BIOMERICA INC
Form 10QSB
January 23, 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 November 30, 2005 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: 5,753,931 shares of common stock as of January 23, 2006.

BIOMERICA, INC.

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PART I - FINANCIAL INFORMATION
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ITEM 1. FINANCIAL STATEMENTS

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

	Six Months Ended November 30,	
	2005	2004

Net sales	$ 4,719,190	$ 4,346,972
Cost of sales	3,171,247	2,935,536
Gross profit	1,547,943	1,411,436
Operating Expenses:		
Selling, general and administrative	1,593,580	1,498,333
Research and development	154,581	142,507
	1,748,161	1,640,840
Operating loss from continuing operations	(200,218)	(229,404)
Other Expense (income):		
Interest expense	29,503	17,579
Other income, net	(44,845)	(22,904)
	(15,342)	(5,325)
Loss from continuing operations, before minority interest in net loss of consolidated subsidiaries and income taxes	(184,876)	(224,079)
Minority interest in net losses of consolidated subsidiary	251,670	100,100
Income (loss) from continuing operations, before income taxes	66,794	(123,979)
Income tax expense	1,600	1,600
Net income (loss) from continuing operations	65,194	(125,579)

The accompanying notes are an integral part of these statements.

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

	Six Months Ended November 30,		T
	2005	2004	2
Discontinued operations:			
Income from discontinued operations, net	--	6,601	
Net income (loss)	65,194	(118,978)	
Other comprehensive (loss) gain, net of tax Unrealized (loss) gain on available-for-sale securities	(4,380)	(7,442)	

Comprehensive income (loss)	$ 60,814	$ (126,420)	$
Basic net income (loss) per common share:			
Net income (loss) from continuing operations	$ .01	$ (.02)	$
Net income (loss) from discontinued operations	.00	.00	
Basic net income (loss) per common share	$ .01	$ (.02)	$
Diluted net income (loss) per common share			
Net income (loss) from continuing operations	$ .01	$ (.02)	$
Net income (loss) from discontinued operations	.00	.00	
Diluted net income (loss) per common share	$ .01	$ (.02)	$
Weighted average number of common and common equivalent shares:			
Basic	5,753,791	5,752,431	5
Diluted	6,354,655	5,752,431	6

The accompanying notes are an integral part of these statements.

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BIOMERICA, INC.

CONSOLIDATED BALANCE SHEET (UNAUDITED)

	November 30, 2005
Assets	
Current Assets	
Cash and cash equivalents	$ 150,319
Available for-sale securities	3,800
Accounts receivable, less allowance for doubtful accounts of $186,744	2,042,995
Inventories, net of reserve of $176,209	2,351,982
Notes receivable	6,719
Prepaid expenses and other	134,403
Total Current Assets	4,690,218
Inventory, non-current	601,521
Property and Equipment, net of accumulated depreciation and amortization	1,317,575
Intangible assets, net of accumulated amortization	10,350
Other Assets	62,240

$6,681,904
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The accompanying notes are an integral part of these statements.

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BIOMERICA, INC.

CONSOLIDATED BALANCE SHEET - Continued (UNAUDITED)

	November 30, 2005
Liabilities and Shareholders' Equity	
Current Liabilities	
Line of credit	$ 240,000
Accounts payable and accrued liabilities	1,281,768
Accrued compensation	596,544
Current portion of shareholder loan	274,244
Net liabilities from discontinued operations	104,579
Current portion of capital leases at subsidiary	71,978
Total Current Liabilities	2,569,113
Long-term portion of capital leases at subsidiary	262,816
Minority interest	2,793,002
Shareholders' Equity	
Common stock, $0.08 par value authorized 25,000,000 shares, subscribed or issued and outstanding 5,753,931	460,313
Additional paid-in-capital	17,050,452
Accumulated other comprehensive gain	(3,854)
Accumulated deficit	(16,449,938)
Total Shareholders' Equity	1,056,973
Total Liabilities and Equity	$ 6,681,904

The accompanying notes are an integral part of these statements.

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

For the six months ended November 30, 2005 2

Cash flows from operating activities:		
Net income (loss) from continuing operations	$ 65,194	$(12
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	96,980	8
Minority interest in net loss of consolidated Subsidiary	(251,670)	(10
Amortization of warrant expense for extension of loan	--	1
Gain on sales of marketable securities	--	(
Common stock, warrants and options issued for services rendered	469	
Provision for losses on accounts receivable	17,943	(4
Loss on disposal of fixed assets	1,704	
Provision for losses on inventory	(128)	
Changes in current assets and liabilities:		
Accounts receivable	(338,727)	(
Inventories	(252,197)	(24
Prepaid expenses and other current assets	(26,479)	(5
Accounts payable and other accrued liabilities	198,843	15
Accrued compensation	2,364	13
Net cash used in operating activities	(485,704)	(20
Cash flows from investing activities:		
Purchases of property and equipment	(235,664)	(12
Net cash used in investing activities	(235,664)	(12
Cash flows from financing activities:		
Change in minority interest	37,250	4
Sales of available for sale securities	--	
Decrease in shareholder loan	(26,843)	
Gross proceeds from private placement at subsidiary	469,800	
Exercise of stock options	398	
Increase in line of credit at subsidiary	65,000	15
Paydown on capital lease	(25,799)	
Net cash provided by financing activities	519,806	20
Net cash used in discontinued operations	--	(
Net decrease in cash and cash equivalents	(201,562)	(12
Cash at beginning of period	351,881	35
Cash at end of period	$ 150,319	$ 22
Supplemental Disclosure of Cash Flow Information		
Cash Paid During The Year For:		
Interest	$ 27,742	$
Income taxes	$ 1,600	$

Supplemental disclosures on non-cash financing activity		
Change in unrealized holding loss on available-for-sale securities.........	(4,380)	
Change in minority interest due to subsidiary stock issuance	(57,769)	(1
Capital lease for purchase of fixed assets................................	360,593	

The accompanying notes are an integral part of these statements.

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NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

November 30, 2005

(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 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.

The following table presents on a pro forma basis a breakdown by company of the Statement of Operations for the six and three months ended November 30, 2005 and 2004, respectively.

PRO FORMA STATEMENT OF OPERATIONS BY COMPANY (UNAUDITED)

	Six Months Ended November 30, 2005			
	Actual	Intercompany Eliminations	Pro-forma Adjus Lancer	Bi
NET SALES	$4,719,190		$(2,925,038)	$1,
COST OF SALES	3,171,247	$ 15,780 (1)	(2,190,495)	

GROSS PROFIT	1,547,943	$(15,780)	(734,543)
OPERATING EXPENSES:			
SELLING, GENERAL AND ADMIN	1,593,580		(1,029,059)
RESEARCH AND DEVELOPMENT	154,581		(42,470)
TOTAL OPERATING EXPENSES	1,748,161		(1,071,529)
OPERATING INCOME (LOSS)	(200,218)	(15,780)	336,986
OTHER EXPENSE (INCOME)			
Interest	29,503		(14,456)
Other expense (income)	(44,845)	(15,780)(2)	33,096
INCOME (LOSS) FROM OPERATIONS BEFORE INTEREST IN NET INCOME (LOSS) OF CONSOLIDATED SUBSIDIARIES AND INCOME TAXES	(184,876)		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	66,794	(251,670)	318,346
INCOME TAX EXPENSE	1,600		(800)
NET INCOME (LOSS)	$65,194	$(251,670)	$319,146 $

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

PRO FORMA STATEMENT OF OPERATIONS BY COMPANY (UNAUDITED)

	Three Months Ended November 30, 2005	Pro-forma Adjustments	Pro-forma Adjus
	Actual	Intercompany Eliminations	Lancer Bi
NET SALES	$2,397,046		$(1,547,940) $
COST OF SALES	1,591,311	7,155 (1)	(1,125,790)

GROSS PROFIT	805,735	(7,155) (1)	(422,150)
OPERATING EXPENSES:			
SELLING, GENERAL AND ADMINISTRATIVE	840,420		(548,048)
RESEARCH AND DEVELOPMENT	69,804		(22,314)
TOTAL OPERATING EXPENSES	910,224		(570,362)
OPERATING INCOME (LOSS)	(104,489)	(7,155) (1)	148,212
OTHER EXPENSE (INCOME)			
Interest	18,490		(11,566)
Other expense (income)	(6,948)	(7,155) (2)	14,086
	11,542	(7,155) (2)	2,520
INCOME (LOSS) FROM OPERATIONS BEFORE INTEREST IN NET INCOME (LOSS) OF CONSOLIDATED SUBSIDIARIES AND INCOME TAXES	(116,031)		(145,692)
MINORITY INTEREST IN NET LOSS (INCOME) OF LANCER	119,434	(146,492) (3) 27,058 (4)	--
INCOME TAX EXPENSE	1,600		(800)
NET INCOME (LOSS)	$ 1,803	$(119,434)	$146,492

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

PRO FORMA STATEMENT OF OPERATIONS BY COMPANY (UNAUDITED)

	Six Months Ended November 30, 2004		
	Actual	Intercompany Eliminations	Pro-forma Ad Lancer
NET SALES	$4,346,972		($2,890,851)
COST OF SALES	2,935,536	17,250 (1)	(2,042,002)
GROSS PROFIT	1,411,436	(17,250)(1)	(848,849)

OPERATING EXPENSES:			
SELLING, GENERAL AND ADMIN	1,498,333		(958,411)
RESEARCH AND DEVELOPMENT	142,507		(50,877)
TOTAL OPERATING EXPENSES	1,640,840		(1,009,288)
OPERATING INCOME (LOSS)	(229,404)	(17,250)(1)	160,439
OTHER EXPENSE (INCOME)			
Interest	17,579		(1,699)
Other expense (income)	(22,904)	(17,250)(2)	28,225
	(5,325)	(17,250)(2)	26,526
INCOME (LOSS) FROM OPERATIONS BEFORE INTEREST IN NET INCOME (LOSS) OF CONSOLIDATED SUBSIDIARIES AND INCOME TAXES	(224,079)		133,913
MINORITY INTEREST IN NET LOSS (INCOME) OF LANCER	100,100	(134,913)(3) 34,813 (4)	--
INTEREST IN NET INCOME OF CONSOLIDATED SUBSIDIARIES - DISCONTINUED OPERATIONS	6,601		
INCOME TAX EXPENSE	1,600		(800)
NET INCOME (LOSS)	$(118,978)	$(100,100)	$134,913

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

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PRO FORMA STATEMENT OF OPERATIONS BY COMPANY (UNAUDITED)

Three Months Ended November 30, 2004

	Actual	Intercompany Eliminations	Pro-forma Adjus Lancer	B
NET SALES	$2,162,533		$ (1,409,989)	$
COST OF SALES	1,429,040	8,625 (1)	(969,775)	
GROSS PROFIT	733,493	(8,625)(1)	(440,214)	

OPERATING EXPENSES:				
SELLING, GENERAL AND ADMINISTRATIVE	788,303		(495,866)	
RESEARCH AND DEVELOPMENT	71,459		(23,770)	
TOTAL OPERATING EXPENSES	859,762		(519,636)	
OPERATING INCOME (LOSS)	(126,269)	(8,625)(1)	79,422	
OTHER INCOME (EXPENSE)				
Interest	9,428		(1,699)	
Other expense (income)	(9,470)	(8,625)(2)	10,357	
	(42)	(8,625)(2)	8,658	
INCOME (LOSS) FROM OPERATIONS BEFORE INTEREST IN NET INCOME (LOSS) OF CONSOLIDATED SUBSIDIARIES AND INCOME TAXES	(126,227)		70,764	
MINORITY INTEREST IN NET LOSS (INCOME) OF LANCER	52,392	(71,564)(3) 19,172 (4)		
INTEREST IN NET INCOME OF CONSOLIDATED SUBSIDIARIES - DISCONTINUED OPERATIONS	6,601		--	
INCOME TAX EXPENSE	1,600		(800)	
NET INCOME (LOSS)	$ (68,834)	$(52,392)	$ 71,564	$

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

(2) To record the income from Biomerica received by Lancer for rent at the Mexico facility, which was eliminated in consolidation.

(3) To de-consolidate Lancer's loss.

(4) Elimination of Biomerica's portion of Lancer's operations as if the termination of the voting agreement occurred May 31, 2005.

Balance sheet By Company as of November 30, 2005

	Actual	Intercompany Eliminations	Pro-form Adjustments
Assets			
Current Assets			
Cash and cash equivalents	$ 150,319		
Available for-sale securities	3,800		
Accounts receivable, less allowance for			

doubtful accounts of $12,601 at Biomerica and $174,143 at Lancer	2,042,995		
Inventories, net of reserve of $3,558 at Biomerica and $172,651 at Lancer	2,351,982		
Notes receivable	6,719		
Prepaid expenses and other	134,403	(4,642)(1)	
Total Current Assets	4,690,218	(4,642)(1)	
Inventory, non-current	601,521		
Investment in Lancer	--	632,733 (2)	(222,596)(
Property and Equipment, net of accumulated depreciation and amortization	1,317,575		
Intangible assets, net of accumulated amortization	10,350		
Other Assets	62,240		
	$ 6,681,904	$ 628,091	$ (222,596)
Liabilities and Shareholders' Equity			
Current Liabilities			
Line of credit	$ 240,000		
Accounts payable and accrued liabilities	1,281,768	(4,642)(4)	
Accrued compensation	596,544		
Current portion of shareholder loan	274,244		
Net liabilities from discontinued operations	104,579		
Current portion of capital leases	71,978		
Total Current Liabilities	$ 2,569,113	(4,642)(4)	
Long term portion of capital leases	262,816		
Minority Interest	2,793,002	(2,793,002)(5)	
Shareholders' Equity			
Common stock, $0.08 par value authorized 25,000,000 shares, subscribed or issued and outstanding 5,753,931 for Biomerica and 3,700,021for Lancer	460,313	--	
Common stock subscribed	--	85,850 (6)	
Additional paid-in-capital	17,050,452	5,670,565 (6)	(222,596)(
Accumulated other comprehensive gain	(3,854)	--	--
Accumulated deficit	(16,449,938)	(2,330,680)(6)	
Total Shareholders' Equity	1,056,973	3,425,735 (6)	(222,596)(
Total Liabilities and Equity	$ 6,681,904	$ 628,091	$ (222,596)(

(1) To record the Lancer receivable balance owed by Biomerica to Lancer for services, which was eliminated in consolidation.
(2) To record Biomerica's investment in Lancer prior to consolidation.
(3) To write down the carrying amount of the Lancer investment on Biomerica's books to fair value as if the termination of the voting agreement occurred on November 30, 2005.
(4) To record the intercompany payable balance owed by Biomerica to Lancer for services, which was eliminated in consolidation.
(5) To eliminate minority interest which was a result of consolidation.
(6) To reverse the elimination of Lancer's shareholders' equity from Biomerica's books due to consolidation.
(7) To write down the carrying amount against paid-in-capital of the Lancer investment on Biomerica's books to fiar value in accordance with FASB 115 as if the termination of the voting alliance occurred November 30, 2005.

(2) As of November 30, 2005, the Company had cash and available-for-sale securities in the amount of $154,119 and working capital of $2,121,106. Cash and working capital totaling $134,002 and $1,849,419, 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. Of the total working capital, negative working capital of $104,579 relates to the discontinued operation, ReadyScript.

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 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 $274,244 of outstanding principal and $0 of interest payable under this note payable at November 30, 2005. As of January 23, 2006, the Company was not in compliance with the terms of the above agreements. Additional contingent payments totaling $10,500 that were due after the filing of the Company's Form 10QSB for the quarter ended August 31, 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. The Lancer line of credit expired October 15, 2005 and was extended by the bank until March 15, 2006. The bank has since decided not to renew the line of credit. After unsuccessfully attempting to find another acceptable line of credit with a commercial bank, two directors of Lancer have agreed to give Lancer a line of credit similar to the existing line with fundamentally the same terms and conditions as agreed to in the bank's agreement. This line of credit will be for a term of one year and begin when the other line expires on March 16, 2006.

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:

	Six Months Ended		Three Months Ended	
November 30,	2005	2004	2005	2004
Net income (loss) from continuing operations, as reported	$ 65,194	$ (125,579)	$ 1,803	$(75,435)
Plus: Stock-based employee compensation expense included in reported net income (loss)	469	243	235	243
Less: Stock-based employee compensation expense determined using fair value based method	(16,103)	(14,229)	(1,411)	(7,923)
Net income (loss) from continuing operations, pro forma	$ 49,560	$ (139,565)	$ 627	$(83,115)
Pro forma net income (loss) from continuing operations per share - basic	$ .01	$ (0.02)	$ .00	$ (.01)
Pro forma net income (loss) from continuing operations per share - diluted	$ .01	$ (0.02)	$ (.00)	$ (.01)

(4) The following summary presents the options granted, exercised, expired, and outstanding as of November 30, 2005:

	Number of Options and Warrants			Weighted Average
	Employee	Non-employee	Total	Exercise Price
Outstanding May 31, 2005	1,427,808	174,829	1,602,637	$ .90
Granted	121,000	--	121,000	.53
Exercised	(1,500)	--	(1,500)	.27
Expired	(129,688)	(39,746)	(169,434)	2.02
Cancelled	(3,000)	--	(3,000)	.33
Outstanding				

November 30, 2005	1,414,620	135,083	1,549,703	$0.75
	==========	============	===========	==========

(5) 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

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periods indicated. It does not include all information and footnotes necessary for a fair presentation of financial position, results of operations, and cash flow in conformity with generally accepted accounting principles.

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

(7) Reference is made to Note 3 of the Notes to Consolidated Financial Statements contained in the Company's Annual Report on Form 10-KSB for the fiscal year ended May 31, 2005, for a description of the investments in affiliates and consolidated subsidiaries. As of December 1, 2005, the financials of Lancer will no longer be consolidated with those of Biomerica. Please refer to the subsequent event footnote.

(8) 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.

(9) Aggregate cost exceeded market value of available-for-sale securities by approximately $3,854 at November 30, 2005.

(10) Earnings Per Share

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

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

	For the Six Months Ended November 30, 2005		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Numerator			
Income from continuing operations	$ 65,194		$ .01

	Income (Numerator)	Shares (Denominator)	Per Share Amount
	$ 65,194	5,753,791	$ .01
Diluted EPS -			
Income attributable to common share - holders	$ 65,194	6,354,655	$ .01

	For the Six Months Ended November 30, 2004		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS -			
Loss from continuing operations	$ (125,579)	-	$ (.02)
Gain (loss) from discontinued operations	6,601	-	.00
	$ (118,978)	5,752,431	$ (.02)
Diluted EPS -			
Loss attributable to common share - holders	$ (118,978)	5,752,431	$ (.02)

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	For the Three Months Ended November 30, 2005		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS -			
Income from continuing operations	$ 1,803		.00
	$ 1,803	5,753,912	.00
Diluted EPS -			
Gain attributable to common share - holders	$ 1,803	6,376,094	.00

	For the Three Months Ended November 30, 2004		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS -			
Loss from continuing operations	$ (75,435)	-	$ (.01)
Gain (loss) from discontinued operations	6,601	-	.00
	$ (68,834)	5,752,431	$ (.01)
Diluted EPS -			
Loss attributable to common share -			

holders	$ (68,834)	5,752,431	$ (.01)
	============	============	============

The computation of diluted loss per share for the period ended November 30, 2004 excludes the effect of incremental common shares attributable to the exercise of outstanding common stock options and warrants because their effect was antidilutive in that period due to losses incurred by the Company.

(11) 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.

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

	For the Six Months Ended	
	11/30/05	11/30/04
Revenues from sales to unaffiliated customers:		
United States	$1,963,000	$1,962,000
Asia	227,000	114,000
Europe	1,516,000	1,231,000
South America	426,000	166,000
Oceania	288,000	347,000
Middle East	114,000	185,000
Other	185,000	342,000
	$4,719,000	$4,347,000

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

(14) During fiscal 2005, Lancer obtained a new line of credit with Community

National Bank (formerly Cuyamaca Bank). As of November 30, 2005, borrowings were made at prime plus 2.0% (9.0% at November 30, 2005) and were for borrowing up to $400,000 which is limited to 80% of accounts receivable less than 90 days old. The outstanding balance at November 30, 2005 was $240,000 and the unused portion available at November 30, 2005 was approximately $100,000.

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 balance sheet net worth of $2,700,000 and that a zero outstanding balance be maintained for 30 consecutive days during the term. The agreement prohibits the advancing of funds to Biomerica. Lancer is not required to maintain compensating balances in connection with this lending agreement. Lancer was in compliance with its debt covenants at November 30, 2005.

The Lancer line of credit expired October 15, 2005 and has been extended until March 15, 2006. The bank has since decided not to renew the line of credit. After unsuccessfully attempting to find an acceptable line of credit with a commercial bank, two directors of Lancer have agreed to give Lancer a line of credit similar to the existing line with fundamentally the same terms and conditions as agreed to in the bank's agreement. This line of credit will be for a term of one year and begin when the other line expires on March 16, 2006.

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 $274,244 of outstanding principal and $0 of interest payable under this note payable at November 30, 2005. As of January 23, 2006, the Company was not in compliance with the terms of the above agreements. Additional contingent payments totaling $10,500 that were due after the filing of the Company's Form 10QSB for the quarter ended August 31, 2005, have not been paid.

(15) During 2004, the Company sold 202,000 shares of common stock at a selling price of $0.25 per share. Proceeds to the Company were $50,500. Warrants to purchase 202,000 shares of the Company's restricted common stock at an exercise price of $0.25 were also granted as part of the private placement.

During 2004, the Company granted 210,000 and 32,000 warrants to

employees and non-employees, respectively to purchase restricted shares of the Company's stock. Of the warrants granted, 202,000 were granted to investors in the private placement and 40,000 were granted as compensation related to the shareholder promissory note. The purchase price of the warrants ranges from $0.25 to $0.51. Management recorded $47,442 and $0, respectively during the year ended May 31, 2004 of expense related to the granting of warrants to employees and non-employees. These warrants were not granted through one of the employee stock option plans.

During 2004 the Company issued 10,000 shares of its common stock as the result of an exercise of options granted in prior years. Proceeds to the Company were $2,000.

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.

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.

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 above 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 vesting period. A discount rate equivalent to five-year (or other life of the option or warrant) Treasury constant maturity interest rates is utilized. The historical volatility of the stock is calculated using weekly historical closing prices for the prior year as reported by Yahoo Finance. For purposes of the SFAS 123 footnote disclosure, the Black-Sholes 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 approval of such issuance.

Subsidiary Sale of Stock

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.

Subsidiary Options, Warrants and Stock Activity

During fiscal 2004, Lancer issued 91,346 shares of its common stock valued at $29,000 to its Chief Executive Officer for services rendered from January 2002 to December 2003.

During fiscal 2004, Lancer agreed to issue 13,541 shares of its common stock to the Chairman Of the Board of Lancer for services rendered from January 2002 to December 2003.

During fiscal 2004, Lancer agreed to issue 13,541 shares of its common stock to the Chairman of the Board of Lancer for services rendered from January 2004 to May 2004 and 31,250 shares of common stock to the Chief Executive Officer for services rendered per agreement. At May 31, 2004, these shares were reported as subscribed stock on Lancer's balance sheet.

The Lancer Board of Directors approved a private offering of common stock, effective March 23, 2004, and ending April 12, 2004. The offering, to officers, board members, and key employees resulted in the sale of 450,000 new shares at $0.60 per share with total proceeds received of $270,000. In addition, one warrant exercisable for each share purchased (450,000 warrants) was issued at $0.85 per share. These warrants shall be exercisable until April 12, 2009.

During fiscal 2004, Lancer granted its Chief Executive Officer 75,000 stock options to purchase shares of Lancer's common stock at an exercise price of $0.43. The options vest over three years and have a term of five years. Management assigned a value of $0 to the options.

During fiscal 2004, Lancer granted its directors 52,500 options to purchase shares of Lancer's common stock at an exercise price of $0.43. The options vest over two years and have a term of five years. Management assigned a value of $0 to the options.

During fiscal 2004, Lancer granted 120,000 options to purchase shares of Lancer's common stock at an exercise price of $0.43 per share pursuant to terms of the employment agreement between Lancer and Dan Castner, Vice President of Sales and Marketing at Lancer. The options vest over four years and have a term of five years. Management assigned a value of $0 to the options.

During fiscal 2004, Lancer granted 40,000 stock options to purchase shares of Lancer's common stock at an exercise price of $0.57 to an employee of Lancer for services rendered. The options vest over four years and have a term

of five years. Management assigned a value of $0 to these options.

During fiscal 2004, Lancer granted 17,500 stock options to purchase shares of Lancer's common stock at an exercise price of $.60 to a new member of the board of directors. The options vest over two years and have a term of five years. Management assigned a value of $0 with respect to the options.

During fiscal 2004, Lancer granted 8,000 stock options to purchase shares of Lancer's common stock at an exercise price of $0.50 to an employee of Lancer for services rendered. The options vest over 3 years beginning June 30, 2004 and have a term of five years. Management assigned a value of $0 to the options.

During fiscal 2005, the Board of Directors of Lancer granted 27,500 stock options to purchase shares of Lancer's common stock at an exercise price of $.75 to certain employees of Lancer for services rendered. The options vest over four years and have a term of ten years. Management assigned a value of $0 to the options.

During fiscal 2005, the Board of Directors of Lancer granted 100,000 stock options to purchase shares of Lancer's common stock at an exercise price of $.70 to Lancer's President, Dan Castner. The options expire February 1, 2010 and vest 4,167 shares on the first day of each calendar month he is employed by Lancer, commencing March 1, 2005. Management assigned a value of $0 to the options.

During fiscal 2005, an employee of Lancer exercised a stock option for 4,500 shares at the purchase price of $.26 per share. Proceeds to Lancer were $1,170.

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.

(16) Reportable business segments for the six months and quarter ended November 30, 2005 and 2004 are as follows:

	Six Months Ended November 30,		Three Months Ended November 30,	
	2005	2004	2005	2004
Domestic sales:				
Orthodontic products	$1,584,000	$1,563,000	$ 836,000	$ 733,000
Medical diagnostic products	$ 379,000	$ 399,000	$ 200,000	$ 201,000
Foreign sales:				
Orthodontic products	$1,341,000	$1,328,000	$ 712,000	$ 677,000
Medical diagnostic products	$1,415,000	$1,057,000	$ 649,000	$ 552,000

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	Six Months Ended November 30,		Three Months Ended November 30,	
	2005	2004	2005	2004
Net sales:				
Orthodontic products	$2,925,000	$2,891,000	$1,548,000	$1,410,000
Medical diagnostic products	1,794,000	1,456,000	849,000	753,000
Total	$4,719,000	$4,347,000	$2,397,000	$2,163,000
Operating (loss) income:				
Orthodontic products	$ (337,000)	$(161,000)	$ (148,000)	$ (80,000)
Medical diagnostic products	137,000	(68,000)	44,000	(46,000)
Total	$ (200,000)	$(229,000)	$ (104,000)	$ (126,000)
Gain (loss) from discontinued segment:				
ReadyScript	$ --	$ 6,601	$ --	$ 6,601
Total	$ --	$ 6,601	$ --	$ 6,601

	As of November 30, 2005	2004
Domestic long-lived assets:		
Orthodontic products	$ 780,000	$ 532,000
Medical diagnostic products	104,000	115,000
Total	$ 884,000	$ 647,000
Foreign long-lived assets:		
Orthodontic products	$ 417,000	$ 106,000
Medical diagnostic products	16,000	13,000
Total	$ 433,000	$ 119,000
Total assets:		
Orthodontic products	$4,900,000	$4,299,000
Medical diagnostic products	1,782,000	1,518,000
Total	$6,682,000	$5,817,000
Depreciation and amortization expense:		
Orthodontic products	$ 63,000	$ 50,000
Medical diagnostic products	34,000	35,000
Total	$ 97,000	$ 85,000
Capital expenditures:		
Orthodontic products	$ 575,000	$ 112,000
Medical diagnostic products	21,000	9,000
Total	$ 596,000	$ 121,000

The net sales as reflected above consist of sales of unaffiliated customers only as there were no significant intersegment sales during the quarter ended November 30, 2005 and 2004.

(17) Pursuant to the terms of the employment agreement between Lancer and Dan Castner, the Vice President of Sales and Marketing of Lancer, dated May 20, 2003, Lancer agreed to pay Mr. Castner an annual base salary of $135,000. In addition, Lancer granted Mr. Castner stock options on June 2, 2003, to purchase an aggregate of 120,000 shares of Lancer's common stock at an exercise price of $.43 per share. The stock options have a term of five years and will vest over four years as follows: (i) 25% vesting on the first anniversary of the date of

grant; (ii) 25% vesting on the second anniversary of the date of grant; (iii)

the remaining 50% vesting as to one-twenty fourth (1/24th) per month each month thereafter for the next two years. Should Lancer be purchased by an affiliated third party, the options shall vest 100%.

On November 29, 2004, the Board of Directors of Lancer approved a new employment agreement and the promotion of Mr. Castner to President. The agreement is for a term of two years. Mr. Castner's salary shall be $155,000 for the first year with a possible merit increase after the first year. Mr. Castner shall also receive a stock option for 100,000 shares at fair market value at the time of grant to be granted no later than May 31, 2005. The agreement was filed as an exhibit to a Form 8-K filed by Lancer November 30, 2004.

(18) On November 19, 2004 the Board of Directors at Lancer resolved that effective January 1, 2005 , the compensation for the Company's Chairman shall be reduced to $30,000 per year. The Directors also resolved that effective December 1, 2004, the Company's Chief Executive Officer's compensation is to be reduced from 31,250 shares of common stock per quarter to 20,000 shares per quarter.

(19) 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 $2,000 and service fees are approximately $2,900 per month.

(20) 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.

(21) 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.

(22) 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.

(23) 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 November 30, 2005. 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. In addition, in some cases, the Company has agreed to reimburse employees for certain expenses and to provide salary continuation during short-term disability. 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 November 30, 2005. 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.

(24) 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.

(25)The Lancer line of credit expired October 15, 2005 and was extended until March 15, 2006. The bank has since decided not to renew the line of credit. After unsuccessfully attempting to find an acceptable line of credit with a commercial bank, two directors of Lancer have agreed to give Lancer a line of credit similar to the existing line with fundamentally the same terms and conditions as agreed to in the bank's agreement. This line of credit will be for a term of one year and begin when the other line expires on March 16, 2006.

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

(27) 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 November 30, 2005, 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, it 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.

(28) 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 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.

SUBSEQUENT EVENTS

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.

The Lancer line of credit expired October 15, 2005 and was extended until March 15, 2006. The bank has since decided not to renew the line of credit. After unsuccessfully attempting to find an acceptable line of credit with a commercial bank, two directors of Lancer have agreed to give Lancer a line of credit similar to the existing line with fundamentally the same terms and conditions as agreed to in the bank's agreement. This line of credit will be for a term of one year and begin when the other line expires on March 16, 2006.

CERTAIN INFORMATION CONTAINED HEREIN (AS WELL AS INFORMATION INCLUDED IN ORAL STATEMENTS OR OTHER WRITTEN STATEMENTS MADE OR TO BE MADE BY BIOMERICA) CONTAINS STATEMENTS THAT ARE FORWARD-LOOKING, SUCH AS STATEMENTS RELATING TO ANTICIPATED FUTURE REVENUES OF THE COMPANY AND SUCCESS OR CURRENT PRODUCT OFFERINGS. SUCH FORWARD-LOOKING INFORMATION INVOLVES IMPORTANT RISKS AND UNCERTAINTIES THAT COULD SIGNIFICANTLY AFFECT ANTICIPATED RESULTS IN THE FUTURE, AND ACCORDINGLY, SUCH RESULTS MAY DIFFER MATERIALLY FROM THOSE EXPRESSED IN ANY FORWARD-LOOKING STATEMENTS MADE BY OR ON BEHALF OF BIOMERICA. THE POTENTIAL RISKS AND UNCERTAINTIES INCLUDE, AMONG OTHERS, FLUCTUATIONS IN THE COMPANY'S OPERATING RESULTS. THESE RISKS AND UNCERTAINTIES ALSO INCLUDE THE SUCCESS OF THE COMPANY IN RAISING NEEDED CAPITAL, THE 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 $4,719,190 for the six months ended November 30, 2005 as compared to $4,346,972 for the same period in the prior fiscal year. This represents an increase of $372,218, or 8.6% for the six month period. Lancer had an increase for the six months of $34,187. Biomerica had a increase of $338,031, which resulted from higher sales to foreign distributors. Consolidated net sales for the quarter then ended were $2,397,046 as compared to $2,162,533 for the same period in the previous year. This represents an increase of $234,513, or 10.8%. Lancer had a sales increase of $137,951. The increase in sales at Lancer for the six months was primarily attributable to an increase in South American sales. For the three months sales increased at Lancer primarily due to increases in domestic sales. Increases in sales of $96,562 for the quarter at Biomerica were a result of sales of new products and sales to a new distributor.

Cost of sales as a percentage of sales decreased from 67.5% to 67.2% for the six months and increased from 66.1% to 66.3% for the quarter. Lancer's cost of sales as a percentage of sales increased from 70.6% to 74.9% for the six months and for the quarter increased from 68.8% to 72.7%. The increases at Lancer were attributable to increased production costs. Biomerica's cost of sales as a percentage of sales decreased for the six months from 62.5% to 55.5%. For the quarter Biomerica's cost of sales decreased from 62.2% to 55.7%. The decreases at Biomerica were primarily due to the manufacturing at the Mexico facility and higher level of sales versus fixed costs.

Selling, general and administrative costs increased by $95,247, or 6.4% for the six months and increased by $52,117, or 6.7% for the quarter. Lancer had increased selling, general and administrative costs of $70,648 for the six months and $52,182 for the quarter. The increase at Lancer was due to increased labor, travel and additional reserves for bad debt in the selling and marketing department. This was offset by lower general and administrative expenses due to lower labor costs. For the six months Biomerica had increased selling and administrative expenses of $24,599 due to higher costs of the November trade show. For the three months Biomerica had decreased expenses of $65.

Research and development increased by $12,074, or 8.5% for the six months and decreased by $1,655, or 2.3% for the quarter. Lancer had a decrease in research and development costs of $8,407 and $1,456 for the six and three months, respectively, due to a special development project in the prior fiscal year. Biomerica had increased costs of $20,481 and decreased costs of $199 for the six and three months, respectively. The increased costs were a result of a research contract in this fiscal year.

For the six months ended November 30, 2005, other income increased

$21,941 compared to the prior year and decreased by $2,522 for the three months. The increase for the six months was primarily due to non-sale income recognized from a contract from a customer.

Interest expense increased by $11,924 (67.8%) for the six months compared to the previous year and by $9,062 for the quarter. Lancer had increased interest expense of $12,757 for the six months and $9,867 for the quarter due to borrowing against the line of credit and the leasing of new equipment.

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 November 30, 2005, the Company had cash and available-for-sale securities in the amount of $154,119 and working capital of $2,121,105. Cash and working capital totaling $134,002 and $1,849,419 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. 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 $274,244 of outstanding principal and $0 of interest payable under this note payable at November 30, 2005. As of January 23, 2006, the Company was not in compliance with the terms of the above agreements. Additional contingent payments totaling $10,500 that were due after the filing of the Company's Form 10QSB for the quarter ended August 31, 2005, have not been paid.

During the six months ended November 30, 2005, the Company operations used cash of $485,705. This compares to cash used by operations of $201,793 in the same period in the prior fiscal year. The Lancer subsidiary used cash in operations of $437,658 during the six months ended November 30, 2005 and $144,405 in the same period in the prior fiscal year. Cash provided by financing activities was $519,806, which was primarily a result of a private placement at

Lancer of $469,800.

The Company purchased $596,256 in fixed assets during the first six months of this fiscal year. Of this, $575,094 was a result of expenditures at the Lancer subsidiary.

Various factors contributed to the cash used in operating activities. Increases in accounts receivable ($338,727) and inventories ($252,197) at both companies impacted the cash position. Lancer has invested heavily this fiscal year to purchase equipment for manufacturing products using a new technology. First sales of these products shall take place in the third fiscal quarter of 2006. Management believes that the investment in equipment at Lancer should translate into increased sales in beginning at the end of this fiscal year.

During fiscal 2005, Lancer obtained a new line of credit with Community National Bank (formerly Cuyamaca Bank). As of November 30, 2005, borrowings were made at prime plus 2.0% (9.0% at November 30, 2005) and were for borrowing up to $400,000 which is limited to 80% of accounts receivable less than 90 days old. The outstanding balance at November 30, 2005 was $240,000 and the unused portion available at November 30, 2005 was approximately $100,000.

The line of credit was collateralized by substantially all the assets of Lancer, including inventories, receivables, and equipment. The lending agreement for the line of credit required, among other things, that Lancer maintain a balance sheet net worth of $2,700,000 and that a zero outstanding balance be maintained for 30 consecutive days during the term. The agreement prohibits the advancing of funds to Biomerica. Lancer is not required to maintain compensating balances in connection with this lending agreement.

The Lancer line of credit expired October 15, 2005 and was extended until March 15, 2006. The bank has since decided not to renew the line of credit. After unsuccessfully attempting to find an acceptable line of credit with a commercial bank, two directors of Lancer have agreed to give Lancer a line of credit similar to the existing line with fundamentally the same terms and conditions as agreed to in the bank's agreement. This line of credit will be for a term of one year and begin when the other line expires on March 16, 2006.

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 November 30, 2005, 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 November 30, 2005, 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.

The 2005 Annual Meeting of the Company's stockholders was held on November 22, 2005. The only matter voted upon at the meeting, as set forth in the proxy statement dated September 28, 2005, as filed with the Securities and Exchange Commission pursuant to Rule 14 under the Securities Act of 1934, was the election of directors. The following summarizes the voting:

Proposal No. 1: Election of Directors

Name	For	Votes Withheld
Barbieri	4,827,890	76,985
Cano	4,824,790	80,085
Irani	4,827,890	76,985

Moore	4,827,790	77,085

All directors were elected.

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: January 23, 2006

BIOMERICA, INC.

By: /S/ Zackary S. Irani

Zackary S. Irani
Chief Executive Officer