,461 and payment of the shareholder loan at Biomerica of \$37,350, which were offset by a \$5,252 change in minority interest.

Pursuant to a decision by the Nasdaq Listing Qualifications Panel, the Company's common stock was delisted from the Nasdaq Stock Market effective June 20, 2002, for failure to comply with the net tangible assets or shareholders' equity requirements as set forth in Marketplace Rule 310(c)(2)(B). The Company's securities were immediately eligible to trade on the OTC Bulletin Board and are traded under the symbol BMRA.OB.

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At August 31, 2002, Lancer had a \$400,000 line of credit with a financial Institution, through October 24, 2003. Borrowings are made at prime plus 2.0% (8.0% at August 31, 2002) and are limited to specified percentages of eligible accounts receivable. The outstanding balance at August 31, 2002 was \$1,208 and the unused portion available was approximately \$312,000.

The line of credit is collateralized by substantially all the assets of Lancer, including inventories, receivables, and equipment. The lending agreement for the line of credit requires, among other things, that Lancer maintain a tangible net worth ratio of \$2,100,000, which was met, and that receivables' payments be sent to a controlled lockbox. In addition to interest, a management fee of .25% of the average monthly outstanding loan balance and an unused balance fee of .0425% on the average monthly unused portion available are required. Lancer is not required to maintain compensating balances in connection with this lending agreement.

Biomerica, Inc. entered into a line of credit agreement on September 12, 2000 with Janet Moore, an officer and director, whereby she will loan to the Company, as needed, up to \$500,000 for working capital needs. The line of credit bears interest at 8%, is secured by Biomerica accounts receivable and inventory and expires September 12, 2002. The unused portion of the line of credit at August 31, 2002, was \$162,350.

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

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

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

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

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### POTENTIAL CONSEQUENCES OF ALLERGY IMMUNO TECHNOLOGY, INC.'S FAILURE TO CONDUCT A FORMAL STOCKHOLDER VOTE IN CONNECTION WITH OUR PURCHASE OF ASSETS FROM IT AND ASSUMPTION OF ITS LIABILITIES

During not less than the preceding three years, AIT, a former majority-owned subsidiary of ours, had been unprofitable and, for financial statement reporting purposes, its losses were consolidated into our financial statements. In March of 2002, AIT ceased its clinical testing services. Thereafter, in late April of 2002, we entered into a transaction, pursuant to which, at the end of May of 2002, AIT transferred its remaining assets to us (valued on its financial statements at approximately \$8,000), issued to us approximately 808,500 shares of its restricted common stock (valued as of the date of the transaction at approximately \$19,000), and we assumed its remaining liabilities (recorded on its financial statements at approximately \$27,000) (the "Asset/Liability Transaction"). The Asset/Liability Transaction was approved by our board on April 22, 2002. Approval by our stockholders was not required under Delaware corporate law. We understand that AIT's board approved the Asset/Liability Transaction in April of 2002 and that, rather than calling a formal meeting of AIT's stockholders, our consent to that transaction was deemed to constitute the approval of the holders of a majority of AIT's capital stock, as permitted by Delaware corporate law.

The Company's substantial recurring losses from operations during the preceding years and its lack of readily available capital, other than a line of credit from a stockholder and officer, to help fund operations were the major factors in its decision to stop lending funds to AIT. Both



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ReadyScript and AIT contributed to the Company's losses. Accordingly, the Company discontinued operations of ReadyScript in May of 2001 and ceased funding of AIT one year later. (See Notes 2 and 13 to the Company's Audited Financial Statements for the year ended May 31, 2002).

At the time of the approval of the Asset/Liability Transaction, our seven directors were Allen Barbieri, David Barrows, Carlos Beharie, M.D., Francis R. Cano, Ph.D., Zackary S. Irani, Janet Moore, and Robert A. Orlando, M.D., Ph.D., three of whom (Mr. Irani, Ms. Moore, and Dr. Orlando) were also directors of AIT. AIT's fourth director at such time was Susan Irani, whom AIT deemed to be an affiliate of ours. Further, at such time, Mr. Irani served as the Chief Executive Officer and Ms. Moore served as the Chief Financial Officer and Secretary of both AIT and us. The Asset/Liability Transaction was negotiated by management common to AIT and us and was approved by all of our directors (including the directors constituting a majority of our board, who did not serve in common with AIT). We were advised that the Asset/Liability Transaction was approved by all of the AIT directors (each of whom also served as one of our directors or was deemed to be an affiliate of ours).

Notwithstanding the approval of the Asset/Liability Transaction by AIT's board and its majority stockholder, AIT may not have provided prompt notice of that approval to all of its stockholders in a manner fully consistent with Delaware corporate law. That failure could have certain potential consequences. Although AIT did not solicit proxies from its stockholders, it also did not file a Schedule 14C with the Securities and Exchange Commission in connection with the approval of the Asset/Liability Transaction by its majority stockholder. Further, the potential exists that one of AIT's stockholders could bring a legal action under Delaware state law against AIT either to rescind the Asset/Liability Transaction, or to seek damages against AIT. Because of our status as an affiliate of AIT at the time of the Asset/Liability Transaction, such failure to file a Schedule 14C or a potential action could also name us, our directors, and our officers. As of the date of this amended filing, no action has been filed, and no proceeding has been commenced, against us or any of our directors or officers, and no person or agency has contacted us or our directors or officers announcing an intention to bring any action or to commence any proceeding.

We have been advised by counsel to AIT that, as of the date of this amended filing, no action has been filed, and no proceeding has been commenced, against AIT or any of its directors or officers, and no person or agency has contacted AIT or its directors or officers announcing an intention to bring any action or to commence any proceeding. AIT has informed us that its present attorney has advised it that the likelihood of such an action or proceeding is minimal, the possibility of its success on the merits is remote, and the scope of any potential damages award is nominal for a variety of reasons. For example,

No AIT stockholder or other person with potential standing to sue has announced dissatisfaction with the Asset/Liability Transaction, although it was announced publicly in June of 2002.

The assets that were the subject of the Asset/Liability Transaction had historically yielded only unprofitable operations, which operations had ceased prior to the approval of the Asset/Liability Transaction, as well as the closing of that transaction.

The value of the assets that were the subject of the Asset/Liability Transaction was small and less than the amount of liabilities that we concurrently assumed; thus, any award the compensation due to any potential plaintiffs upon a successful claim would be correspondingly small.

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Any potential liability under such a claim would be incapable of precise determination because the measure of damages under such a claim would depend upon a subjective valuation of the assets and liabilities that were the subject of the Asset/Liability Transaction.

We do not believe that such an action is probable, nor that a liability for such an action, if any, could be estimated. Accordingly, we have not accrued a liability in the accompanying consolidated financial statements related to the aforementioned matter.

### PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS. Inapplicable.

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

Item 3. DEFAULTS UPON SENIOR SECURITIES. Inapplicable.

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

Item 5. OTHER INFORMATION. Inapplicable.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K. A report on Form 8-K was filed with the Securities and Exchange Commission on June 6, 2002.

(a) Exhibits

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

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### SIGNATURES

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

Date: June 5, 2003

BIOMERICA, INC.  
By: /S/ Zackary S. Irani

Zackary S. Irani  
Chief Executive Officer

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

I, Janet Moore, certify that:

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

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

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

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

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

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this amended quarterly report (the "Evaluation Date"); and; c) presented in this amended quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

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

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

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

Date: June 5, 2003

/s/ Janet Moore  
Chief Financial Officer

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

I, Zackary Irani, certify that:

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1. I have reviewed this amended quarterly report on Form 10-QSB/A of Biomerica, Inc.
2. Based on my knowledge, this amended quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this amended quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this amended quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the period presented in this amended quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this amended quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this amended quarterly report (the "Evaluation Date"); and; c) presented in this amended quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this amended quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 5, 2003

/s/ Zackary S. Irani  
Chief Executive Officer

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CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT

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TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Amended Quarterly Report on Form 10-QSB/A of Biomerica Inc. for the quarterly period ended August 31, 2002 (the Report) as filed with the Securities and Exchange Commission on the date hereof, I, Janet Moore, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. #1350, as adopted pursuant to #906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) 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

CERTIFICATION 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 Amended Quarterly Report on Form 10-QSB/A of Biomerica Inc. for the quarterly period ended August 31, 2002 (the Report) as filed with the Securities and Exchange Commission on the date hereof, I, Zackary Irani, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. #1350, as adopted pursuant to #906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) 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