



FORM 10-K405

LANGER INC - GAIT

Exhibit:

Filed: June 05, 1997 (period: February 28, 1997)

Annual report. The Regulation S-K Item 405 box on the cover page is checked

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. (X)

As of May 15, 1997, the aggregate market value of voting stock held by non-affiliates of the Registrant was \$2,766,253 as computed by reference to the average bid and ask prices of the stock (1 11/16) multiplied by the number of shares of voting stock outstanding on May 15, 1997 held by non-affiliates (1,639,261).

Indicate the number of shares outstanding of each of the Registrant's classes of common stock as of May 15, 1997.

CLASS OF COMMON STOCK -----	OUTSTANDING AT MAY 15, 1997 -----
Common Stock, par value..... \$.02 per share	2,584,281 shares

DOCUMENTS INCORPORATED BY REFERENCE

Not applicable.

PART I

ITEM 1. BUSINESS

GENERAL

The Langer Biomechanics Group, Inc. ("LBG" or the "Company") is engaged in the design, manufacture and marketing of foot and gait-related biomechanical products. The Company's largest product line, custom-made, prescription orthotic devices, accounted for approximately 85.5% of revenues for the fiscal year ended February 28, 1997. Foot orthoses are contoured molds made from plastic, graphite, leather or composite materials, which are placed in patients' shoes to (i) correct or mitigate abnormalities in their gait and (ii) relieve symptoms associated with foot or postural malalignment. These devices function by maintaining the proper relationships between a patient's forefoot, rearfoot, leg and horizontal walking surface. To the Company's knowledge, it has the greatest overall unit volume and revenue in the custom foot orthoses industry. The Company's customers are primarily podiatrists, and also include orthopedists, physical therapists and Orthotic & Prosthetic (O&P) centers. The Company also makes ankle foot orthoses ("AFO"), boot-like devices which assist individuals afflicted with neurological impairments, foot deformities and injuries to achieve a more natural gait.

In addition to its line of orthotics products, the Company has developed and markets a number of other products that help treat biomechanical medical problems related to feet and gait, including:

- - A proprietary medical grade soft tissue cushioning material named PPT-Registered Trademark-, which the Company believes provides superior protection against forces of pressure, shock and shear. PPT conforms and bonds to a broad array of orthotic and prosthetic devices, braces and assemblies; and
- - The Pediatric Counter-Rotation System ("CRS"-Registered Trademark-), a device which corrects in-toe/out-toe disorders of infancy, while allowing unrestricted movement of the feet and legs.

BACKGROUND

Since its formation under the laws of the state of New York in 1971, the Company has engaged in activities relating to the application of scientific and quantitative methods for the diagnosis and treatment of foot and gait-related problems. To date, the majority of the Company's revenues have been derived from the sale of prescription biomechanical foot orthotic devices to health care practitioners in the field of podiatric biomechanics. Podiatric biomechanics deals essentially with the structure and function of segments of the feet as they relate to each other and to the function of the legs, hips and spine.

The Company has also endeavored to manufacture and market complementary products relating to locomotor dysfunctions. Building on its experience in treating disorders associated with the biomechanics of the foot and leg, the Company has directed efforts towards producing therapeutic products which can treat and improve patients' motor capabilities, biomechanical alignment and function.

Sales by product category of the Company as derived from its accounting records are set forth below (dollars in thousands):

PRODUCT CATEGORY	FISCAL YEARS ENDED:			
	FEB. 28 1997	FEB. 29, 1996	FEB. 28, 1995	FEB. 28, 1994
Custom Orthoses.....	\$ 8,994	\$ 8,652	\$ 8,746	\$ 9,671
PPT Products.....	1,085	1,121	1,168	1,433
Counter Rotation System (CRS).....	129	165	207	219
Materials and Other (including Superform).....	307	175	194	101
Discontinued Product Line.....	--	--	152	240
Total.....	\$ 10,515	\$ 10,113	\$ 10,467	\$ 11,664

Export and foreign sales constituted approximately 25%, 24% and 22% of revenues for the fiscal years ended February 28, 1997, February 29, 1996 and February 28, 1995, respectively.

CUSTOM ORTHOTIC DEVICES

The Company is engaged in the design, development, manufacture and sale of custom-made foot orthoses. Biomechanical orthotic devices help provide near normal function by maintaining the angular anatomical relationships between the patient's forefoot, rearfoot, leg and horizontal walking surface. This is achieved by the inherent contours of the neutral position shell of the device and by the angled posts on the front and/or rear ends which cause the orthotic device to move into specific positions at specific times during the gait cycle. Accordingly, muscle action is enhanced and the efficiency and smoothness of weight stress transmission through the feet and legs is improved. The result is a reduction of abnormal motion without total restriction of normal motion and an increase in foot and leg stability. Foot problems may be alleviated or eliminated, as may leg and back fatigue caused by improper muscle use. The formation and further growth of excrescences (e.g., corns or callouses) may be prevented, decreased in size or eliminated. In addition, the future formation of bunions may be prevented.

During the twelve months ended February 28, 1997, sales of orthotic products totaled \$8,994,000, compared to \$8,652,000 for the twelve months ended February 29, 1996. Increased revenues resulted from increased unit volume.

While sales were primarily made to practitioners within the United States, the Company also sold its orthotic products in approximately twenty-one foreign countries. No single orthotic customer presently accounts for more than 1% of the Company's annual sales. The primary market for custom orthotic devices is podiatrists who prescribe such devices for their patients. There are approximately 12,800 practitioners of podiatry licensed in the United States. Orthotic devices are also sold to other health care professionals, such as orthopedists, engaged in the treatment of the foot. The cost of the device to the patient is typically included by the practitioner as part of his fee for treatment. The Company does not sell the devices directly to the user-patient. Orthotic devices are made in the Company's three facilities in Deer Park, New York; Brea, California; and Stoke-on-Trent, England. The prescribing practitioner furnishes plaster impression casts of the patient's feet and necessary clinical information on an appropriate prescription order form. In addition to its six-month warranty, the Company offers an optional "Protect Program" at an additional cost of \$52 per pair of orthoses. Under the program, the

Company will repair or replace the orthotics at no charge, or at a reduced charge, during the first 24 months following sale.

Biomechanical orthotic devices can be fabricated with different functional capabilities and from various materials, depending upon the requirements of the patient. The Company has designed orthotic devices to address the needs of particular segments of the market. For example, the general interest in physical fitness has resulted in demand for orthotic devices and it has heightened the awareness of the importance of proper foot function and foot care. To address this segment of the market, the Company manufactures an extensive line of orthotics called Sporthotics-Registered Trademark-, designed for the specific needs of runners and other sport-specific athletes, including football, basketball and tennis players. Other specialized products include: Healthflex-Registered Trademark-(designed for the needs of aerobic dance, walking and exercise enthusiasts), DesignLine-Registered Trademark- (a functional orthotic designed to fit into dress shoes, such as high fashion shoes and loafers which cannot accommodate a full-size orthotic), DressFlex-TM- (a unique proprietary device for use in women's high-heeled shoes), Slimthotics-TM- (designed to fit into shoes, such as high heels and ballet slippers), Lyte Fit-TM- (ultra-thin and lightweight devices made from LBG's exclusive Superform-TM-carbon graphite material), the Golden Series-TM- (designed for the needs of active individuals who are over 50 years of age), Bioflex-Registered Trademark-(devices suitable for younger, more active individuals), BlueLine-TM-(a flexible, durable, accommodative device that provides a moderate level of control), D.S.I.S.-Registered Trademark- (a patented device for the effective treatment of pediatric flat foot), and Diab-A-Thotics-Registered Trademark- (designed to meet the needs of diabetic patients in the growing diabetic population).

An additional product line called "FirstChoice" was introduced in fiscal 1995 in order to address price-sensitive market areas, including managed care organizations. The product offering is limited to several basic products and has flat rate pricing. The manufacturing and service areas are also limited in order to reduce costs.

Superform-C- is a proprietary composite material believed to be superior to other composite materials available for orthotic fabrication. Superform was first introduced in fiscal 1994 in several of the Company's orthotic products due to its strength and mouldability. During fiscal 1995, the Company began to market Superform to other orthotic labs.

Ankle Foot Orthoses ("AFO") are plastic devices which are composed of a foot plate and leg support. They assist individuals afflicted with neurological impairments, previous trauma, ankle and leg instability, and arthritic deformities, to achieve a more natural gait. These products include the Hinged Ankle Foot Orthosis ("HAFO") used for neurological problems, the Supra-Malleolar Orthosis ("SMO") for instability of the ankle joint, the Solid Ankle Foot Orthoses ("SAFO") to restrict motion at the ankle to treat arthritis and other joint conditions, and the Posterior Leaf Spring ("PLS"), useful in tendon ruptures and flaccid drop foot. AFO devices are prescribed by podiatrists, physical therapists and rehabilitation therapists.

While the Company obtains a number of its fabrication materials from single sources, it has not experienced any significant shortages other than occasional backorders. In most cases, any needed materials can usually be obtained from a distributor.

The Company believes that a relatively small percentage of custom orthotic devices continue to be made by practitioners in their own offices or laboratories. The vast majority of the market is serviced by professional laboratories based on casts and prescriptions furnished by practitioners. There are several other custom orthotic laboratories that are national in scope which the Company believes hold approximately a combined 40% to 45% of the overall custom market. The remainder of the market is fragmented among smaller regional and local facilities.

PPT-Registered Trademark- Products

PPT is a medical grade soft tissue cushioning material with a high density, open-celled urethane foam structure. PPT, a registered trademark of the Company, is manufactured, pursuant to an agreement, for the

Company by a large industrial manufacturing company. This company manufactures urethane foam materials of which PPT is a derivative. Pursuant to the agreement, the Company has the exclusive worldwide rights to serve footcare, orthopedic and related medical markets with such materials. The exclusive agreement has an initial 5-year term (expiring in 1997) followed by, absent notice to the contrary, automatic annual renewals. The Company plans to continue this agreement.

The Company has developed and sells a variety of products fabricated from PPT including moulded insoles, components for orthotic devices, laminated sheets, and diabetic products. Some manufacturing operations associated with these products are performed by outside vendors.

Sales of PPT products for the twelve months ended February 28, 1997 were \$1,085,000 versus \$1,121,000 in the prior fiscal year. The decline is attributable to an increase in competition from other substitute materials.

In April of 1993, the Company introduced a new generation of PPT, which independent tests show to have improved properties over competitive materials. The essential function of PPT and other soft tissue supplements is to provide protection against forces of pressure, shock and shear. The Company believes that PPT's characteristics make it a superior product in its field. PPT has a superior "memory" that enables it to return to its original shape faster and more accurately than other materials used for similar purposes. PPT is also odorless and non-sensitizing to the skin, and has a porosity which helps the skin to remain dry, cool and comfortable. These factors are especially important in sports medicine applications.

Besides podiatric use, PPT is suitable for other orthopedic and medical-related uses such as liners for braces and prosthetics, as shock absorbers and generally in devices used in sports and physical therapy.

The Company has awarded exclusive distribution arrangements to certain leading distributors serving selected end-use markets in the United States and other countries. The Company sells direct to practitioners in non-exclusive and new markets.

The market for soft tissue supplements is highly competitive. Brand products as well as commodity type foam rubber are all widely used. Brand name products include Spenco, Sorbothane, medical-grade Poron, and DCS. The remainder of the market is fragmented. The Company competes directly with one other manufacturer of cellular urethane foam.

THE PEDIATRIC COUNTER-ROTATION SYSTEM ("CRS")

The Company introduced the CRS-Registered Trademark- device in fiscal 1987 for the correction and management of a variety of in-toe and out-toe disorders of infancy. The disorders manifest themselves in an excessive angle, either inward or outward, from that which is normal in the relationship of the foot to the direction of movement.

Sales for CRS totaled \$129,000 during the twelve months ended February 28, 1997 compared to sales of \$165,000 in the prior twelve-month period. The decrease in revenues resulted from a reduced level of direct promotion with a shift toward wholesale sales to distributors in the United States and overseas.

The CRS is designed to replace rigid bars or splints which have traditionally been used (since 1934) and which not only inhibit normal leg movement and are cumbersome and inconvenient, but can also lead to permanent knee and hip damage. Unlike rigid bars or splints, the CRS requires no specific measurement for sizing and may be used with almost any type of children's shoes. Also, unlike other devices, it will allow the infant unrestricted movement of the feet and legs while maintaining the abnormal foot or feet in the corrected position. The CRS is also designed to compensate automatically for the rapid growth of an infant's legs and hips, thus avoiding the possibility of damage to the hips and knees. The potential for permanent knee and hip joint damage is a significant drawback of rigid bar therapy.

The CRS is prescribed by pediatricians, orthopedists and podiatrists and is sold by the Company directly to practitioners as well as through selected distributors. The level of reimbursement from third-party insurers for the CRS varies from one state to another.

The CRS was developed by BioResearch Ithaca, Inc. of Ithaca, New York, which has obtained patents on the device in the United States and certain other countries. In accordance with a license agreement entered into in July 1986 between the Company and BioResearch Ithaca, Inc., the Company has been granted an exclusive license, with the right to grant sublicenses, to make, use and sell the CRS. Food and Drug Administration acceptance to market the CRS has been obtained by the Company. See "Governmental Regulation".

The primary competitive products for the CRS are rigid bars and splints.

MARKETING

The Company seeks to be recognized as an educator, and leader in product quality, customer service, technical knowledge and product innovation. The marketing mix includes trade shows, trade advertising, sponsorship of educational programs, public relations and maintenance marketing with a strong emphasis on customer service. The Company maintains a staff of customer representatives at each of its facilities.

The Company believes that the increase in orthotic sales is due to aggressive promotion and discount programs, which resulted in increased unit volume together with an approximate 3.5% sales price increase effective in late October, 1996. Management will continue a number of marketing and operational initiatives to promote awareness of and incentives to purchase Company orthotic products. These include a volume incentive program ("VIP") and a practice building program. Also, the Company's marketing program entails the sponsorship of seminars. It includes a comprehensive program in biomechanics and gait analysis coupled with addressing the cost effectiveness of orthotic therapy.

RESEARCH AND DEVELOPMENT

The Company incurred no research and development costs for the twelve months ended February 28, 1997.

PATENTS AND TRADEMARKS

The Company believes that patent and trademark protection are beneficial. It holds 13 patents, 107 trademarks and 9 copyrights. Various patents and trademarks are held in 12 countries. The Company has exclusive licenses to three types of orthotic devices which are patented in the U.S. and several foreign countries. In addition, patents have also been granted to a third party in the U.S. and numerous foreign countries with respect to the CRS (as to which the Company has exclusive marketing rights).

Although a patent would have a statutory presumption of validity in the United States, in the event that any patent awarded to the Company or a third party is later tested in litigation, the issuance of a patent is not conclusive as to such validity or as to the enforceable scope of the claims therein. The validity and enforceability of a patent can be attacked after its issuance. If the outcome of such litigation is adverse to the owner or licensor of the patent, third parties may use the invention or technology pertaining to the patent without restriction. Accordingly, any patents granted to the Company or to third parties from whom the Company obtained licenses may not afford any protection against competitors with similar products. Loss of patent protection could have an adverse effect on the Company's business by permitting competitors to utilize techniques developed by the Company.

GOVERNMENTAL REGULATION

Rules of the Food and Drug Administration ("FDA") may require the submission of a 510(k) notification of intent to market certain products. Upon submission of a 510(k), the FDA may determine the product to be substantially equivalent to products previously marketed in interstate commerce. Such submissions have been made and determined to be substantially equivalent for the CRS.

EMPLOYEES

At March 1, 1997, the Company had 157 employees, of which 106 were located in Deer Park, New York, 28 in Brea, California, and 23 in Stoke-on-Trent, England. The Stoke-on-Trent facility is operated by a 75% owned subsidiary of the Company. Included among the Deer Park employees are the four executive officers of the Company, including the Company's co-founder who is a licensed Doctor of Podiatric Medicine and a faculty member of the New York School of Podiatric Medicine.

The Company considers its employee relations to be excellent. The employees are not represented by a union.

CONSULTANTS AND FIELD EVALUATION FORCE

The Company has oral or written agreements with four medical specialists with respect to their providing professional consultative services to the Company in their areas of specialization. Two of the consultants are on the faculties of the colleges of podiatric medicine in the United States.

The consultants test and evaluate the Company's products, act as speakers for the Company at symposiums and professional meetings, generally participate in the development of the Company's products and services and disseminate information about them. The Company also has entered into oral or written agreements with practitioners in various parts of the country to act as field evaluators of the Company's products. Generally, the evaluators are among the leading practitioners in their areas.

ITEM 2. PROPERTIES

The Company's executive offices, and its primary manufacturing facilities, are located in Deer Park, New York. The Deer Park facility is leased through July 31, 1999, with a four year extension option, and with monthly lease payments of \$23,414. The Company also leases space in Brea, California (manufacturing facility) and Northbrook, Illinois (sales office), under separate leases which expire through 1998, and with aggregate monthly lease payments of \$8,265. The Northbrook Illinois facility was closed in October 1996 with the space sublet at \$1,200 per month or approximately \$150 per month below the Company's lease cost. This sub-lease expires at the end of the Company's lease on July 31, 1998. A 75% owned subsidiary of the Company currently leases facilities in Stoke-on-Trent, England under a lease expiring December 31, 1998 and for which it currently pays \$1,550 (at the current exchange rate) per month. The Company believes that its manufacturing facilities are suitable and adequate and provide the productive capacity necessary for its current and reasonably foreseeable future needs. The Company believes that while these manufacturing facilities are being adequately utilized, they could be more fully utilized (e.g. with extended night shift operations) should this become necessary.

ITEM 3. LEGAL PROCEEDINGS

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

PRICE RANGE OF COMMON STOCK

The Registrant's common stock, par value \$.02 per share ("Common Stock"), is traded on the over-the-counter market with quotations reported on the National Association of Securities Dealers Automated Quotation System (NASDAQ) under the symbol GAIT. The following table sets forth the high and low closing bid prices for the Common Stock for the fiscal years ended February 29, 1996 and February 28, 1997. The NASDAQ quotations represent prices between dealers, do not include retail markups, markdowns or commissions, and may not represent actual transactions.

TWELVE MONTHS ENDED FEBRUARY 29, 1996	HIGH	LOW
1st quarter.....	15/16	5/8
2nd quarter.....	2 1/8	1
3rd quarter.....	1 7/8	1 5/16
4th quarter.....	1 1/2	1 1/2

TWELVE MONTHS ENDED FEBRUARY 28, 1997	HIGH	LOW
1st quarter.....	1 7/8	1 1/2
2nd quarter.....	2 1/4	1 5/8
3rd quarter.....	2	1 5/8
4th quarter.....	2 1/8	1 9/16

On February 28, 1997, there were approximately 300 holders of record of the Common Stock. However, this figure is exclusive of all owners whose stock is held beneficially or in "street" name. Based on information supplied by various securities dealers, the Company believes that there are in excess of 650 shareholders in total, including holders of record as well as those whose shares are beneficially held.

DIVIDEND HISTORY AND POLICY

The Registrant has never paid cash dividends on its Common Stock and anticipates that, for the foreseeable future, it will follow a policy of retaining earnings to finance the expansion and development of its business. In any event, future dividend policy will depend upon the Company's earnings, financial condition, working capital requirements and other factors.

ITEM 6. SELECTED FINANCIAL DATA

(In thousands, except per share data.)

	Fiscal Year Ended:				
	Feb. 28, 1997	Feb. 29, 1996	Feb 28, 1995	Feb. 28, 1994	Feb. 28, 1993
Consolidated Statement of Operations:					
Net sales	\$10,515	\$10,113	\$10,467	\$11,664	\$13,291
Income (loss) before non-recurring charges and income taxes	331	113	(266)	(950)	313
Non-recurring charges:					
Discontinuance of CAD-CAM project	-	(499)	-	-	-
Lab closings, write down of selected assets and legal fees	-	(49)	(363)	-	(61)
Income (loss) before income taxes	331	(435)	(629)	(950)	252
Provision for (benefit from) income taxes	28	(2)	8	13	28
Net income (loss)	303	(433)	(637)	(963)	224
Earnings per share:					
Income (loss) before non-recurring charges and income taxes	.12	.04	(.11)	(.38)	.12
Non-recurring charges:					
Discontinuance of CAD-CAM project	-	(.19)	-	-	-
Lab closings, write down of selected assets and legal fees	-	(.02)	(.14)	-	(.03)
Net income (loss) per common and common equivalent share:					
Primary	.11	(.17)	(.25)	(.38)	.09
Fully Diluted	.11	(.17)	(.25)	(.38)	.09
Weighted average number of common and common equivalent shares:					
Primary	2,666	2,568	2,547	2,553	2,611
Fully Diluted	2,666	2,568	2,547	2,553	2,611
Cash dividends per share	-	-	-	-	-
Consolidated Balance Sheets:					
Working Capital	2,050	1,576	1,456	1,871	3,115
Total Assets	4,445	4,035	4,535	5,426	6,340
Long-term Indebtedness (excluding current maturities)	444	430	482	551	542
Stockholders' Equity	2,291	1,978	2,311	2,850	3,866

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

STATEMENTS OF OPERATIONS:

The Company's net sales of \$10,515,000 for the twelve months ended February 28, 1997 were 3.9 percent above net sales of \$10,113,000 for the twelve months ended February 29, 1996. Net sales in fiscal 1996 were 3.4 percent below net sales of \$10,467,000 for the twelve months ended February 28, 1995.

Sales of orthotic products, which accounted for 85.5 percent of the Company's fiscal 1997 sales, increased by approximately \$342,000 or 4.0 percent to approximately \$8,994,000 in the most recent twelve-month period. Increased revenues resulted from increased unit volume which more than offset a shift in doctor preferences toward lower priced orthoses. A unit price increase equal to approximately 3.5% on an annual basis became effective at the end of October, 1996. Sales of orthotic products in fiscal 1996 decreased by \$94,000 or 1.1 percent to \$8,652,000 from fiscal 1995. Decreased revenues resulted from discontinuance of marginal accounts, including elimination of the unprofitable subcontract business at a subsidiary, the earlier loss of business at a branch lab due to poor delivery times and an unusually severe winter in the eastern half of the United States which substantially reduced patient visits to podiatrists in March 1994.

Sales of PPT (the Company's soft tissue supplement material) for the recent twelve months were \$1,085,000, which decreased by \$36,000 or 3.2 percent from sales in the prior fiscal year. For the year ended February 29, 1996, sales were \$1,121,000 representing a 4.0 percent decrease of \$47,000 from the prior year. The decline in PPT sales over the past two fiscal years is due to an increased level of competition.

Sales of the Counter Rotation System ("CRS"-Registered Trademark-) were \$129,000 for the twelve months ended February 28, 1997, representing a \$36,000 or 21.8 percent decrease from the prior twelve-month period. Sales for fiscal 1996 declined by \$42,000 or 20.3 percent from the prior fiscal year. The decreased revenue resulted from a reduced level of direct promotion together with a shift toward wholesale sales to distributors in the United States and overseas.

Gross profit (net sales less cost of sales) as a percentage of sales increased from 40.5 percent for the twelve months ended February 29, 1996 to 41.5 percent for the recent twelve-month period. The increased gross profit percentage resulted from increased labor efficiencies, higher unit volumes and the sales price increase. In addition, gross profit as a percentage of sales increased from 39.1 percent in fiscal 1995 to 40.5 percent in fiscal 1996. This increase was due primarily to improved labor efficiencies achieved by consolidation of lab facilities.

For the twelve-month period ended February 28, 1997, selling, general and administrative expenses increased by \$14,000 from the prior year's expense of \$4,080,000. Expense increases were due primarily to higher promotion expense in fiscal 1997, however, as a percent of sales, these expenses were down to 38.9% versus 40.3% in the prior fiscal year. Expenses for the fiscal year ended February 29, 1996 were \$427,000 below the prior fiscal year, a reduction as a percent of sales from 43.1% to 40.3%. The above reductions of selling, general and administrative expenses, as a percentage of sales, were due to tighter controls over operational expenditures and staff reductions.

The Company incurred no research and development expenses in fiscal 1997 or fiscal 1996. All related costs (\$499,000) associated with the decision to discontinue the in-house CAD-CAM project were written off during fiscal 1996.

Interest income for the recent twelve-month period of \$49,000 increased \$12,000 from the prior twelve-month period. This was primarily due to higher cash balances and more effective short-term investment of excess cash. Interest income of \$42,000 for fiscal 1995 was above fiscal 1996 because of higher prevailing interest rates in fiscal 1995.

Other income for fiscal year 1997 was \$20,000. For the twelve months ended February 29, 1996 other income was \$14,000 compared with an expense of \$107,000 for the prior fiscal year, a result of a write-off of certain fixed assets of \$128,000 in fiscal 1995.

For the year ended February 28, 1997, the Company had net income of \$303,000 compared with a profit of \$115,000 before non-recurring expenses for the prior fiscal year. Income increased primarily due to higher unit volume, a sales price increase effective in the last four months of the year, improved manufacturing efficiencies and reduced general and administrative expenses.

For the year ended February 29, 1996, the Company had a net loss of \$433,000 or \$.17 per share, of which \$548,000 were non-recurring expenses (\$499,000 for discontinuance of the Company's in-house CAD-CAM project and \$49,000 for the closing of our New Jersey manufacturing facility). Fiscal 1996 income of \$115,000, before non-recurring expenses, exceeded the prior year's loss of \$274,000, before non-recurring expenses, by \$389,000. The increase was mainly due to savings achieved by closing the Company's Wheeling, Illinois manufacturing facility plus staffing cutbacks in corporate departments.

For the year ended February 28, 1995, the Company had a loss of \$637,000 or \$.25 per share, of which \$363,000 were non-recurring expenses (Illinois lab closing and write-down of selected assets), which compared favorably with a loss of \$963,000 or \$.38 per share in the year-earlier period and reflected the effects of improved pricing on marginal accounts, productivity improvement and decreased staffing in lab personnel, tighter control of operating expenditures and reduced occupancy costs.

LIQUIDITY AND CAPITAL RESOURCES

Working capital as of February 28, 1997 increased \$474,000 to \$2,050,000 from \$1,576,000 at February 29, 1996. The increase is due to increases in accounts receivable, inventories and cash of \$153,000, \$34,000 and \$386,000, respectively. Total current liabilities also increased by \$82,000 in fiscal 1997 versus fiscal 1996.

Cash balances at February 28, 1997 of \$1,126,000 were \$386,000 above the prior year-end balance of \$739,000. The Company's net income in fiscal 1997 of \$303,000 together with \$191,000 of depreciation and amortization expense were major contributors to the cash increase. Capital expenditures in fiscal 1997 amounted to \$53,000, partially offsetting this increase.

The Company anticipates that cash generated from operations as well as existing funds will be adequate to finance its present and contemplated future level of operations for a period of at least twelve months.

REVOLVING CREDIT

The Company has a one year (August 1, 1996--July 31, 1997) agreement for revolving credit of \$750,000, at an interest rate of prime plus 2 percent, from a bank, but to date has not found it necessary to use this credit line. The agreement contains, among other items, restrictions relating to incurrence of additional indebtedness and the payment of dividends. Additionally, the Company is required to maintain certain minimum financial ratios. Borrowings under this agreement are collateralized by substantially all of the assets of the Company.

SEASONALITY

Revenue derived from the Company's sale of orthotic devices, a substantial portion of the Company's operations, have historically been significantly higher in the warmer months of the year.

INFLATION

The Company has in the past been able to increase the prices of its products or reduce overhead costs sufficiently to offset the effects of inflation on wages, materials and other expenses, and anticipates that it will be able to continue to do so in the future.

RECENT PRONOUNCEMENTS OF THE FINANCIAL ACCOUNTING STANDARDS BOARD

Recent pronouncements of the Financial Accounting Standards Board ("FASB"), which are not required to be adopted at this date, include Statement of Financial Accounting Standards ("SFAS") No. 129, "Disclosure of Information about Capital Structure" ("SFAS No. 129") and SFAS No. 128, "Earnings Per Share" ("SFAS No. 128"). SFAS No. 129 and 128 specify guidelines as to the method of computation as well as presentation and disclosure requirements for earnings per share ("EPS"). The objective of these statements is to simplify the calculation and to make the U.S. standard for computing EPS more compatible with the EPS standards of other countries and with that of the International Accounting Standards Committee. These statements are effective for fiscal years ending after December 15, 1997 and earlier application is not permitted. The Company does not expect that the adoption of SFAS No. 129 and 128 will have a material effect on the Company's consolidated financial statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

Begins on the next page.

THE LANGER BIOMECHANICS GROUP, INC.
AND SUBSIDIARIES

Index to Consolidated Financial Statements and Schedule
February 28, 1997, February 29, 1996 and February 28, 1995

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All other schedules have been omitted because they are not applicable, not required or the information is disclosed in the consolidated financial statements, including the notes thereto.

INDEPENDENT AUDITORS' REPORT

To the Stockholders and Board of Directors of
The Langer Biomechanics Group, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of The Langer Biomechanics Group, Inc. and subsidiaries (the "Company") as of February 28, 1997 and February 29, 1996, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended February 28, 1997. Our audits also included the consolidated financial statement schedule listed in the foregoing index for the three years in the period ended February 28, 1997. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company at February 28, 1997 and February 29, 1996, and the results of their operations and their cash flows for each of the three years in the period ended February 28, 1997 in conformity with generally accepted accounting principles. Also, in our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

Jericho, New York
May 16, 1997

THE LANGER BIOMECHANICS GROUP, INC.
AND SUBSIDIARIES
Consolidated Balance Sheets
February 28, 1997 and February 29, 1996

	1997	1996
Assets		
Current assets:		
Cash and cash equivalents.....	\$ 1,125,589	\$ 739,460
Accounts receivable, net of allowance for doubtful accounts of approximately \$20,000 in 1997 and \$21,000 in 1996.....	1,431,567	1,278,865
Inventories, net (Note 2).....	922,346	868,562
Prepaid expenses and other current receivables.....	279,558	316,651
	3,759,060	3,203,538
Total current assets.....		
Property and equipment, net (Note 3 and 6).....	507,195	644,029
Other assets (Note 8).....	178,771	187,666
	\$ 4,445,026	\$ 4,035,233
Liabilities and Stockholders' Equity		
Current liabilities:		
Current maturities of note payable (Note 6).....	\$ 301	\$ 3,707
Accounts payable.....	341,078	270,291
Accrued liabilities:		
Accrued payroll and related payroll taxes.....	299,519	366,122
Other (Note 4).....	677,669	599,218
Unearned revenue.....	390,727	388,084
	1,709,294	1,627,422
Total current liabilities.....		
Accrued pension expense (Note 8).....	287,315	299,182
Unearned revenue.....	151,732	126,281
Deferred income taxes (Note 5).....	5,376	4,629
	2,153,717	2,057,514
Total liabilities.....		
Commitments and contingencies (Note 7)		
Stockholders' equity (Note 9):		
Common stock, \$.02 par value. Authorized 10,000,000 shares; outstanding 2,584,281 shares in 1997 and 2,581,281 in 1996.....	51,686	51,627
Additional paid-in capital.....	6,276,782	6,274,497
Accumulated deficit.....	(3,740,402)	(4,043,449)
Aggregate adjustment resulting from foreign currency translation.....	(48,509)	(49,788)
Minimum pension liability adjustment (Note 8).....	(248,248)	(255,168)
	2,291,309	1,977,719
Total stockholders' equity.....		
Total Liabilities and Stockholders' Equity.....	\$ 4,445,026	\$ 4,035,233

See accompanying notes to consolidated financial statements.

THE LANGER BIOMECHANICS GROUP, INC.
AND SUBSIDIARIES
Consolidated Statements of Operations
For the years ended February 28, 1997, February 29, 1996 and February 28, 1995

	1997	1996	1995
Net sales (Note 11).....	\$ 10,514,842	\$ 10,113,486	\$ 10,467,151
Cost of sales.....	6,149,872	6,012,690	6,374,708
Gross profit.....	4,364,970	4,100,796	4,092,443
Selling expenses.....	1,828,144	1,761,498	1,964,636
General and administrative expenses.....	2,266,217	2,318,495	2,542,128
Research and development expenses.....	--	--	141,574
Discontinuance of in-house CAD-CAM project (Note 10).....	--	498,735	--
Operating profit (loss).....	270,609	(477,932)	(555,895)
Other income (expense):			
Interest income.....	48,978	37,412	42,040
Interest expense.....	(9,298)	(8,753)	(7,571)
Other.....	20,261	14,162	(107,483)
Other income (expense), net.....	59,941	42,821	(73,014)
Income (loss) before income taxes.....	330,550	(435,111)	(628,909)
Provision for (benefit from) income taxes (Note 5).....	27,503	(2,126)	8,250
Net income (loss).....	\$ 303,047	\$ (432,985)	\$ (637,159)
Weighted average number of common and common equivalent shares used in computation of net income (loss) per share:			
Primary.....	2,666,420	2,568,458	2,547,281
Fully Diluted.....	2,666,420	2,568,458	2,547,281
Net income (loss) per common and common equivalent share:			
Primary.....	\$ 0.11	\$ (0.17)	\$ (0.25)
Fully Diluted.....	\$ 0.11	\$ (0.17)	\$ (0.25)

See accompanying notes to consolidated financial statements.

THE LANGER BIOMECHANICS GROUP, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED FEBRUARY 28, 1997, FEBRUARY 29, 1996 AND FEBRUARY 28, 1995

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	AGGREGATE ADJUSTMENT RESULTING FROM FOREIGN CURRENCY TRANSLATION	MINIMUM PENSION LIABILITY ADJUSTMENT	TOTAL STOCKHOLDERS' EQUITY
	-----	-----	-----	-----	-----	-----
Balance at February 28, 1994.....	\$ 50,947	\$ 6,248,755	\$ (2,973,305)	\$ (57,490)	\$ (419,088)	\$ 2,849,819
Minimum pension liability adjustment.....	--	--	--	--	88,302	88,302
Aggregate adjustment resulting from translation of financial statements into U.S. dollars.....	--	--	--	10,216	--	10,216
Net loss for year.....	--	--	(637,159)	--	--	(637,159)
Balance at February 28, 1995...	50,947	6,248,755	(3,610,464)	(47,274)	(330,786)	2,311,178
Minimum pension liability adjustment.....	--	--	--	--	75,618	75,618
Aggregate adjustment resulting from translation of financial statements into U.S. dollars.....	--	--	--	(2,514)	--	(2,514)
Exercise of stock options.....	680	25,742	--	--	--	26,422
Net loss for year...	--	--	(432,985)	--	--	(432,985)
Balance at February 29, 1996...	51,627	6,274,497	(4,043,449)	(49,788)	(255,168)	1,977,719
Minimum pension liability adjustment.....	--	--	--	--	6,920	6,920
Aggregate adjustment resulting from translation of financial statements into U.S. dollars...	--	--	--	1,279	--	1,279
Exercise of stock options.....	59	2,285	--	--	--	2,344
Net income for year.....	--	--	303,047	--	--	303,047
Balance at February 28, 1997..	\$ 51,686	\$ 6,276,782	\$ (3,740,402)	\$ (48,509)	\$ (248,248)	\$ 2,291,309

See accompanying notes to consolidated financial statements.

THE LANGER BIOMECHANICS GROUP, INC
AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the years ended February 28, 1997, February 29, 1996 and February 28, 1995

	1997 ----	1996 ----	1995 ----
Cash Flows From Operating Activities:			
Net income (loss)	\$303,047	(\$432,985)	(\$637,159)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Deferred foreign tax provision	747	-	1,589
Depreciation and amortization	190,618	223,778	261,407
Loss on disposal of property and equipment	-	392,584	196,593
Changes in operating assets and liabilities:			
Accounts receivable	(151,344)	(3,149)	230,900
Inventories	(52,516)	(61,402)	339,727
Prepaid expenses and other assets	38,435	678	50,267
Net Pension liability	2,845	42,702	36,920
Accounts payable and accrued liabilities	81,157	(96,672)	(248,914)
Unearned revenue	27,484	(16,173)	(15,764)
	-----	-----	-----
Net cash provided by operating activities	440,473	49,361	215,566
	-----	-----	-----
Cash Flows From Investing Activities-			
Capital expenditures	(53,282)	(138,443)	(271,710)
	-----	-----	-----
Net cash used in investing activities	(53,282)	(138,443)	(271,710)
	-----	-----	-----
Cash Flows From Financing Activities:			
Common stock options exercised	2,344	26,422	-
Principal payments of notes payable	(3,406)	(6,631)	(4,116)
Principal payments under capital lease obligations	-	(2,906)	(35,470)
	-----	-----	-----
Net cash provided by (used in) financing activities	(1,062)	16,885	(39,586)
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents	386,129	(72,197)	(95,730)
Cash and cash equivalents at beginning of year	739,460	811,657	907,387
	-----	-----	-----
Cash and cash equivalents at end of year	\$1,125,589	\$739,460	\$811,657
	-----	-----	-----
Supplemental Disclosures of Cash Flow Information-			
Cash paid (refunded) during the year for:			
Interest	\$9,298	\$8,636	\$7,564
	-----	-----	-----
Income taxes	\$8,286	(\$488)	(\$4,803)
	-----	-----	-----

See accompanying notes to consolidated financial statements.

THE LANGER BIOMECHANICS GROUP, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
For the years ended February 28, 1997, February 29, 1996 and
February 28, 1995

(1) Summary of Significant Accounting Policies

(a) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of The Langer Biomechanics Group, Inc. and its subsidiaries (the "Company"). All significant intercompany transactions and balances have been eliminated in consolidation.

(b) Revenue Recognition

Revenue from the sale of the Company's products is recognized at shipment. Revenues derived from extended warranty contracts relating to sales of orthotics are recorded as deferred revenue and recognized over the lives of the contracts (24 months) on a straight-line basis.

(c) Cash Equivalents

For purposes of the statement of cash flows, the Company considers all short-term, highly liquid investments purchased with a maturity of three months or less to be cash equivalents (money market funds and short-term commercial paper).

(d) Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method.

(e) Property and Equipment

Property and equipment is stated at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated using the straight-line method. The lives on which depreciation and amortization are computed are as follows:

Leasehold improvements.....	Lesser of 5 years or life of lease
Machinery and equipment.....	5--10 years
Office equipment.....	5--10 years
Diagnostic equipment.....	7--10 years
Automobiles.....	3--5 years

In March 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" ("Statement 121"). Statement 121 establishes accounting standards for the impairment of long-lived assets, certain identifiable intangibles, and goodwill related to those assets to be held and used for long-lived assets and certain identifiable intangibles to be disposed of. Statement 121 requires review of long-lived assets and certain identifiable intangibles whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The adoption of Statement 121, during fiscal 1997, did not have a material effect on the consolidated financial statements.

THE LANGER BIOMECHANICS GROUP, INC.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(f) Income Taxes

The Company accounts for income taxes using an asset and liability method. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Income tax expense (benefit) is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

(g) Net Income (Loss) Per Share

Net income (loss) per common share and common share equivalent is computed based on the weighted average number of common shares outstanding during the periods presented. Per share amounts include the effect of common stock equivalents comprised of stock options granted under the Company's qualified and non-qualified stock option plans and warrants, except where the effect would be antidilutive.

(h) Foreign Currency Translation

Assets and liabilities of the foreign subsidiary have been translated at year-end exchange rates, while revenues and expenses have been translated at average exchange rates in effect during the year. Resulting cumulative translation adjustments have been recorded as a separate component of stockholders' equity.

(i) Reclassifications

Certain amounts in the prior years' financial statements have been reclassified to conform to the current year's presentation.

(j) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(k) Fair Value of Financial Instruments

At February 28, 1997 and February 29, 1996, the carrying amount of the Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, and note payable, approximated fair value because of their short-term maturity.

(l) Recent Pronouncements of the Financial Accounting Standards Board

Recent pronouncements of the Financial Accounting Standards Board ("FASB"), which are not required to be adopted at this date, include Statement of Financial Accounting Standards ("SFAS") No. 129, "Disclosure of Information about Capital Structure" ("SFAS No. 129) and SFAS No. 128, "Earnings Per Share" ("SFAS No. 128"). SFAS No. 129 and 128 specify guidelines as to the method of computation as well

as presentation and disclosure requirements for earnings per share ("EPS"). The objective of these statements is to simplify the calculation and to make the U.S. standard for computing EPS more compatible with the EPS standards of other countries and with that of the International Accounting Standards Committee. These statements are effective for fiscal years ending after December 15, 1997 and earlier application is not permitted. The Company does not expect that the adoption of SFAS No. 129 and 128 will have a material effect on the Company's consolidated financial statements.

(2) INVENTORIES

At February 28, 1997 and February 29, 1996, inventories consist of the following:

	1997	1996
	-----	-----
Raw materials	\$ 706,184	\$ 645,517
Work-in-process	156,421	169,523
Finished goods	119,353	131,542
	-----	-----
Total inventories	981,958	946,582
Less allowance for obsolescence	59,612	78,020
	-----	-----
Net inventories	\$ 922,346	\$ 868,562
	-----	-----

(3) PROPERTY AND EQUIPMENT

Property and equipment, at cost, at February 28, 1997 and February 29, 1996, is comprised of the following:

	1997	1996
	-----	-----
Leasehold improvements	\$ 445,069	\$ 436,827
Machinery and equipment	825,689	814,046
Office equipment	1,364,386	1,325,186
Automobiles	26,024	34,567
	-----	-----
	2,661,168	2,610,626
Less accumulated depreciation and amortization	2,153,973	1,966,597
	-----	-----
Property and equipment, net	\$ 507,195	\$ 644,029
	-----	-----

(4) OTHER ACCRUED LIABILITIES

Other accrued liabilities consist of the following at February 28, 1997 and February 29, 1996:

	1997	1996
	-----	-----
Sales credits payable	\$ 97,057	\$ 95,215
Accrued professional fees	52,100	60,683
Warranty reserve	33,797	31,479
Other accrued liabilities	494,715	411,841
	-----	-----
Total other accrued liabilities	\$ 677,669	\$ 599,218
	-----	-----

THE LANGER BIOMECHANICS GROUP, INC.
AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

(5) INCOME TAXES

The provision for (benefit from) income taxes is comprised of the following for the years ended February 28, 1997, February 29, 1996 and February 28, 1995:

	1997	1996	1995
	-----	-----	-----
Current:			
Federal	\$ --	\$ --	\$ --
State	4,639	(4,294)	2,972
Foreign	22,864	2,168	5,278
	-----	-----	-----
	\$ 27,503	\$ (2,126)	\$ 8,250
	-----	-----	-----

As of February 28, 1997, the Company has net Federal operating loss carryforwards of approximately \$3.2 million, which may be applied against future taxable income and expire from 2000 through 2011. The Company also has available tax credit carryforwards of approximately \$141,000.

Included in the provision for foreign income taxes are deferred income taxes of \$747 for 1997, \$0 for 1996, and \$1,589 for 1995.

The following is a summary of deferred tax assets and liabilities as of February 28, 1997 and February 29, 1996:

	1997	1996
	-----	-----
Current deferred tax assets	\$ 336,490	\$ 361,633
	-----	-----
Non-current:		
Deferred tax assets	1,310,023	1,441,346
Deferred tax liability	(5,376)	(20,965)
	-----	-----
Non-current deferred tax assets, net	1,304,647	1,420,381
	-----	-----
Total deferred tax assets, net	1,641,137	1,782,014
Valuation allowance	(1,646,513)	(1,786,643)
	-----	-----
Net	\$ (5,376)	\$ (4,629)
	-----	-----

The current deferred tax assets are primarily composed of deferred revenue, inventory and accounts receivable reserves, and accrued vacation. The non-current deferred tax assets are primarily composed of deferred revenue and Federal net operating loss carryforwards. The non-current deferred tax liability is primarily composed of excess tax depreciation over book depreciation. The decrease in the valuation allowance during fiscal 1997 resulted from a reduction in the net deferred tax assets.

THE LANGER BIOMECHANICS GROUP, INC.
AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

The Company's effective provision for (benefit from) income taxes differs from the Federal statutory rate. The reasons for such differences are as follows:

	FEBRUARY 28, 1997		FEBRUARY 29, 1996		FEBRUARY 28, 1995	
	AMOUNT	%	AMOUNT	%	AMOUNT	%
Provision (benefit) at Federal statutory rate	\$ 112,387	34.0%	\$ (147,938)	(34.0)%	\$ (216,634)	(34.0)%
Increase (decrease) in taxes resulting from:						
State income taxes, net of Federal benefit	4,639	1.4	(4,294)	(1.0)	2,972	0.4
Foreign taxes	22,864	6.9	2,168	0.5	5,278	0.8
(Use) creation of net operating loss carryforwards	(112,387)	(34.0)	147,938	34.0	216,634	34.0
Effective tax rate	\$ 27,503	8.3%	\$ (2,126)	(0.5)%	\$ 8,250	1.2%

(6) LONG-TERM NOTE PAYABLE

Long-term note payable, less current maturities, at February 28, 1997 and February 29, 1996 consists of the following:

	1997	1996
Equipment note bearing interest at 10.5% due March 1997. The note is payable in monthly installments of principal and interest of \$304. The note is collateralized by certain equipment with a carrying value of approximately \$4,600 at February 28, 1997.	\$ 301	\$ 3,707
Less current maturities	301	3,707
Long-term note payable	\$ --	\$ --

THE LANGER BIOMECHANICS GROUP, INC.
AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

(7) COMMITMENTS AND CONTINGENCIES

(a) Leases

Certain of the Company's facilities and equipment are leased under noncancellable lease agreements and certain operating leases contain minimum annual escalations in base rent. Rental expense amounted to \$439,972, \$500,429 and \$550,403 for the years ended February 28, 1997, February 29, 1996 and February 28, 1995, respectively.

The following is a schedule, by fiscal year, of future minimum rental payments required under operating leases as of February 28, 1997:

FISCAL YEAR ENDED FEBRUARY:	AMOUNT
1998	\$ 430,752
1999	342,731
2000	134,047

Total	\$ 907,530

(b) Royalties

The Company has entered into a number of agreements with licensors, consultants and suppliers, including:

1. The Company has an agreement with a licensor, which provides for the Company to pay royalties of 15 percent, with a minimum annual royalty of \$25,000, on the net sales of a product named the Pediatric Counter Rotation System.

2. The Company has agreements with certain licensors, which provide for the Company to pay royalties ranging from 2.5 percent to 4 percent on the net sales of certain biomechanical devices.

Royalties under the above-mentioned agreements aggregated \$37,881, \$36,016 and \$36,797 for the years ended February 28, 1997, February 29, 1996 and February 28, 1995, respectively.

(c) Employment Agreements

Two officers of the company have employment agreements. In April 1997, one agreement was terminated and replaced by another agreement. Under these revised agreements, the Company is committed to maximum severance pay of approximately \$80,000 upon termination of one of these officers. In addition, the employment agreements commit the Company to pay these two officers annual salaries and allowances of approximately \$235,000 and additional bonus compensation depending on performance and profits achieved by the Company.

(d) Litigation

The Company is involved in certain litigation in the normal course of business. The outcome of such litigation is not expected to have a material impact on the consolidated financial statements.

THE LANGER BIOMECHANICS GROUP, INC.
AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

(8) Pension Plan and 401(k) Plan

The Company maintains a non-contributory defined benefit pension plan covering substantially all employees. In 1986, the Company adopted an amendment to the plan under which future benefit accruals to the plan will cease (freezing of the maximum benefits available to employees as of July 30, 1986), other than those required by law. Previously accrued benefits will remain in effect and will continue to vest under the original terms of the plan.

The following table sets forth the Company's defined benefit plan status at February 28, 1997 and February 29, 1996, determined by the plan's actuary in accordance with Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions":

	1997	1996
Actuarial present value of benefit obligation:		
Accumulated benefit obligation, including		
vested benefits of \$388,431 and \$372,061		
in 1997 and 1996, respectively	\$ 388,431	\$ 372,061
Projected benefit obligation for services rendered to date	\$ (388,431)	\$ (372,061)
Market value of plan net assets (primarily bond mutual funds)	101,116	72,879
Projected benefit obligation in excess of plan assets	(287,315)	(299,182)
Unrecognized transition liability	166,856	174,647
Unrecognized net loss	248,248	255,168
Adjustment required to recognize minimum liability	(415,104)	(429,815)
Accrued pension expense	\$ (287,315)	\$ (299,182)

Net pension expense is comprised of the following for the years ended February 28, 1997, February 29, 1996 and February 28, 1995:

	1997	1996	1995
Interest cost	\$ 27,585	\$ 24,775	\$ 22,362
Return on assets	7,882	(8,921)	13,049
Net amortization and deferral	4,775	26,848	1,509
Net pension expense	\$ 40,242	\$ 42,702	\$ 36,920

The weighted average discount rate used in determining the actuarial present value of the projected benefit obligation was 7.5 percent in 1997 and 1996. No assumed increase in compensation levels was used since future benefit accruals have ceased (as discussed above). The rate of return on assets used was 7.5 percent in 1997 and 1996. The unrecognized transition liability and unrecognized net loss are being amortized over 30.4 and 21.5 years, respectively.

THE LANGER BIOMECHANICS GROUP, INC.
AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

In 1997 and 1996, as required by Statement of Financial Accounting Standards No. 87, the Company recorded additional pension liability to reflect the excess of accumulated benefits over the fair value of pension plan assets. Since this liability is in excess of the related unrecognized prior service cost (unrecognized transition liability), an amount equal to the unrecognized prior service cost has been recognized as an intangible asset (included in "Other assets" on the accompanying Consolidated Balance Sheets). The remaining liability required to be recognized is reported as a separate component of stockholders' equity.

The Company has a defined contribution retirement and savings plan (the "401(k) Plan") designed to qualify under Section 401(k) of the Internal Revenue Code (the "Code"). Eligible employees include those who are at least twenty-one years old and who have worked at least 1,000 hours during any one year. The Company may make matching contributions in amounts that the Company determines at its discretion at the beginning of each year. In addition, the Company may make further discretionary contributions. Participating employees are immediately vested in amounts attributable to their own salary or wage reduction elections, and are vested in Company matching and discretionary contributions under a vesting schedule that provides for ratable vesting over the second through sixth years of service. The assets of the 401(k) Plan are invested in stock, bond and money market mutual funds. For the years ended February 28, 1997, February 29, 1996 and February 28, 1995, the Company made contributions totaling \$25,734, \$33,547 and \$25,076, respectively, to the 401(k) Plan.

(9) STOCK OPTIONS AND WARRANTS

On July 27, 1992, the Company adopted a qualified stock option plan for employees, officers, directors, consultants and advisors of the Company covering 125,000 shares of common stock. On January 4, 1995, the Board of Directors increased the number of shares authorized to be issued under the plan to 350,000 shares, which amendment has been approved by shareholders at the September 13, 1995 shareholders' meeting. Options granted under the plan are exercisable during a period of five years at an exercise price at least equal to 100 percent of the fair market value of the Company's common stock at date of grant. Options become exercisable under various cumulative increments over a three-year period. The Board of Directors has the discretion as to the persons to be granted options as well as the number of shares and terms of the option agreements. The expiration date of the plan is July 26, 2002.

The Company has also granted non-incentive stock options. These options are generally exercisable for a period of five years and are issued at a price equal to or higher than the fair market value of the Company's common stock at the date of grant. At February 28, 1997, 82,000 non-incentive stock options were outstanding.

THE LANGER BIOMECHANICS GROUP, INC.
AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

The following is a summary of activity related to the Company's incentive and non-incentive stock options:

	Number of shares	Exercise price range per share	Weighted average exercise price per share
	-----	-----	-----
Outstanding at February 28, 1994	100,250	.75- 2.75	\$ 1.75
Granted	121,750	.56- .88	.83
Cancelled	(89,000)	1.50- 2.75	1.80
Expired	(14,750)	1.56- 2.75	1.70
	-----	-----	-----
Outstanding at February 28, 1995	118,250	.56- .88	.77
Granted	90,000	.75-1.31	1.00
Exercised	(34,000)	.75- .78	.77
Expired	(18,000)	.78	.78
	-----	-----	-----
Outstanding at February 29, 1996	156,250	.78-1.31	.90
Granted	58,000	1.56-2.19	2.14
Exercised	(3,000)	.78	.78
Cancelled	(2,000)	.78	.78
	-----	-----	-----
Outstanding at February 28, 1997	209,250	.78-2.19	\$1.25
	-----	-----	-----

At February 28, 1997, 181,250 options were exercisable and 108,250 options were available for issuance. The 209,250 shares outstanding at February 28, 1997 had remaining lives of between less than one year and less than five years, with a weighted average life of 3.92 years.

Warrants to purchase up to 10,000 shares of common stock at an exercise price of \$.78125 (the market value at date of grant) were granted on November 15, 1994. Such warrants are exercisable during the three-year period commencing from the date of grant. All previous warrants issued have either expired or were cancelled.

At February 28, 1997, there were 327,500 shares of common stock reserved for issuance under the Company's stock option plan and for issued and outstanding warrants.

ADDITIONAL STOCK PLAN INFORMATION

The Company continues to account for its stock-based awards using the intrinsic value method in accordance with APB 25, "Accounting for Stock Issued to Employees", and its related interpretations. Accordingly, no compensation expense has been recognized in the financial statements for employee stock arrangements.

SFAS 123, "Accounting for Stock-Based Compensation", requires the disclosure of pro forma net income (loss) and net income (loss) per share had the Company adopted the fair value method as of the beginning of fiscal 1997. Under SFAS 123, the fair value of stock-based awards to employees is calculated through the use of option pricing models, even though such models were developed to estimate the fair value of freely tradeable, fully transferable options without vesting restrictions, which significantly differ from the Company's stock option

THE LANGER BIOMECHANICS GROUP, INC.
AND SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

awards. These models also require subjective assumptions, including future stock price volatility and expected time to exercise, which greatly affect the calculated values. The Company's calculations were made using the Black-Scholes option pricing model with the following weighted average assumptions: expected life, 60 months following vesting; stock volatility of 44.95% and 100.76%, and risk free interest rates of 7.0% and 6.5% in fiscal 1997 and fiscal 1996, respectively, and no dividends during the expected term. The Company's calculations are on a multiple option valuation approach and forfeitures are recognized as they occur. If the computed fair values of the award had been amortized to expense over the vesting period of the awards, the pro forma net income (loss) and net income (loss) per share for the fiscal years ended February 28, 1997 and February 29, 1996 would have been income of \$280,553, or \$.11 per share, and loss of \$440,347, or \$(17) per share, respectively, on both a primary and full diluted basis.

(10) Discontinuance of In-House CAD-CAM Project

In fiscal 1996, the Company concluded that it was no longer appropriate to devote capital resources to in-house development of proprietary computer-controlled milling equipment, laser scanning devices and related software. Therefore, the Company expensed approximately \$499,000 of costs related to this CAD-CAM project in the fourth quarter of fiscal 1996.

(11) Export Sales

The Company had export sales from its United States operations of approximately 16, 16 and 15 percent of net sales for the years ended February 28, 1997, February 29, 1996 and February 28, 1995, respectively.

(12) Segment Information

The Company operates in one segment, principally in the design, development, manufacture and sale of foot and gait-related products.

(13) Revolving Credit Line

The company has a credit facility with a bank. The agreement, which expires July 31, 1997, provides for a revolving credit line not to exceed the lesser of \$750,000 or 70 percent of eligible receivables, as defined. Interest on the outstanding balance is payable at prime (8.25 percent at February 28, 1997) plus 2 percent per annum.

The agreement contains, among other items, restrictions relating to the incurrence of additional indebtedness and the payment of dividends. Additionally, the Company is required to maintain certain minimum financial ratios. Borrowings under this agreement are collateralized by substantially all of the assets of the Company.

At February 28, 1997 and February 29, 1996, there were no borrowings outstanding under this credit facility.

THE LANGER BIOMECHANICS GROUP, INC.
AND SUBSIDIARIES
VALUATION AND QUALIFYING ACCOUNTS

SCHEDULE II

For the years ended February 28, 1997, February 29, 1996 and February 28, 1995

	SALES RETURNS AND ALLOWANCES -----	BAD DEBTS -----	WARRANTY RESERVE -----	INVENTORY RESERVE -----
At March 1, 1994	\$ 23,409	\$ 63,356	\$ 24,337	\$ 48,580
Additions	--	27,048	3,638	78,494
Deletions	2,123	42,188	1,724	18,632
	-----	-----	-----	-----
At February 28, 1995	21,286	48,216	26,251	108,442
Additions	10,772	--	7,741	--
Deletions	--	27,646	2,513	30,422
	-----	-----	-----	-----
At February 29, 1996	32,058	20,570	31,479	78,020
Additions	--	7,524	6,207	--
Deletions	--	8,319	3,889	18,408
	-----	-----	-----	-----
At February 28, 1997	\$ 32,058	\$ 19,775	\$ 33,797	\$ 59,612
	-----	-----	-----	-----

THE LANGER BIOMECHANICS GROUP, INC.
AND SUBSIDIARIES
COMPUTATION OF PER SHARE AMOUNTS

For the years ended February 28, 1997, February 29, 1996 and February 28, 1995

	1997	1996	1995
	-----	-----	-----
Primary:			
Net income (loss).....	\$ 303,047	\$ (432,985)	\$ (637,159)
Weighted average number of common shares.....	2,583,344	2,568,458	2,547,281
Assumed number of shares issued from common share equivalents.....	83,076	--	--
Weighted average number of common and common equivalent shares.....	2,666,420	2,568,458	2,547,281
Net income (loss) per share:			
Primary.....	\$ 0.11	\$ (0.17)	\$ (0.25)
Fully Diluted:			
Net income (loss).....	\$ 303,047	\$ (432,985)	\$ (637,159)
Weighted average number of common shares.....	2,583,344	2,568,458	2,547,281
Assumed number of shares issued from common share equivalents.....	83,076	--	--
Weighted average number of common and common equivalent shares.....	2,666,420	2,568,458	2,547,281
Net income (loss) per share:			
Fully Diluted.....	\$ 0.11	\$ (0.17)	\$ (0.25)

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

OFFICERS AND DIRECTORS

The executive officers and directors of the Company are as follows:

NAME	AGE	OFFICE
Kenneth Granat	52	Chairman of the Board
Gary L. Grahn	53	President and Chief Executive Officer
Dr. Justin Wernick	61	Executive Vice President, Secretary and Director
Thomas F. Belleau	53	Vice President--Finance, and Chief Financial Officer
Howell S. Schorr	51	Vice President--Operations
Dr. Irwin A. Horowitz	61	Director
Daniel J. Feld	51	Director

Mr. Granat has been Chairman of the Board of Directors of the Company since January 4, 1995. Since 1987, he has been President of Active Screw and Fastener Inc., an Elk Grove Village, Illinois company, engaged in full line distribution of fasteners with plants in Chicago, Illinois and Tucson, Arizona. Since 1991, he has also been Vice President and a Director of Trigran Investments Inc., Deerfield, Illinois, the general partner and investment advisor for Trigran Investments, L.P., a more than 10 percent shareholder of the Company. Mr. Granat holds a J.D. from the University of Illinois as well as a B.B.A. degree in Business from the University of Michigan.

Mr. Grahn has been President and Chief Executive Officer of the Company since January 3, 1995 and a director since August 1995. From 1992 to 1994, he was President of PML Inc., a management consulting firm which specializes in marketing and business development assignments for consumer businesses. From 1989 to 1992, Mr. Grahn was Vice President--General Manager of R. Stevens, Inc., subsidiary of Delphi Technology, Inc., a privately-held company which markets Automated Photo Machines. Previously, he had been Executive Vice President for the American Photo Group, a multi-plant processor of consumer products, located in Atlanta, Georgia. He holds an M.B.A. in Marketing Management from the University of Rochester Graduate School of Business and a B.A. in Mathematics/Economics from Gettysburg College.

Dr. Wernick is the co-founder and Executive Vice President, Secretary and a director of the Company since its formation. Dr. Wernick is a Diplomate of the American Board of Podiatric Orthopedics, a Fellow of the American College of Foot Orthopedics and of the Academy of Podiatric Sports Medicine and a member of several other professional societies. In 1975, he was the President of the Nassau County Division, Podiatry Society of the State of New York and was granted the Podiatrist of the Year Award from that Society in that same year. Since 1969, he has held various academic positions at the New York College of Podiatric Medicine

and since 1979 has been serving as a professor with the Department of Orthopedic Sciences at the New York College of Podiatric Medicine. He has guest lectured and directed educational programs, both nationally and internationally, at many other podiatric colleges and seminars during the past 20 years. He has co-authored a book entitled "A Practical Manual for a Basic Approach to Biomechanics" in 1972 and a report entitled "A Radiologic Study of Motion of the Foot within a Ski Boot" which was published in the Journal of the American Podiatry Association for which he is also a corresponding consultant. Dr. Wernick received his podiatric medical degree from M.J. Lewi College of Podiatry (now known as the New York College of Podiatric Medicine).

Mr. Belleau has been Vice President-Finance/CFO of the Company since 1996. From 1988 to 1995, he was employed by TII Industries, Inc., a fabricator of various types of telephone surge protectors as Vice President--Finance/CFO. Previously, Mr. Belleau was Corporate Controller/Treasurer for American Technical Ceramics, Inc. He holds a B.A. Degree in Economics from the University of Notre Dame and an M.B.A. in Corporate Finance from New York University and is a CPA.

Mr. Schorr has been Vice President of Operations since 1991. From 1988 to 1991, prior to becoming an executive officer of the Company, he was the Operations Manager for the Deer Park, New York, and Branch Manager for the Brea, California, facilities of the Company. From 1966 to 1987, Mr. Schorr was employed by Hazeltine Corporation/Esprit Systems, Inc. During his 21 years of service with Hazeltine Corporation/Esprit Systems, Inc., he held the positions of Director of Operations, National Service Manager, Customer Service/Production Manager, as well as other various supervisory and managerial positions. He has a B.S. in Business Administration from New York Institute of Technology.

Dr. Horowitz has been a director of the Company since 1994. Since November 1993, Dr. Horowitz has been the Chairman of the Board, Chief Executive Officer and President of Diversifax, Inc., a public company engaged in the operation of public fax machines and copiers. From July 1993 to October 1993, he was Chief Operating Officer of Diversifax, Inc. From 1969 to November 1993, Dr. Horowitz was Chairman of the Board and President of IMSG Systems, Inc. and certain affiliated companies, which are engaged in the operation of public, coin-operated copying machines, which was merged into Diversifax in November 1993. Dr. Horowitz received his podiatric medical degree from M.J. Lewi College of Podiatry (now known as the New York College of Podiatric Medicine).

Mr. Feld has been a director of the Company since August 1995. He has been President of Traverse Bay Corporation, a consulting company since October, 1994. From 1988 to 1994, he was President of Saratoga Brands, a publicly held food manufacturer and distributor which he founded. Previously, he directed marketing and advertising for several companies including Gloria Vanderbilt Jeans while he was President of Fisher & Feld, an advertising firm he co-founded. Prior to that, he supervised several Procter & Gamble Co. Brands while employed at Grey Advertising. He holds M.A. and B.A. degrees from the University of Michigan.

All directors are normally elected at the annual meeting of shareholders to hold office until the next annual meeting and until their successors are duly elected and qualified. The Company's By-Laws provide that the annual meeting of shareholders be held each year at a time and place to be designated by the Board of Directors. Directors may be removed at any time for cause by the Board of Directors and with or without cause by a majority of the votes cast at a meeting of shareholders entitled to vote for the election of directors.

The Company is not aware of any late filings of, or failures to file, during the fiscal year ended February 28, 1997, the reports required by Section 16(a) of the Securities Exchange Act of 1934.

LIMITATION ON LIABILITY OF DIRECTORS

As permitted by New York law, the Company's Certificate of Incorporation contains an article providing for the elimination of the personal liability of the directors of the Company to the fullest extent permitted by the provisions of paragraph (b) of Section 402 of the New York Business Corporation Law. Accordingly, a director's personal liability would be eliminated for any breach of a director's duty, unless, among other things, the director's actions or omissions were in bad faith, involved intentional misconduct or a knowing violation of the

law, or personal gain in fact of a financial profit to which the director was not lawfully entitled. This article is intended to afford directors additional protection, and limit their potential liability, from suits alleging a breach of the duty of care by a director. The Company believes this article enhances the Company's ability to attract and retain qualified persons to serve as directors. As a result of the inclusion of such a provision, shareholders may be unable to recover monetary damages against directors for actions taken by them which constitute negligence or gross negligence or which are in violation of their fiduciary duties, although it may be possible to obtain injunctive or other equitable relief with respect to such actions. If equitable remedies are found not to be available to shareholders for any particular case, shareholders may not have any effective remedy against the challenged conduct.

ITEM 11. EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

The following table shows the cash compensation received by the two executive officers whose compensation exceeded \$100,000 during the fiscal year ended February 28, 1997:

NAME AND PRINCIPAL POSITION	FISCAL YEAR	ANNUAL COMPENSATION			COMPENSATION OPTIONS (NO. OF SHARES)
		SALARY \$	BONUS \$	OTHER \$	
Gary L. Grahn	1997	160,000	28,000	(2)	30,000
President and Chief Executive Officer	1996	159,846	--	(2)	50,000
	1995	21,538(1)	--	(2)	--
Dr. Justin Wernick	1997	138,996	7,000	(2)	--
Executive Vice President and Secretary	1996	139,000	--	(2)	--
	1995	138,996	--	(2)	--

(1) Mr. Grahn's employment with the Company commenced January 2, 1995.

(2) Less than 10% of the total annual salary and bonus.

OPTION GRANTS IN LAST FISCAL YEAR

NAME	NUMBER OF SECURITIES UNDERLYING OPTION/SARS GRANTED (#)	INDIVIDUAL GRANTS PERCENT OF TOTAL OPTIONS/SARS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE OR BASE PRICE (\$/SH)	EXPIRATION DATE	POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM (1)	
					5% (\$)	10% (\$)
Gary L. Grahn.....	30,000	54	2.1875	6/26/01	18,131	40,065
Dr. Justin Wernick.....	--	--	--	--	--	--

(1) The potential realizable value portion of the foregoing table illustrates value that might be received upon exercise of the options immediately prior to the expiration of their term, assuming the specified compounded rates of appreciation on the Company's Common Stock over the term of the options. These numbers do not take into account provisions of certain options providing for termination of the option following termination of employment.

FISCAL YEAR-END OPTION VALUES

The table below sets forth information regarding unexercised options held by the Company's named executive officers as of February 28, 1997. No options were exercised by the Company's executive officers during fiscal 1997.

NAME	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR END EXERCISABLE/UNEXERCISABLE (#)	VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT FISCAL YEAR END EXERCISABLE/UNEXERCISABLE \$ (1)
	Gary L. Grahn.....	48,335/31,665
Dr. Justin Wernick.....	--	--

(1) The closing bid price of the Company's Common Stock as reported by NASDAQ on February 28, 1997 was \$1.75. Value is calculated on the difference between the option exercise price of in-the-money options and \$1.75 multiplied by the number of shares of Common Stock underlying the option.

LONG-TERM INCENTIVE PLAN-AWARDS IN LAST FISCAL YEAR

None.

COMPENSATION OF DIRECTORS

Directors, who are not executive officers of the Company, are compensated at a rate of \$1,500 per Board of Directors' meeting attended.

EMPLOYMENT AGREEMENTS

On December 13, 1994, the Company entered into an employment agreement (the "Employment Agreement") with Gary L. Grahn, President and Chief Executive Officer, commencing March 1, 1995 and continuing for a one year period, with automatic renewal for additional one year terms unless sooner terminated in accordance with the Employment Agreement. The Employment Agreement provides for Mr. Grahn to receive an annual base salary of \$160,000, subject to adjustment as determined by the Board of Directors of the Company. Pursuant to the Employment Agreement, Mr. Grahn may be entitled to receive up to 50% of base salary as additional bonus compensation depending on profits achieved by the Company. In addition, pursuant to the Employment Agreement, Mr. Grahn was granted options to purchase 50,000 shares of the common stock of the Company at an exercise price of \$.75 per share for a five year term. Such options may be exercised, on a cumulative basis, as to 33 1/3% thereof per year commencing on the date of grant. The Employment Agreement also provides for competitive restrictions on Mr. Grahn's business activities, absent the Company's prior written approval, for a period of two years after the termination or expiration of the Employment Agreement.

On June 25, 1992, the Company entered into an employment agreement (the "Wernick Employment Agreement") with Dr. Justin Wernick, Executive Vice President of the Company, commencing as of July 1, 1992 and continuing for a two year period, with automatic renewal for additional one year terms unless sooner terminated in accordance with the Wernick Employment Agreement. The Wernick Employment Agreement provides for Dr. Wernick to receive an annual base salary of \$139,000, subject to adjustment as determined by the Board of Directors of the Company, plus a discretionary annual bonus up to \$10,000 based upon performance, as determined by the Board of Directors and President of the Company. The Wernick Employment Agreement also provides for competitive restrictions on Dr. Wernick's business activities, absent the Company's prior written approval, for a period of two years after the termination or expiration of the Wernick Employment Agreement.

On May 2, 1997, the Company entered into a new employment agreement (the "Revised Wernick Employment Agreement") with Dr. Justin Wernick, commencing July 1, 1997 and continuing for one year. Under the terms of the Revised Wernick Employment Agreement, Dr. Wernick will serve as Chief Medical Director and Corporate Secretary at an annual salary of \$65,000 plus approximately \$10,400 in office allowance. Among other duties, he will represent the Company at various educational seminars and conventions as well as provide technical advice in medical areas with respect to product development. The Revised Wernick Employment Agreement is also subject to the same competitive restrictions present in the original Wernick Employment Agreement. After the first year, automatic renewal for one additional year is specified, but may be terminated by either party with ninety days written notice.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN
BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of May 9, 1997, the shares of Common Stock owned beneficially and of record (unless otherwise indicated) by each person owning more than five percent (5%) of the outstanding shares, each director of the Company, each named executive officer of the Company and all directors and officers of the Company as a group.

NAME (AND ADDRESS OF 5% HOLDERS)	NUMBER OF SHARES OWNED	PERCENT
Kenneth Granat 155 Pflingsten, Suite 360 Deerfield, Illinois 60015	636,153 (1)	24.0%
Dr. Justin Wernick 450 Commack Road Deer Park, New York 11729	267,867	10.4%
Donald Cecil 1114 Avenue of the Americas New York, New York 10036	244,153	9.4%
Gary L. Grahn 450 Commack Road Deer Park, New York 11729	170,000 (2)	6.4%
Dr. Irwin A. Horowitz	15,000 (3)	(5)
Daniel J. Feld	1,000	(5)
All Directors and Officers as a Group (7 persons)	1,130,020 (4)	40.8%

(1) Includes 65,000 shares issuable under outstanding stock options and 530,753 held by Trigran Investments LP. Mr. Granat is a Director and Vice President of the general partner of Trigran Investments, LP. An additional 30,000 shares are owned by the Granat Family Limited Partnership of which Mr. Granat is a general partner and 10,400 shares are owned by a trust of which Mr. Granat is a beneficiary.

(2) Includes 80,000 shares issuable under outstanding stock options.

(3) Shares are issuable under outstanding stock options.

(4) Includes an aggregate of 185,000 shares issuable under outstanding stock options.

(5) Less than 1%.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULE, AND REPORTS ON FORM 8-K

(a) 1. Financial Statements

The following consolidated financial statements are filed as part of this Form 10-K:

INDEPENDENT AUDITORS' REPORT

Consolidated Financial Statements:

Consolidated Balance Sheets as of February 28, 1997 and February 29, 1996

Consolidated Statements of Operations for the years ended February 28, 1997, February 29, 1996 and February 28, 1995

Consolidated Statements of Stockholders' Equity for the years ended February 28, 1997, February 29, 1996 and February 28, 1995

Consolidated Statements of Cash Flows for the years ended February 28, 1997, February 29, 1996 and February 28, 1995

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. FINANCIAL STATEMENT SCHEDULES

The following Financial Statement Schedule is filed as part of this Form 10-K:

Schedule II--Valuation and Qualifying Accounts for the years ended February 28, 1997, February 29, 1996 and February 28, 1995

All other schedules have been omitted because they are not applicable, not required or the information is disclosed in the consolidated financial statements, including the notes thereto.

3. EXHIBITS

NUMBER	DOCUMENT
(3)	(a) Copy of Restated Certificate of Incorporation and amendments thereto. (1) (4)
	(b) Copy of Bylaws, as amended through July 2, 1987. (3)
(4)	(a) Specimen of Common Stock Certificate. (1)
	(b) Copy of 1983 Stock Option Plan, as amended through January 13, 1987. (3)
	(c) Copy of 1992 Stock Option Plan. (7)
(10)	(a) Copy of Agreements, dated February 23, 1993, relating to the Company's 75% ownership interest in Langer Orthotic Laboratory (U.K.) Limited. (7)
	(b) Copy of The Langer Biomechanics Group Retirement Plan, restated as of July 30, 1979. (1)

- (c) Copy of Leases related to the Company's Deer Park facilities. (7)
- (d) Copy of Agreement, dated July 8, 1986, between BioResearch Ithaca, Inc. and the Company relating to the licensing of the Pediatric Counter Rotation System. (2)
- (e) Copy of Leases relating to the Company's Brea, California facilities. (5)
- (f) Copy of Agreement, dated March 26, 1992 and effective as of March 1, 1992, relating to the Company's 401(k) Tax Deferred Savings Plan. (5)
- (g) Copy of Employment Agreement, dated as of June 25, 1992, between the Company and Dr. Justin Wernick. (6)
- (h) Copy of Employment Agreement, dated December 13, 1994, between the Company and Gary L. Grahn. (8)
- (i) Copy of letter agreement, dated January 27, 1995, between the Company and Tekscan, Incorporated. (9)
- (j) Copy of Employment Agreement, dated as of May 2, 1997, between the Company and Dr. Justin Wernick.
- (11) Computation of Earnings Per Share
- (22) List of subsidiaries (11) computation earnings per share.
- (24) Consent of Independent Auditors
 - (1) Incorporated by reference to the Company's Registration Statement on Form S-1 (No. 2-87183), which became effective with the Securities and Exchange Commission on January 17, 1984.
 - (2) Incorporated by reference to the Company's Form 10-K for the fiscal year ended July 31, 1986.
 - (3) Incorporated by reference to Post-Effective Amendment No. 1 to the Company's Registration Statement on Form S-8.
 - (4) Incorporated by reference to the Company's Form 10-K for the fiscal year ended February 28, 1989.
 - (5) Incorporated by reference to the Company's Form 10-K for the fiscal year ended February 29, 1992.
 - (6) Incorporated by reference to the Company's Form 10-Q for the quarter ended August 31, 1992.
 - (7) Incorporated by reference to the Company's Form 10-K for the fiscal year ended February 28, 1993.
 - (8) Incorporated by reference to the Company's Form 8-K, the Date of Report which was January 3, 1995.
 - (9) Incorporated by reference to the Company's Form 10-K for the fiscal year ended February 28, 1995.
- (27) Financial Statement Schedule
 - (b) Reports on Form 8-K:
 - None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE LANGER BIOMECHANICS GROUP, INC.

DATE: JUNE 3, 1997

BY: /s/ GARY L. GRAHN

GARY L. GRAHN, PRESIDENT AND
CHIEF EXECUTIVE OFFICER
(PRINCIPAL EXECUTIVE OFFICER)

DATE: JUNE 3, 1997

BY: /s/ THOMAS F. BELLEAU

THOMAS F. BELLEAU,
VICE PRESIDENT AND
CHIEF FINANCIAL OFFICER
(PRINCIPAL FINANCIAL OFFICER
AND PRINCIPAL ACCOUNTING OFFICER)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Date: June 3, 1997

By: /s/ Kenneth Granat

Kenneth Granat, Director

Date: June 3, 1997

By: /s/ Gary L. Grahn

Gary L. Grahn, Director

Date: June 3, 1997

By: /s/ Justin Wernick

Dr. Justin Wernick, Director

Date: June 3, 1997

By:

Dr. Irwin A. Horowitz, Director

Date: June 3, 1997

By:

Daniel J. Feld, Director

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May 2, 1997

Dr. Justin Wernick
The Langer Biomechanics Group, Inc.
450 Commack Road
Deer Park, NY 11729

Dear Justin:

The following, when signed by both of us, will constitute our agreement as to your continuing relationship with The Langer Biomechanics Group, Inc. (the "Company"):

1. Functions and Responsibilities. You shall serve the Company as Chief Medical Director and Corporate Secretary for a term described in paragraph 4, below. In such capacities, you shall perform the following functions:

1.1 Represent the Company at educational seminars and conventions, which we have mutually estimated at ten (10) to twelve (12) such activities annually;

1.2 Furnish advice to the Company as required in technical and medical areas, such as

1.2.1 consultations with doctors as required, and

1.2.2 product development or product revision;

1.3 Assist the Company in account contact as required; and

1.4 Contribute articles to Company publications as required.

The use of the term "as required" in the foregoing is intended to mean as required by the Company, but in no event shall the Company be unreasonable, in all of the circumstances, in its requests for your services in the areas described. It is expected that you will be present at the Company's offices at such times presently anticipated to be on each Wednesday in order to permit planning for product meetings, visitor meetings, consults, etc., to be scheduled.

2. Exclusions. While it is expected that the Company will be the prime beneficiary of your professional endeavors, nothing contained in this agreement is intended to preclude you from engaging in such independent assignments as do not conflict with the Company's activities. Further, any sales benefits which may arise in the course of your independent assignments shall, wherever possible, accrue to the Company.

3. Compensation and Benefits. During the term of this agreement, the Company will:

3.1 pay to you a salary at the annual rate of Sixty-Five Thousand (\$65,000.00) Dollars, in such intervals as is the custom of the Company;

3.2 pay to you an allowance of Two Hundred (\$200.00) Dollars per week, intended to reimburse you for any and all expenses related to the maintenance of your office, at your home or elsewhere, as you may determine;

3.3 continue, for the term of this agreement, to include you in the Company's medical and dental plans, as they may be constituted from time to time;

3.4 continue to permit you the use of the Company's automobile which you have been driving, and provide insurance with respect thereto;

3.5 reimburse you for ordinary and reasonable expenses incurred in connection with the discharge of your duties pursuant to this agreement;

4. Term. This agreement shall be in effect for a period of one year commencing July 1, 1997, and absent a notice of termination by either party to the other 90 days prior to the end of such year shall be automatically renewed for a like term each year thereafter. Either party may notify the other of its intention to terminate this agreement on ninety (90) days written notice given at any time after the end of the first year.

5. Restrictions.

5.1 The terms and provisions of paragraph 6, "Post-Employment Activities," of that certain Employment Agreement between the Company and you which was effective as of July 1, 1992, are hereby incorporated into this agreement, with full force and effect, notwithstanding the termination of such Employment Agreement, and shall commence in their application on the first day of the next month immediately following the last payment to you of any salary due under the terms of this agreement.

5.2 The terms and provisions of that certain "Proprietary Information and Inventions Agreement" between us dated July 31, 1992 are hereby incorporated into this agreement, with full force and effect as if fully set forth herein.

If the foregoing is in accord with our understanding, please sign this letter at the place provided, and return to us, retaining a copy for your files.

Sincerely yours,

The Langer Biomechanics Group, Inc.

By: /s/ Gary L. Grahn

Gary L. Grahn, President

Accepted and Agreed:

/s/ Justin Wernick Dated: May 2, 1997

Justin Wernick
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THE LANGER BIOMECHANICS GROUP, INC.
AND SUBSIDIARIES
COMPUTATION OF PER SHARE AMOUNTS

For the years ended February 28, 1997, February 29, 1996 and February 28, 1995

	1997	1996	1995
	-----	-----	-----
Primary:			
Net income (loss).....	\$ 303,047	\$ (432,985)	\$ (637,159)
Weighted average number of common shares.....	2,583,344	2,568,458	2,547,281
Assumed number of shares issued from common share equivalents.....	83,076	--	--
Weighted average number of common and common equivalent shares.....	2,666,420	2,568,458	2,547,281
Net income (loss) per share:			
Primary.....	\$ 0.11	\$ (0.17)	\$ (0.25)
Fully Diluted:			
Net income (loss).....	\$ 303,047	\$ (432,985)	\$ (637,159)
Weighted average number of common shares.....	2,583,344	2,568,458	2,547,281
Assumed number of shares issued from common share equivalents.....	83,076	--	--
Weighted average number of common and common equivalent shares.....	2,666,420	2,568,458	2,547,281
Net income (loss) per share:			
Fully Diluted.....	\$ 0.11	\$ (0.17)	\$ (0.25)

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement No. 33-89880 of The Langer Biomechanics Group, Inc. on Form S-8 of our report dated May 16, 1997 appearing in this Annual Report on Form 10-K of The Langer Biomechanics Group, Inc. for the year ended February 28, 1997.

Jericho, New York
June 4, 1997

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