BIOMERICA INC
Form 10KSB
August 29, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB

[X] ANNUAL REPORT UNDER SECTION 13 R 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED MAY 31, 2008

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER: 0-8765

BIOMERICA, INC.
(Name of small business issuer in its charter)

DELAWARE	95-2645573
(State or other jurisdiction of Incorporation of organization))	(I.R.S. Employer Identification No.)
1533 MONROVIA AVENUE, NEWPORT BEACH, CA	92663
(Address of principal executive offices)	(Zip Code)

ISSUER'S TELEPHONE NUMBER: (949) 645-2111

Securities registered under Section 12(b) of the Exchange Act:

(Title of each class)	(Name of each exchange on which registered)
NONE	OTC-BULLETIN BOARD

Securities registered under Section 12(g) of the Exchange Act:

(Title of each class)
COMMON STOCK, PAR VALUE $0.08

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. ___

Note - Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [_]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of issuer's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [X]

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [_] No [X]

State issuer's revenues for its most recent fiscal year: $4,926,505

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of a specified date within the past 60 days. (based upon 3,897,495 shares held by non-affiliates and the closing price of $.90 per share for Common Stock in the over-the-counter market as of July 31, 2008): $3,507,746

State the number of shares of the issuer's common equity, par value $0.08, outstanding as of August 13, 2008: 6,621,839

DOCUMENTS INCORPORATED BY REFERENCE: Part III contains information incorporated by reference to the Company's proxy statement for its 2008 Annual Meeting of Stockholders, which will be filed not later than 120 days after the end of the Company's fiscal year ended May 31, 2008. The Exhibit Index incorporates by reference various documents previously filed with the Securities and Exchange Commission.

Transitional Small Business Disclosure Format YES [_] NO [X]

PART I*

ITEM 1. DESCRIPTION OF BUSINESS

BUSINESS OVERVIEW

THE COMPANY

Biomerica, Inc. ("Biomerica", the "Company", "we" or "our") was incorporated in Delaware in September 1971 as Nuclear Medical Systems, Inc. We changed our corporate name in February 1983 to NMS Pharmaceuticals, Inc., and in November 1987 to Biomerica, Inc.

BIOMERICA - DIAGNOSTIC PRODUCTS

Biomerica develops, manufactures, and markets medical diagnostic products designed for the early detection and monitoring of chronic diseases and medical conditions. The Company's medical diagnostic products are sold worldwide in two markets: 1) clinical laboratories and 2) point of care (physicians' offices and over-the-counter drugstores). Our diagnostic test kits are used to analyze blood or urine from patients in the diagnosis of various diseases and other medical complications, or to measure the level of specific hormones, antibodies, antigens or other substances, which may exist in the human body in extremely small concentrations.

Technological advances in medical diagnostics have made it possible to perform diagnostic tests within the home and the physician's office (the point of care), rather than in the clinical laboratory. One of our main objectives has been to

develop and market rapid diagnostic tests that are accurate, employ easily obtained specimens, and are simple to perform without instrumentation. Our over-the-counter and professional rapid diagnostic products help to manage existing medical conditions and may save lives through prompt diagnosis and early detection. Until recently, tests of this kind required the services of medical technologists and sophisticated instrumentation. Frequently, results were not available until at least the following day. We believe that rapid point of care tests are as accurate as laboratory tests when used properly and they require no instrumentation, give reliable results in minutes and can be performed with confidence in the home or the physician's office.

Our clinical laboratory diagnostic products include tests for bone and anemia conditions, food intolerance, infectious diseases, diabetes and others. These diagnostic test kits utilize enzyme immunoassay technology. Some of these products have not yet been submitted for clearance by the FDA for diagnostic use, but can be sold in various foreign countries.

A significant part of Biomerica's manufacturing operations are located in Mexicali, Mexico, in order to reduce the cost of manufacturing and compete more effectively worldwide. Biomerica maintains its headquarters in Newport Beach, California where it houses administration, research and development, sales and marketing, and customer services.

Biomerica has undergone no material change in the mode of conducting its business other than as described above and it did not dispose of any material amount of its assets, except for the sale of its interest in Lancer Orthodontics, Inc., during the fiscal year ended May 31, 2008.

DISCONTINUED OPERATIONS

Biomerica's ReadyScript subsidiary was a development-stage enterprise, the operations of which were discontinued in May 2001. The net liabilities and operating results of ReadyScript are shown separately in the accompanying consolidated financial statements as discontinued operations.

LIQUIDITY

As of May 31, 2008, the Company had cash and current available-for-sale securities in the amount of $2,022,735 (as compared to $517,432 as of May 31, 2007) and working capital of $3,428,936. In May 2008 the Company sold its investment in Lancer Orthodontics, Inc., for a net amount of $1,083,444, which increased the cash position of the Company. In June 2007 the Company also exercised a warrant and sold the underlying shares that it owned in Hollister-Stier (valued on the books at zero cost) for a net amount of $697,034.

In February 2007 the Company obtained a $200,000 working capital line of credit and was approved for a $200,000 equipment loan with Commercial Bank of California. The credit line and the equipment loan are collateralized by substantially all of the assets of the Company. As of May 31, 2008, $162,993 was owed on the equipment loan and there was no outstanding balance due on the working capital line of credit. Payments on the shareholder's note payable have been made during fiscal 2008 according to the agreement for repayment and, as a result, the balance on the note at May 31, 2008 was $95,936 as compared to $167,870 at May 31, 2007. On July 31, 2008, the balance of principal and interest on the shareholder note payable was paid in full.

PRODUCTION

Most of our diagnostic test kits are processed and assembled at our facilities

in Newport Beach, California and in Mexicali, Mexico. During fiscal 2003, the diagnostics division established a manufacturing facility in Mexicali, Mexico. We have moved a significant portion of our diagnostic production (primarily packaging and assembly) to that facility. We sublease facilities from and subcontract with Lancer Orthodontics (a former subsidiary) to provide labor and other services. Production of diagnostic tests can involve formulating component antibodies and antigens in specified concentrations, attaching a tracer to the antigen, filling components into vials, packaging and labeling. We continually engage in quality control procedures to assure the consistency and quality of our products and to comply with applicable FDA regulations. In June 2008 the Company incorporated in Mexico under the name of Biomerica de Mexico for the purpose of establishing our own mequiladora operation in Mexico at some time in the future.

All manufacturing production is regulated by the FDA Good Manufacturing Practices for medical devices. We have an internal quality control department that monitors and evaluates product quality and output. We also have an internal Quality Systems department which ensures that our operating procedures are in compliance with current FDA, CE Mark and ISO regulations. We either produce our own antibodies and antigens or purchase these materials from qualified vendors. We have alternate, approved sources for raw materials procurement and we do not believe that material availability in the foreseeable future will be a problem.

RESEARCH AND DEVELOPMENT

Biomerica is engaged in research and development to broaden its diagnostic product line in specific areas. Research and development expenses include the costs of materials, supplies, personnel, facilities and equipment as well as outside contract services. Consolidated research and development expenses incurred by Biomerica for the years ended May 31, 2008 and 2007 aggregated $259,085 and $256,101, respectively.

MARKETS AND METHODS OF DISTRIBUTION

Biomerica has approximately 450 current customers for its diagnostic business, of which approximately 100 are distributors and the balance are hospital and clinical laboratories, medical research institutions, medical schools, pharmaceutical companies, chain drugstores, wholesalers and physicians' offices.

We rely on unaffiliated distributors, advertising in medical and trade journals, exhibitions at trade conventions, direct mailings and an internal sales staff to market our diagnostic products. We target two main markets: (a) clinical laboratories and (b) point of care testing (physicians' offices and over-the-counter drug stores). Marketing plans are utilized in targeting each of the two markets.

For the year ended May 31, 2008 the Company had one customer which accounted for more than 10% of sales and during fiscal 2007 the Company had one customer which accounted for more than 10% of consolidated sales.

BACKLOG

At May 31, 2008 and 2007 Biomerica had a backlog of approximately $346,000 and $267,000 respectively.

RAW MATERIALS

The principal raw materials utilized by Biomerica consist of various chemicals, serums, reagents and packaging supplies. Almost all of our raw materials are available from several sources, and we are not dependent upon any single source of supply or a few suppliers. For the year ended May 31, 2008, no company accounted for more than 10% of the consolidated purchases of raw materials. For

the year ended May 31, 2007 three companies accounted for more than 30% of the consolidated purchases of raw materials.

We maintain inventories of antibodies and antigens as components for our diagnostic test kits. Some sales orders are processed on the day received while others are processed at a later date depending on the quantity and type of order.

COMPETITION

Immunodiagnostic products are currently produced by more than 100 companies. Biomerica is not a significant factor in the market.

Our competitors vary greatly in size. Many are divisions or subsidiaries of well-established medical and pharmaceutical concerns which are much larger than Biomerica and expend substantially greater amounts than we do for research and development, manufacturing, advertising and marketing.

The primary competitive factors affecting the sale of diagnostic products are uniqueness, quality of product performance, price, service and marketing. We believe we compete primarily on the basis of the uniqueness of our products, the quality of our products, the speed of our test results, our patent position, our favorable pricing and our prompt shipment of orders. We offer a broader range of products than many competitors of comparable size, but to date have had limited marketing capability. We are working on expanding this capability through marketing and strategic cooperation with larger companies and distributors.

GOVERNMENT REGULATION OF OUR DIAGNOSTIC BUSINESS

As part of our diagnostic business, we sell products that are legally defined to be medical devices. As a result, we are considered to be a medical device manufacturer, and as such are subject to the regulations of numerous governmental entities. These agencies include the Food and Drug Administration (the "FDA"), the United States Drug Enforcement Agency (the "DEA"), Environmental Protection Agency, Federal Trade Commission, Occupational Safety and Health Administration, U.S. Department of Agriculture ("USDA"), and Consumer Product Safety Commission. These activities are also regulated by various agencies of the states and localities in which our products are sold. These regulations govern the introduction of new medical devices, the observance of certain standards with respect to the manufacture and labeling of medical devices, the maintenance of certain records and the reporting of potential product problems and other matters.

The Food, Drug & Cosmetic Act of 1938 (the "FDCA") regulates medical devices in the United States by classifying them into one of three classes based on the extent of regulation believed necessary to ensure safety and effectiveness. Class I devices are those devices for which safety and effectiveness can reasonably be ensured through general controls, such as device listing, adequate labeling, pre-market notification and adherence to the Quality System Regulation ("QSR") as well as Medical Device Reporting (MDR), labeling and other regulatory requirements. Some Class I medical devices are exempt from the requirement of Pre-Market Approval ("PMA") or clearance. Class II devices are those devices for which safety and effectiveness can reasonably be ensured through the use of special controls, such as performance standards, post-market surveillance and patient registries, as well as adherence to the general controls provisions applicable to Class I devices. Class III devices are devices that generally must receive pre-market approval by the FDA pursuant to a pre-market approval application to ensure their safety and effectiveness. Generally, Class III

devices are limited to life-sustaining, life-supporting or implantable devices. However, this classification can also apply to novel technology or new intended uses or applications for existing devices. The Company's products are primarily either Class I or Class II medical devices. The following is a breakdown of the Biomerica products by class:

Class I - Fortel(TM) Ovulation test, EZ-LH(TM) Rapid Ovulation test

Class II - GAP(tm) IgG H. Pylori ELISA kit, Anti-thyroglobulin ELISA kit, anti-TPO ELISA kit, PTH (intact) ELISA kit, Calcitonin ELISA kit, Erythropoietin ELISA kit, ACTH ELISA kit, Fortel Ultra Midstream (OTC and plastic stick), EZ-HCG(tm) Rapid Pregnancy test (professional and dipstick), EZ Detect(tm) Fecal Occult Blood test (Physician's dispenser pack and OTC), Aware(tm) Breast Self-Examination, drugs of abuse rapid tests, EZ-HP Professional, GAP(tm) IgA H. Pylori ELISA kit, C-Peptide ELISA kit, Myoglobin ELISA, Troponin I ELISA, HS-CRP ELISA, Allerquant (TM), Food Intolerance Kits; Allerquant(tm) Food Additives Kit, EZ-HP OTC, GAP (TM) IgM H. Pylori ELISA kit, Isletest(tm) GAD ELISA kit, IAA ELISA kit and IgG Food Additives Kit.

Class III - Isletest(tm) ICA ELISA kit, Isletest (tm), EZ PSA (Professional and OTC).

If the FDA finds that the device is not substantially equivalent to a predicate device, the device may be deemed a Class III device, and a manufacturer or seller is required to file a PMA application. Approval of a PMA application for a new medical device usually requires, among other things, extensive clinical data on the safety and effectiveness of the device. PMA applications may take years to be approved after they are filed, but approval is required before the product can be sold for general use in the U.S. In addition to requiring clearance or approval for new medical devices, FDA rules also require a new 510(k) filing and review period, prior to marketing a changed or modified version of an existing legally marketed device, if such changes or modifications could significantly affect the safety or effectiveness of that device. The FDA prohibits the advertisement or promotion or any approved or cleared device for uses other than those that are stated in the device's approved or cleared application.

Pursuant to FDA requirements, we have registered our manufacturing facility with the FDA as a medical device manufacturer, and listed the medical devices we manufacture. We are also subject to inspection on a routine basis for compliance with FDA regulations. This includes the Quality System Requirements, which

requires that we manufacture our products and maintain our documents in a prescribed manner with respect to issues such as design controls, manufacturing, testing and validation activities. Further, we are required to comply with other FDA requirements with respect to labeling, and the Medical Device Reporting (MDR) regulation which requires that we provide information to the FDA on deaths or serious injuries alleged to have been associated with the use of our products, as well as product malfunctions that are likely to cause or contribute to death or serious injury if the malfunction were to recur. We believe that we are currently in material compliance with all relevant QSR and MDR requirements.

In addition, our facility is required to have a California Medical Device Manufacturing License. The license is not transferable and must be renewed annually. Approval of the license requires that we be in compliance with QSR, labeling and MDR regulations. Our license expires on March 16, 2009. These licenses are renewed periodically, and to date we have never failed to obtain a renewal.

Through compliance with FDA and California regulations, we can market our medical devices throughout the United States. International sales of medical devices are also subject to the regulatory requirements of each country. In Europe, the regulations of the European Union require that a device have a "CE Mark" in order to be sold in EU countries. The directive went into effect beginning December 7, 2003. The Company has completed the process for complying with the "CE Mark" directives, In Vitro Directive 98/79/EC, ISO 13485 for medical devices, and Medical Device Directive 93/42/EEC. At present the regulatory international review process varies from country to country. We, in general, rely upon our distributors and sales representatives in the foreign countries in which we market our products to ensure that we comply with the regulatory laws of such countries. We believe that our international sales to date have been in compliance with the laws of the foreign countries in which we have made sales. Exports of most medical devices are also subject to certain FDA regulatory controls.

The following products are FDA-cleared and may be sold to clinical laboratories, physician laboratories and/or retail outlets in the United States as well as internationally:

ACTH ELISA Kit
Anti-thyroglobulin ELISA kit
Anti-TPO ELISA Kit
AWARE(tm) Breast Self-Examination Kit
Calcitonin ELISA Kit
Drugs-of-Abuse Rapid Tests
Erythropoietin ELISA Kit
EZ-HCG Rapid Pregnancy Test
EZ-LH(tm) Rapid Ovulation Test
EZ Detect(tm) Fecal Occult Blood Test (Physician's package, OTC package)
GAP IgG H. Pylori ELISA Kit
HS-CRP ELISA
Drugs-of-Abuse Rapid Tests
Myoglobin ELISA
PTH (Intact) ELISA Kit
Troponin I ELISA

The following products are not FDA-cleared. These are sold internationally and can be sold in the U.S. "FOR RESEARCH ONLY":

Allerquant(tm) IgG Food Intolerance ELISA Kit (90-foods, 14-foods, custom kits)
Allerquant IgG Food Additives Kit
C-Peptide ELISA Kit
EZ-PSA Rapid Test
EZ-H. Pylori Rapid Test
Fortel Cat Allergy Test
Fortel(tm) Ultra Midstream Pregnancy Test
Fortel(tm) Ovulation Test
GAP(tm) IgM H. Pylori ELISA Kit
GAP(tm) IgA H. Pylori ELISA Kit
Isletest(tm) GAD ELISA Kit
Isletest(tm) ICA ELISA Kit
Isletest(tm) IAA ELISA Kit

Biomerica is licensed to design, develop, manufacture and distribute IN VITRO diagnostic and medical devices and is subject to the Code of Federal Regulations, Section 21, parts 800 - 1299. The FDA is the governing body that assesses and issues Biomerica's license to assure that it complies with these regulations. Biomerica is currently licensed, and its last assessment was in March 2006. During the inspection the FDA noted five observations that were corrected in a timely manner. Biomerica is also registered and licensed with the State of California's Department of Health Services. The Company believes that

all Biomerica products sold in the U.S. comply with the FDA regulations.

Biomerica's Quality Management System is in compliance with the International Standards Organization (ISO) EN ISO 13485:2003. EN ISO 13485:2003 is an internationally recognized standard in which companies establish their methods of operation and commitment to quality.

SEASONALITY OF BUSINESS

The businesses of the Company and its subsidiary have not been subject to significant seasonal fluctuations.

INTERNATIONAL BUSINESS

Most of Biomerica's property and equipment are located within southern California. The Company currently has a minor amount of property and equipment located in Mexico. The following table sets forth the dollar volume of revenue attributable to sales to domestic customers and foreign customers during the last two fiscal years for Biomerica:

Year Ended May 31,	2008	2007
U.S. Customers	$1,359,000/27.5%	$2,107,000/36.7%
Asia	854,000/17.3%	543,000/9.4%
Europe	2,549,000/51.7%	2,378,000/41.4%
Middle East	57,000/1.1%	64,000/1.1%
Oceania	3,000/.0%	540,000/9.4%
S. America	70,000/1.4%	75,000/1.3%
Other foreign	35,000/1.0%	41,000/0.7%
Total Revenues	$4,927,000/100%	$5,748,000/100%

We recognize that our foreign sales could be subject to some special or unusual risks, which are not present in the ordinary course of business in the United States. Changes in economic factors, government regulations, terrorism and import restrictions all could impact sales within certain foreign countries. Foreign countries have licensing requirements applicable to the sale of diagnostic products, which vary substantially from domestic requirements; depending upon the product and the foreign country, these may be more or less restrictive than requirements within the United States. Foreign diagnostic sales at Biomerica are made primarily through a network of approximately 100 independent distributors in approximately 60 countries.

INTELLECTUAL PROPERTY

We regard the protection of our copyrights, service marks, trademarks and trade secrets as important to our future success. We rely on a combination of copyright, trademark, service mark and trade secret laws and contractual restrictions to establish and protect our proprietary rights in products and services. We have entered into confidentiality and invention assignment agreements with our employees and contractors, and nondisclosure agreements with most of our fulfillment partners and strategic partners to limit access to and disclosure of proprietary information. We cannot be certain that these contractual arrangements or the other steps taken by us to protect our intellectual property will prevent misappropriation of our technology. We have licensed in the past, and expect that we may license in the future, certain of our proprietary rights, such as trademarks or copyrighted material, to third parties. While we attempt to ensure that the quality of our product brands is maintained by such licensees, we cannot be certain that such licensees will not

take actions that might hurt the value of our proprietary rights or reputation.

BRANDS, TRADEMARKS, PATENTS

We registered the tradenames "Fortel", "Isletest", "Nimbus" and "GAP" with the Office of Patents and Trademarks on December 31, 1985. Our unregistered tradenames are "EZ-Detect", "Candiquant," "Candigen", "EZ-H.P." and "EZ-PSA". A trademark for "Aware" was issued and assigned in January 2002. Biomerica has co-patent rights to the EZ-Detect Fecal Occult Blood Test (FOBT). In addition, Biomerica holds the following patents: Immunotherapy Agents for Treatment of IgE Mediated Allergies and Allergen-thymic Hormone Conjugates for Treatment of IgE Mediated Allergies, U.S. Patent #5,275,814, issued January 4, 1994 and Diagnostic Test for Measuring Islet Cell Autoantibodies and Reagents Relating Thereto, U.S. Patent #5,786,221, issued July 28, 1998. Biomerica has obtained the rights to manufacture and sell certain products. In some cases royalties are paid on the sales of these products. Biomerica anticipates that it will license or purchase the rights to other products or technology in the future.

The laws of some foreign countries do not protect our proprietary rights to the same extent as do the laws of the U.S. Effective copyright, trademark and trade secret protection may not be available in such jurisdictions. Our efforts to protect our intellectual property rights may not prevent misappropriation of our content. In addition, there can be no assurance that Biomerica is not violating any third party patents.

EMPLOYEES

As of May 31, 2008, the Company employed 33 employees of whom 3 are part-time employees in the United States. The following is a breakdown between departments:

	2008	2007
Administrative	5	4
Marketing & sales	3	3
Research & development	3	3
Production and operations	22	20
Total	33	30

In addition, Biomerica contracts with Lancer for the services of 16 people at its Mexican facility. We also engage the services of various outside Ph.D. and M.D. consultants as well as medical institutions for technical support on a regular basis. We are not a party to any collective bargaining agreement and have never experienced a work stoppage. We consider our employee relations to be good.

ITEM 2. DESCRIPTION OF PROPERTY

The Company is currently leasing its facilities on a month-to-month agreement while it explores various other facility options. The facilities are owned and operated by Ms. Janet Moore (an officer and director of the Company), Ilse Sultanian, Susan Irani Rigdon and Jennifer Irani, some of whom are shareholders. Effective May 1, 2007, the monthly rent was set at $14,000. Management believes there would be no significant difference in the terms of the property rental if the Company was renting from a third party. Total gross rent expense for this facility was approximately $168,000 per year during the years ended May 31, 2008 and 2007, respectively.

As of May 31, 2008, we believe that our facilities and equipment are in suitable condition and are adequate to satisfy the current requirements of our Company. However, management is exploring alternative leasing space, which may be more beneficial to the needs of the Company and allow for a more efficient operation at a cost effective rate.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following table summarizes the Company's obligations and commitments as of May 31, 2008:

	Payments Due by Period			
	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	4 YEARS
Shareholder debt*	$ 95,936	$ 95,936	--	--
Capital Leases	$ 4,180	$ 4,180	--	--
Equipment loan**	$162,993	$ 48,428	$109,855	$ 4,710
Total	$263,109	$148,544	$109,855	$ 4,710

* Paid in full on July 31, 2008.
** Payments as of May 31, 2008 were $5,038 per month at the interest rate of 9.5%. Effective July 16, 2008, the interest rate was reduced to a fixed rate of 8.0%.

Biomerica has various insignificant leases for office equipment.

ITEM 3. LEGAL PROCEEDINGS

Inapplicable.

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

Inapplicable.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Since June 20, 2002, the Company's stock has been quoted on the OTC Bulletin Board under the symbol "BMRA.OB". The following table shows the high and low bid prices for Biomerica's common stock for the periods indicated, based upon data reported by Yahoo Finance. Such quotations reflect inter-dealer prices, without retail mark-up, mark-down or commissions, and may not necessarily represent actual transactions.

	Bid Prices	
	High	Low
Quarter ended:		
May 31, 2008	$1.26	$0.97
February 29, 2008	$1.55	$1.10
November 30, 2007	$1.80	$1.30
August 31, 2007	$1.50	$0.71

May 31, 2007	$0.80	$0.42
February 28, 2007	$0.62	$0.40
November 30, 2006	$0.59	$0.45
August 31, 2006	$0.59	$0.42

As of May 31, 2008, the number of holders of record of Biomerica's common stock was approximately 891, excluding stock held in street name. The number of record holders does not bear any relationship to the number of beneficial owners of the Common Stock.

The Company has not paid any cash dividends on its Common Stock in the past and does not plan to pay any cash dividends on its Common Stock in the foreseeable future. The Company's Board of Directors intends, for the foreseeable future, to retain any earnings to finance the continued operation and expansion of the Company's business.

During the past three fiscal years we completed the following private placement transactions exempt under Regulation D of the Securities Act of 1933, as amended:

Date	Title	Amount	Class or Persons Sold To	Price per Share	Total
5/06	common	156,000	insider & qualified investors	$0.48	$ 74,880

The table below provides information relating to our equity compensation plans as of May 31, 2008:

Securities Plan Category	Number Of Securities To Be Issued Upon Exercise Of Outstanding Options	Compensation Plans Weighted-Average Exercise Price of Outstanding Options	Ava (Ex
Equity compensation Plans approved by Securities holders	1,130,125	$0.54	

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS

EXCEPT FOR HISTORICAL INFORMATION CONTAINED HEREIN, THE STATEMENTS IN THIS FORM 10-KSB MAY BE FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934 AND SECTION 27A OF THE SECURITIES ACT OF 1933. FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS AND UNCERTAINTIES WHICH MAY CAUSE BIOMERICA'S RESULTS IN FUTURE PERIODS TO DIFFER MATERIALLY FROM FORECASTED RESULTS. THESE RISKS AND UNCERTAINTIES INCLUDE, AMONG OTHER THINGS, THE CONTINUED DEMAND FOR THE COMPANY'S PRODUCTS, AVAILABILITY OF RAW MATERIALS, THE STATE OF THE ECONOMY, RESULTS OF RESEARCH AND DEVELOPMENT ACTIVITIES AND THE CONTINUED ABILITY OF THE COMPANY TO MAINTAIN THE LICENSES AND APPROVALS REQUIRED. THESE AND OTHER RISKS ARE DESCRIBED IN THE COMPANY'S ANNUAL REPORT ON FORM 10-KSB AND IN THE COMPANY'S OTHER FILINGS WITH THE SECURITIES AND EXCHANGE COMMISSION.

EXCEPT AS MAY BE REQUIRED BY APPLICABLE LAW, WE MAY NOT UPDATE OR REVISE OUR FORWARD-LOOKING STATEMENTS AND THE LACK OF SUCH UPDATE DOES NOT IMPLY THAT ACTUAL EVENTS ARE AS ORIGINALLY EXPRESSED BY SUCH FORWARD-LOOKING STATEMENTS. YOU SHOULD READ THE DISCLOSURES IN THIS REPORT AND OTHER REPORTS WHICH WE FILE WITH THE SECURITIES AND EXCHANGE COMMISSION.

RESULTS OF OPERATIONS

Fiscal 2008 Compared to Fiscal 2007

Our consolidated net sales were $4,926,505 for fiscal 2008 compared to $5,748,319 for fiscal 2007. This represents a decrease of $821,814, or 14.3% for fiscal 2008. The decrease was due to the loss of a large foreign distributor at the end of fiscal 2007 as well as a larger than usual sale to a domestic chain drug store in fiscal 2007 that did not occur in fiscal 2008.

Cost of sales in fiscal 2008 as compared to fiscal 2007 decreased by $711,724 or 20.3%. The percentage of cost of sales relative to sales decreased from 60.9% to 56.7%, or by 4.2% due to a larger percent of inventory in work-in-process with associated labor and overhead costs capitalized at May 31, 2008.

Selling, general and administrative costs decreased in fiscal 2008 as compared to fiscal 2007 by $101,773 or 6.9%. The decrease was primarily due to lower commissions and advertising costs associated with screening programs.

Research and development expense was $259,085 in fiscal 2008 as compared to $256,101 in fiscal 2007. This is an increase of $2,984, or 1.2%. The Company continues to work on the development of several new products and anticipates that it will increase its efforts for development and product approvals in the next fiscal year.

Interest expense, net of interest income, decreased in fiscal 2008 as compared to fiscal 2007 by $19,061 or 54.4%. The change in interest expense resulted from the decrease in the balance on the shareholder/note payable, which was offset by an increased balance on the equipment line of credit. Interest income increased due to larger cash balances. This resulted in a lower net interest expense.

Other income increased by $1,109,505 in fiscal 2008 as compared to fiscal 2007. This increase was a result of one-time income from the sale of the Company's interest in Lancer Orthodontics as well as income received as a result of the one-time sale of a warrant held in Hollister-Stier.

Consolidated net income was $1,710,044 for the year ended May 31, 2008. This was a result of operating income of $509,489, plus other income of $1,133,555 plus tax benefit of $67,000. As of May 31, 2008, Biomerica had federal income tax net operating loss carryforwards of approximately $1,119,000, and research and development tax credit carry forwards of approximately $6,000. The federal net operating loss carry forwards begin to expire in 2021. The federal research and development tax credit carry forwards begin to expire in 2026. During the fiscal year ended May 31, 2008, the Company recognized $170,000 in income tax benefit from the release of previously allowed for net operating loss carryforwards which are expected to be used against future income.

LIQUIDITY AND CAPITAL RESOURCES

As of May 31, 2008, we had cash and current available for sale securities of $2,022,735 (see Note 2 of Notes to Consolidated Financial Statements) and working capital of $3,428,936. During 2008, cash used in operations was $194,595 as compared to cash provided by operations in fiscal 2007 of $463,708. During fiscal 2008, cash provided by investing activities was $1,515,695 as compared to cash used in investing activities of $62,695 in fiscal 2007. Cash of $264,782 and $112,695 for fiscal 2008 and 2007, respectively, was used for the purchase

of property and equipment. In fiscal 2008 proceeds from the sale of marketable securities was $1,780,478. Cash provided by financing activities in fiscal 2008 was $184,380 as compared to cash used in financing activities of $4,027 in fiscal 2007. During fiscal 2008, Biomerica repaid shareholder debt of $61,056 as compared to $93,072 in fiscal 2007, which was offset by funds received from the equipment line of credit of $119,530 (offset by payments of $18,207). The change in cash and cash equivalents at May 31, 2008 compared to May 31, 2007 was an increase of $1,505,480.

SUBSEQUENT EVENTS

On July 31, 2008, the Company paid off the remaining principal and interest balance on the shareholder note payable.

In June 2008 warrants for 120,000 shares were exercised at $.25 per share which resulted in net proceeds to the Company of $30,000.

In June 2008 the Company incorporated in Mexico under the name of Biomerica de Mexico for the purpose of establishing our own mequiladora operation in Mexico at some time in the future.

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial condition and results of operations are based on the consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. Note 2 of the Notes to Consolidated Financial Statements describes the significant accounting policies essential to the consolidated financial statements. The preparation of these financial statements requires estimates and assumptions that affect the reported amounts and disclosures.

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

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

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

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

Reserves are provided for excess and obsolete inventory, which are estimated based on a comparison of the quantity and cost of inventory on hand to management's forecast of customer demand. Customer demand is dependent on many factors and requires us to use significant judgment in our forecasting process.

We must also make assumptions regarding the rate at which new products will be accepted in the marketplace and at which customers will transition from older products to newer products. Once a reserve is established, it is maintained until the product to which it relates is sold or otherwise disposed of, even if in subsequent periods we forecast demand for the product.

Historically we were in a loss position for tax purposes, and established a valuation allowance against deferred tax assets, as we did not believe it was likely that we would generate sufficient taxable income in future periods to realize the benefit of our deferred tax assets. Although the Company has achieved net income in increasing amounts over the last three fiscal years, predicting future taxable income is difficult, and requires the use of significant judgment. Due to the fact that many factors can influence profitability, management determined at May 31, 2008, that $170,000 of previously allowed for deferred tax assets should be released, which resulted in an income tax benefit of $170,000 being recognized. Management will re-evaluate this determination periodically.

FACTORS THAT MAY AFFECT FUTURE RESULTS

You should read the following factors in conjunction with the factors discussed elsewhere in this and our other filings with the Securities and Exchange Commission and in materials incorporated by reference in these filings. The following is intended to highlight certain factors that may affect the financial condition and results of operations of Biomerica, Inc. and are not meant to be an exhaustive discussion of risks that apply to companies such as Biomerica, Inc. Like other businesses, Biomerica, Inc. is susceptible to macroeconomic downturns in the United States or abroad, as were experienced in fiscal year 2002, that may affect the general economic climate and performance of Biomerica, Inc. or its customers.

Aside from general macroeconomic downturns, the additional material factors that could affect future financial results include, but are not limited to: Terrorist attacks and the impact of such events; diminished access to raw materials that directly enter into our manufacturing process; shipping labor disruption or other major degradation of the ability to ship out products to end users; inability to successfully control our margins which are affected by many factors including competition and product mix; protracted shutdown of the U.S. border due to an escalation of terrorist or counter terrorist activity; any changes in our business relationships with international distributors or the economic climate they operate in; any event that has a material adverse impact on our foreign manufacturing operations may adversely affect our operations as a whole; failure to manage the future expansion of our business could have a material adverse affect on our revenues and profitability; possible costs in complying with government regulations and the delays in receiving required regulatory approvals or the enactment of new adverse regulations or regulatory requirements; numerous competitors, some of which have substantially greater financial and other resources than we do; potential claims and litigation brought by patients or medical professionals alleging harm caused by the use of or exposure to our products; quarterly variations in operating results caused by a number of factors, including business and industry conditions and other factors beyond our control. All these factors make it difficult to predict operating results for any particular period.

INSURANCE COVERAGE

Biomerica currently carries various insurance policies including products liability ($2,000,000), general liability ($2,000,000), property insurance (personal property-$2,700,000), business income insurance ($1,316,252), employee

benefit errors or omissions liability insurance ($1,000,000), commercial crime insurance ($100,000), crime insurance (pension plan) ($300,000), employee theft ($100,000), depositor's forgery ($100,000), commercial auto ($1,000,000), umbrella liability insurance ($1,000,000), workman's compensation insurance ($1,000,000), directors and officers' insurance ($3,000,000), group health, disability and life insurance. Biomerica's workman's compensation policy covers injuries to employees as a result of accidental contamination from or by hazardous materials.

RECENT ACCOUNTING PRONOUNCEMENTS

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

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

In September 2006, the FASB issued SFAS No. 157, Defining Fair Value Measurement. The purpose of SFAS No. 157 is to eliminate the diversity in practice that exists due to the different definitions of fair value and the limited guidance for applying those definitions in GAAP that are dispersed among the many accounting pronouncements that require fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The adoption of SFAS No. 157 did not have a material impact on the Company's financial statements.

In September 2006, the FASB issued SFAS No. 158, Employers' Accounting For Defined Benefit Pension and Other Postretirement Plans. Effective in calendar-year 2006 (with certain exceptions) for public companies and calendar-year 2007 (with certain exceptions) for private companies, SFAS No. 158

represents the "first phase" of a planned "two-phased" project where the FASB is working on improving financial reporting related to pension and other postretirement (OPB) plans, SEC registrants have been required to disclose the "expected impact" of implementing SFAS No. 158. The adoption of SFAS No. 158 did not have a material impact on the Company's financial statements.

In July 2006, the FASB issued FIN 48, entitled Accounting for Uncertainty in Income Taxes. FIN 48 interprets the guidance in SFAS No. 109, entitled Accounting for Income Taxes. Through the interpretive guidance, the FASB clarifies the accounting for uncertainty in income taxes, provides recognition and measurement guidance related to accounting for income taxes, and provides guidance related to classification and disclosure of income tax-related financial statement components. The Company does not believe that the adoption of FIN 48 has had a material impact on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, Accounting for the Fair Value Option for Financial Assets and Financial Liabilities, Including an amendment of FASB Statement No. 115. This Statement permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. This Statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. This Statement shall be effective as of the beginning of each reporting entity's first fiscal year that begins after November 15, 2007, therefore Biomerica will not be required to adopt SFAS No. 159 until June 1, 2008. The Company does not believe that the adoption of SFAS No. 159 will have a material impact on its financial statements.

In December 2007, the FASB issued SFAS No. 141R, Business Combinations. SFAS 141R establishes a defined measurement period that governs the time period within which the business combination must be reported. In addition, the revised standard significantly expands the scope of disclosure requirements. SFAS No. 141R is effective for annual periods beginning after December 15, 2008. The Company does not believe that the adoption of SFAS No. 141R will have a material impact on its financial statements.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements--an amendment of ARB No. 51. This statement applies to all entities that prepare consolidated financial statements, except for non-profit organizations, but will affect only those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. SFAS No. 160 is effective for annual periods beginning December 15, 2008. The Company does not believe that the adoption of SFAS No. 160 will have a material impact on its financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities-an Amendment of FASB Statement No. 133. This Statement requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS No. 161 is effective for financial statements issue years and interim periods beginning after November 15, 2008. The Company does not believe that the adoption of SFAS No. 161 will have a material impact on its financial statements.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles. This Statement identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). SFAS No. 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board

amendments to AU Section 411. The Company does not believe that the adoption of SFAS No. 161 will have a material impact on its financial statements.

ITEM 7. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Exhibit 99.3, "Biomerica, Inc. and Subsidiary Consolidated Financial Statements" is incorporated herein by this reference.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Inapplicable.

ITEM 8A. CONTROLS AND PROCEDURES

Management conducted an evaluation of the effectiveness of the Company's internal control over financial reporting based on the framework outlined by the Committee of Sponsoring Organizations (COSO). Our Management concluded that our internal control over financial reporting was effective as of May 31, 2008.

EVALUATION OF DISCLOSURE CONTROLS

As of May 31, 2008, Company management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as defined in Rules 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that as of May 31, 2008, the Company's disclosure controls and procedures were effective for the purposes of recording, processing, summarizing and timely reporting of material information relating to the Company required to be included in its periodic reports.

For the reasons discussed in "Management's Report on Internal Control over Financial Reporting" below, Company management, including the Chief Executive Officer and Chief Financial Officer concluded that, as of May 31, 2008, the Company's internal control over financial reporting was effective. Management has concluded that the consolidated financial statements included in this annual report present fairly, in all material respects, the Company's financial position, results of operations, and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

Other than the changes described in "Management's Report on Internal Control Over Financial Reporting" below, there were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the year ended May 31, 2008, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Company management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed to provide reasonable assurance to the Company's management and Board of Directors regarding the reliability of financial reporting and the preparation and fair presentation of financial statements for

external purposes in accordance with generally accepted accounting principles.

A Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

The effectiveness of any system of internal control over financial reporting is subject to inherent limitations, including the exercise of judgment in designing, implementing, operating and evaluating the controls and procedures. Because of these inherent limitations, internal control over financial reporting cannot provide absolute assurance regarding the reliability of financial reporting and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Company management, with the participation of the Chief Executive Officer and the Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting as of May 31, 2008. In making this assessment, Management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework. Based on this assessment, management, with the participation of the Chief Executive Officer and Chief Financial Officer, believes that, as of May 31, 2008, the Company's internal control over financial reporting was effective based on those criteria.

Company management will continue to monitor and evaluate the effectiveness of its disclosure controls and procedures and its internal controls over financial reporting on an ongoing basis and are committed to taking further action and implementing improvements, as necessary and as funds allow.

Note: This 10-KSB does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this 10-KSB.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT.

This information is incorporated by reference to the Company's proxy statement for its 2008 Annual Meeting of Stockholders, which will be filed not later than 120 days after the end of the Company's fiscal year ended May 31, 2008.

ITEM 10. EXECUTIVE COMPENSATION

This information is incorporated by reference to the Company's proxy statement for its 2008 Annual Meeting of Stockholders, which will be filed not later than

120 days after the end of the Company's fiscal year ended May 31, 2008.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

This information is incorporated by reference to the Company's proxy statement for its 2008 Annual Meeting of Stockholders, which will be filed not later than 120 days after the end of the Company's fiscal year ended May 31, 2008.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In fiscal 2003, Biomerica entered into an agreement with Lancer whereby Biomerica agreed to pay an initial shelter fee of $5,000 with additional monthly payments of $2,875 for use of the Lancer de Mexico facilities to produce and manufacture Biomerica products. The monthly payments are due as long as Biomerica produces its products at the Lancer de Mexico facility. At May 31, 2008, Biomerica has paid all applicable shelter fees.

Other information regarding related transactions is incorporated by reference to the Company's proxy statement for its 2008 Annual Meeting of Stockholders, which will be filed not later than 120 days after the end of the Company's fiscal year ended May 31, 2008.

ITEM 13. EXHIBITS LIST AND REPORTS ON FORM 8-K

Exhibit No.	Description
3.1	Certificate of Incorporation of Registrant filed with the Secretary of the State of Delaware on September 22, 1971 (incorporated by reference to Exhibit 3.1 filed with Amendment No. 1 to Registration Statement on Form S-1, Commission File No. 2-83308).
3.2	Certificate of Amendment to Certificate of Incorporation of Registrant filed with the Secretary of the State of Delaware on February 6, 1978 (incorporated by reference to Exhibit 3.1 filed with Amendment No. 1 to Registration Statement on Form S-1, Commission File No. 2-83308).
3.3	Certificate of Amendment to Certificate of Incorporation of Registrant filed with the Secretary of the State of Delaware on February 4, 1983 (incorporated by reference to Exhibit 3.1 filed with Amendment No. 1 to Registration Statement on Form S-1, Commission File No. 2-83308).
3.4	Certificate of Amendment to Certificate of Incorporation of Registrant filed with the Secretary of the State of Delaware on January 19, 1987 (incorporated by reference to Exhibit 3.4 filed with Form 8 Amendment No. 1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 1987).
3.5	Certificate of Amendment of Certificate of Incorporation of Registrant filed with the Secretary of the State of Delaware on November 4, 1987 (incorporated by reference to Exhibit 3.1 filed with Amendment No. 1 to Registration Statement on Form S-1, Commission File No. 2-83308).
3.6	Bylaws of the Registrant (incorporated by reference to Exhibit 3.2 filed with Amendment No. 1 to Registration Statement on Form S-1, Commission File No. 2-83308).
3.7	Certificate of Amendment of Certificate of Incorporation of

Registrant filed with the Secretary of the State of Delaware on December 20, 1994 (incorporated by reference to Exhibit 3.7 filed with Registrant's Annual Report on Form 10-KSB for the fiscal year ended May 31, 1995).

3.8	First Amended and Restated Certificate of Incorporation of Biomerica, Inc. filed with the Secretary of State of Delaware on August 1, 2000 (incorporated by reference to Exhibit 3.8 filed with the Registrant's Annual Report on Form 10-KSB for the fiscal year ended May 31, 2000).
4.1	Specimen Stock Certificate of Common Stock of Registrant (incorporated by reference to Exhibit 4.1 filed with Registrant's Registration Statement on Form SB-2, Commission No. 333-87231 filed on September 16, 1999).
10.3	1999 Stock Incentive Plan of Registrant (incorporated by reference to Exhibit 10.1 to Registration Statement on Form S-8 filed with the Securities and Exchange Commission on March 29, 2000 and on May 30 , 2007).
10.4	1995 Stock Option and Common Stock Plan of Registrant (incorporated by reference to Exhibit 4.3 to Registration Statement on Form S-8 filed with the Securities and Exchange Commission on January 20, 1996).
10.5	1991 Stock Option and Restricted Stock Plan of Registrant (incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-8 filed with the Securities and Exchange Commission on April 6, 1992).
10.31	Loan Modification, Forbearance and Security Agreement (incorporated by reference to the Company's February 29, 2004 Form 10-QSB filed April 14, 2004).
10.32	Promissory Note (incorporated by reference to the Company's February 29, 2004 Form 10-QSB filed April 14, 2004).
10.33	Second Amendment of the Note, Loan and Modification Agreement (incorporated by reference to the Company's February 28, 2007 Form 10-QSB filed April 16, 2007).
10.34	Commercial Security Agreement (loan #0100000250) with Commercial Bank of California dated February 20, 2007 (incorporated by reference to the Company's February 28, 2007 Form 10-QSB filed April 16, 2007).
10.35	Promissory Note (loan #0100000250) dated February 20, 2007 with Commercial Bank of California (incorporated by reference to the Company's February 28, 2007 Form 10-QSB filed April 16, 2007).
10.36	Promissory Note (loan #0100000251) dated February 20, 2007 with Commercial Bank of California (incorporated by reference to the Company's February 28, 2007 Form 10-QSB filed April 16, 2007).
10.37	Subordination Agreement (loan #0100000250) dated February 20,

	2007 with Commercial Bank of California and Janet Moore, Trustee of the Janet Moore Trust (incorporated by reference to the Company's February 28, 2007 Form 10-QSB filed April 16, 2007).
10.38	Business Loan Agreement with Commercial Bank of California (incorporated by reference to the Company's February 28, 2007 Form 10-QSB filed April 16, 2007).
21.1	Subsidiary of Registrant.
23.2	Consent of Independent Registered Public Accounting Firm (PKF San Diego).
31.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.3	Biomerica, Inc. and Subsidiary Consolidated Financial Statements For The Years Ended May 31, 2008 and 2007 and Independent Registered Public Accounting Firm's Report.

(b) Reports on Form 8-K.

The following Forms 8-K are incorporated by reference to the Forms 8-K filed on the following dates: May 1, 2007, May 3, 2007, June 19, 2007, July 16, 2007, and May 29, 2008.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The aggregate fees billed for professional services by PKF (San Diego) in 2008 and 2007 were as follows:

	2008	2007
Audit fees	$58,198 (1)	$50,000 (2)
Audit related fees		
Tax fees	9,874	5,362
All other fees	3,792	1,732
Total	$71,864	$57,094

(1) Also includes fees to be billed in fiscal 2009 for fiscal 2008.
(2) Also includes fees to be billed in fiscal 2008 for fiscal 2007.

Audit Fees consist of the aggregate fees billed for professional services rendered for the audit of our annual financial statements, the audit of our subsidiary's financial statements, the reviews of the financial statements included in our Forms 10-QSB and for any other services that are normally provided by PKF in connection with our statutory and regulatory filings or engagements.

Audit Related Fees consist of the aggregate fees billed for professional services rendered for assurance and related services that were reasonably related to the performance of the audit or review of our financial statements and the financial statements of our subsidiary that were not otherwise included in Audit Fees.

Tax Fees consist of the aggregate fees billed for professional services rendered for tax compliance, tax advice and tax planning. Included in such Tax Fees were fees for preparation of our tax returns and consultancy and advice on other tax planning matters.

All Other Fees consist of the aggregate fees billed for products and services provided by PKF and not otherwise included in Audit Fees, Audit Related fees or Tax Fees.

POLICY ON AUDIT COMMITTEE PRE-APPROVAL OF AUDIT AND NON-AUDIT SERVICES

The Audit Committee has the responsibility of appointing the independent audit firm and overseeing their work. The Audit Committee pre-approves all audit and related services. Should the audit committee pre-approve any services other than audit and related services, it evaluates whether the services would compromise the auditor's independence.

Of the services provided in fiscal 2008 and 2007, all fees and services were pre-approved by the audit committee.

SIGNATURES

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

BIOMERICA, INC.
Registrant

By /s/ Zackary S. Irani

Zackary S. Irani,
Chief Executive Officer

Dated: 8/29/08

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Signature and Capacity

/s/ Zackary S. Irani Date: 8/29/08

Zackary S. Irani
Director, Chief Executive Officer

/s/ Janet Moore Date: 8/29/08

Janet Moore,
Secretary, Director, Chief Financial Officer

/s/ Francis R. Cano, Ph.D. Date: 8/29/08

Francis R. Cano, Ph.D.
Director

/s/ Allen Barbieri Date: 8/29/08

Allen Barbieri
Director

/s/ Jane Emerson, M.D., Ph.D. Date: 8/29/08

Jane Emerson,
M.D.,Ph.D. Director

/s/ John Roehm Date: 8/29/08

John Roehm
Director

BIOMERICA, INC. AND SUBSIDIARY
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Biomerica, Inc.
Newport Beach, California

We have audited the accompanying consolidated balance sheet of Biomerica, Inc. (a Delaware Corporation) and its subsidiary as of May 31, 2008 and the related consolidated statements of operations and comprehensive income, shareholders' equity, and cash flows for the years ended May 31, 2008 and 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We have conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal controls over financial reporting. Our audits included consideration of internal controls over financial reporting as a basis for designing audit procedures that are appropriate in the circumstance, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. 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 financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Biomerica, Inc. as of May 31, 2008, and the results of its consolidated operations and cash flows for the years ended May 31, 2008 and 2007 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2, to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123(R), SHARE-BASED PAYMENT, as of June 1, 2006.

August 25, 2008
San Diego California

/s/ PKF
Certified Public Accountants
A Professional Corporation

BIOMERICA, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET

	May 31, 2008

ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 2,022,380
Available-for-sale securities	355
Accounts receivable, less allowance for doubtful accounts of $84,206	614,330
Inventories	1,764,202
Deferred Tax Asset	35,000
Prepaid expenses and other	101,867
Total current assets	4,538,134
PROPERTY AND EQUIPMENT, at cost	
Equipment	897,664
Furniture, fixtures and leasehold improvements	187,873
Total property and equipment	1,085,537
ACCUMULATED DEPRECIATION	(715,957)
Net property and equipment	369,580
Deferred Tax Asset- long-term	135,000
OTHER ASSETS	64,997
	$ 5,107,711
LIABILITIES AND SHAREHOLDERS' EQUITY	
CURRENT LIABILITIES	
Accounts payable and accrued expenses	473,539
Accrued compensation	487,115
Capital lease - short-term portion	4,180
Notes payable-shareholder	95,936
Loan for equipment purchase - current	48,428
Total current liabilities	1,109,198
Loan for equipment purchase - long-term	114,565
SHAREHOLDERS' EQUITY	
Common stock, $.08 par value; 25,000,000 shares authorized; 6,489,839 shares and issued and outstanding	519,186
Additional paid in capital	17,407,096
Common stock subscribed	3,000
Accumulated other comprehensive loss	(7,398)
Accumulated deficit	(14,037,936)
Total shareholders' equity	3,883,948
	$ 5,107,711

See report of independent registered public accounting firm and accompanying

notes to consolidated financial statements.

BIOMERICA, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

	YEARS ENDED MAY 31,	
	2008	2007
Net Sales	$ 4,926,505	$ 5,748,319
Cost of sales	2,790,883	3,502,607
GROSS PROFIT	2,135,622	2,245,712
OPERATING EXPENSES		
Selling, general and administrative	1,367,048	1,468,821
Research and development	259,085	256,101
Total operating expenses	1,626,133	1,724,922
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAX	509,489	520,790
OTHER INCOME (EXPENSE)		
Interest expense, net of interest income	(15,990)	(35,051)
Other income, net	1,149,545	40,040
INCOME FROM CONTINUING OPERATIONS	1,643,044	525,779
INCOME TAX (BENEFIT) EXPENSE	(67,000)	16,769
INCOME FROM CONTINUING OPERATIONS	1,710,044	509,010
DISCONTINUED OPERATIONS		
Income from discontinued operations, net	--	27,869
NET INCOME	$ 1,710,044	$ 536,879

See report of independent registered public accounting firm and accompanying notes to consolidated financial statements.

BIOMERICA, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (CONTINUED)

	YEARS ENDED MAY 31,	
	2008	2007

OTHER COMPREHENSIVE GAIN (LOSS), net of tax		
Unrealized gain (loss) on available-for-sale securities	673,030	(2,746)
Reclassification adjustment, net of tax	(450,711)	--
COMPREHENSIVE INCOME	$ 1,932,363	$ 534,133
BASIC NET INCOME PER COMMON SHARE:		
Income from continuing operations	$ .28	$ .09
Income from discontinued operations	.00	.00
Basic net income per common share	$ .28	$ .09
DILUTED NET INCOME PER COMMON SHARE:		
Income from continuing operations	$ .25	$ .08
Income from discontinued operations	.00	.00
Diluted net income per common share	$ .25	$ .08
WEIGHTED AVERAGE NUMBER OF COMMON AND COMMON EQUIVALENT SHARES		
Basic	6,125,981	5,929,445
Diluted	6,978,039	6,513,477

See report of independent registered public accounting firm and accompanying notes to consolidated financial statements.

BIOMERICA, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock		Additional Paid-in
	Shares	Amount	Capital
Balances, May 31, 2006	5,766,681	$ 461,333	$ 17,064,32
Exercise of Stock Options	21,533	1,722	4,40
Change in unrealized gain (loss) on available-for-sale securities	--	--	-
Compensation expense in connection with options and warrants granted	--	--	123,58
Private Placement	156,000	12,480	62,40

Private Placement - receivable	--	--	-
Net income	--	--	-
Balances, May 31, 2007	5,944,214	475,535	17,254,71

(Continued)

	Common Stock Subscribed Receivable	Accumulated Other Comprehensive Income (Loss)	A
Balances, May 31, 2006	$ (24,960)	$ (226,971)	$
Exercise of Stock Options	--	--	
Change in unrealized gain (loss) on available-for-sale securities	--	(2,746)	
Compensation expense in connection with options and warrants granted	--	--	
Private Placement	--	--	
Private Placement - receivable	24,960	--	
Net Income	--	--	
Balances, May 31, 2007	--	(229,717)	

(Continued)

BIOMERICA, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY - CONTINUED

	Common Stock		Additional Paid-in
	Shares	Amount	Capital
Exercise of stock options & warrants	545,625	43,651	115,73
Change in unrealized gain (loss) on available-for-sale securities	--	--	-

Compensation expense in connection with options and warrants granted	--	--	36,64
Net income	--	--	-
Balances, May 31, 2008	6,489,839	$ 519,186	$ 17,407,09

	Common Stock Subscribed Receivable	Accumulated Other Comprehensive Income (Loss)	A
Exercise of stock options & warrants	--	--	
Change in unrealized gain (loss) on available-for-sale securities	--	222,319	
Compensation expense in connection with options and warrants granted	--	--	
Net income	--	--	
Balances, May 31, 2008	--	$ (7,398)	$

See report of independent registered public accounting firm and accomp
notes to consolidated financial statements.

BIOMERICA, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended May 31,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Income from continuing operations	$ 1,710,044	$ 509,0
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	65,827	56,7
Provision for losses on accounts receivable	25,423	51,7
(Gain) on sale of available-for-sale securities	(1,147,845)	
Options issued	36,647	123,5
(Gain) loss on sale of equipment	--	(29,5
Changes in assets and liabilities:		
Accounts receivable	(134,986)	4,2
Inventories	(302,489)	(333,6

Prepaid expenses and other	25,768	(69,9
Notes receivable	1,800	1,8
Other assets	(31,598)	(19,9
Accounts payable and other accrued expenses	(192,710)	85,4
Increase in deferred tax asset	(170,000)	
Accrued compensation	(80,476)	84,2
Net cash (used in) provided by operating activities	(194,595)	463,7
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds on sale of equipment	--	50,0
Proceeds from sale of available-for-sale securities	1,780,478	
Purchases of property and equipment	(264,783)	(112,6
Net cash provided by (used in) investing activities	1,515,695	(62,6

(Continued)

BIOMERICA, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

	For the Yea May 3
	2008
CASH FLOWS FROM FINANCING ACTIVITIES	
Payments on capital leases	(4,394)
Decrease of shareholder debt	(61,056)
Exercise of stock options and warrants	148,507
Sale of common stock, net of offering expenses	--
Borrowings on loan for equipment purchase	119,530
Payments on loan for equipment	(18,207)
Net cash provided by (used in) financing activities	184,380
Net change in cash and cash equivalents	1,505,480
CASH AND CASH EQUIVALENTS, beginning of year	516,900
CASH AND CASH EQUIVALENTS, end of year	$ 2,022,380
SUPPLEMENTAL DISCLOSURE OF CASH-FLOW INFORMATION	
CASH PAID DURING THE YEAR FOR:	
Interest	$ 53,922

Income taxes	$ 4,523

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES

Unrealized gain (loss) on available-for-sale securities	$ 222,319
Non-cash exercise of warrants and options by reduction of note payable	10,878
Increases in deferred tax asset	170,000
Subscribed stock receivable	$ 3,000

See report of independent registered public accounting firm and accompanying notes to consolidated financial statements.

BIOMERICA, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2008 AND 2007

1. ORGANIZATION AND LIQUIDITY

ORGANIZATION

Biomerica, Inc. and Subsidiary (collectively "the Company") are primarily engaged in the development, manufacture and marketing medical diagnostic kits. As of May 31, 2008 the Company had one operational unit.

LIQUIDITY

As of May 31, 2008, the Company had cash and current available-for-sale securities in the amount of $2,022,735 as compared to $517,432 on May 31, 2007 and working capital of $3,428,936. In May 2008 the Company sold its investment in Lancer Orthodontics, Inc., for a net amount of $1,083,444, which increased the cash position of the Company. In June, 2007, the Company also exercised a warrant and sold the underlying shares that it owned in Hollister-Stier (valued on the books at zero cost) for a net amount of $697,034.

In February 2007 the Company obtained a $200,000 working capital line of credit and was approved for a $200,000 equipment loan with Commercial Bank of California. The credit line and the equipment loan are collateralized by substantially all of the assets of the Company. As of May 31, 2008, $162,993 was owed on the equipment loan and there was no outstanding balance due on the working capital line of credit. Payments on the shareholder's note payable have been made during fiscal 2008 according to the agreement for repayment and, as a result, the balance on the note at May 31, 2008 was $95,936 as compared to $167,870 at May 31, 2007. On July 31, 2008, the Company paid the remaining principal and interest balance owed on the shareholder note payable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements for the years ended May 31, 2008 and 2007 (see Note 3) include the accounts of Biomerica, Inc. ("Biomerica") and ReadyScript, Inc. (as discontinued operations). All significant intercompany

accounts and transactions have been eliminated in consolidation.

ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 reported period. Actual results could materially differ from those estimates.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company has financial instruments whereby the fair market value of the financial instruments could be different than that recorded on a historical basis. The Company's financial instruments consist of its cash and cash equivalents, accounts receivable, available-for-sale securities, capital lease, shareholder debt, commercial bank line of credit, commercial bank equipment loan and accounts payable. The carrying amounts of the Company's financial instruments approximate their fair values at May 31, 2008.

CONCENTRATION OF CREDIT RISK

The Company, on occasion, maintains cash balances at certain financial institutions in excess of amounts insured by federal agencies.

The Company provides credit in the normal course of business to customers throughout the United States and foreign markets. The Company's sales are not materially dependent on a single customer or a small group of customers. Biomerica had one customer which accounted for greater than 10% of its sales for the fiscal year ended May 31, 2008 and one customer which accounted for greater than 10% of its sales for the fiscal year ended May 31, 2007. The Company performs ongoing credit evaluations of its customers and requires prepayment in some circumstances. The Company does not obtain collateral with which to secure its accounts receivable. The Company maintains reserves for potential credit losses based upon the Company's historical experience related to credit losses. The Company monitors its accounts receivables balances closely. At May 31, 2008, three customers each accounted for greater than 10% of gross accounts receivable. At May 31, 2007, three customers each accounted for greater than 10% of gross accounts receivable.

For the year ended May 31, 2008 no company accounted for more than 10% of the purchases of raw materials for Biomerica. For the fiscal year ended May 31, 2007 three companies accounted for more than 30% of the purchases for Biomerica on an unconsolidated basis.

GEOGRAPHIC CONCENTRATION

Approximately $523,000 of Biomerica's gross inventory and $22,000 of Biomerica's property and equipment, net of accumulated depreciation and amortization, is located in Mexicali, Mexico.

CASH EQUIVALENTS

Cash and cash equivalents consist of demand deposits and money market accounts.

AVAILABLE-FOR-SALE SECURITIES

The Company accounts for investments in accordance with Statement of Financial Accounting Standards No. 115 (SFAS 115), "ACCOUNTING FOR CERTAIN INVESTMENTS IN DEBT AND EQUITY SECURITIES." This statement addresses the accounting and reporting for investments in equity securities which have readily determinable fair values and all investments in debt securities. The Company's marketable equity securities are classified as available-for-sale under SFAS 115 and reported at fair value, with changes in the unrealized holding gain or loss included in shareholders' equity. Available-for-sale securities consist of common stock of publicly-traded companies and are stated at market value in accordance with SFAS 115. Cost for purposes of computing realized gains and losses is computed on a specific identification basis. The proceeds from the sale of available-for-sale securities during fiscal 2008 was $1,780,478 and during fiscal 2007 it was $0. The change in the net unrealized holding gain (loss) on available-for-sale securities that has been included as a separate component of shareholders' equity totaled $(222,319) and $(2,746) for the years ended May 31, 2008 and 2007, respectively. The Company has a total of $355 in available-for-sale securities at May 31, 2008.

INVENTORIES

Inventories are stated at the lower of cost (first-in, first-out method) or market and consist primarily of biological chemicals. Cost includes raw materials, labor, manufacturing overhead and purchased products. Market is determined by comparison with recent purchases or net realizable value. Such net realizable value is based on forecasts for sales of the Company's products in the ensuing years. The industry in which the Company operates is characterized by technological advancement and change. Should demand for the Company's products prove to be significantly less than anticipated, the ultimate realizable value of the Company's inventories could be substantially less than the amount shown on the accompanying consolidated balance sheet.

Inventories approximate the following:

	MAY 31, 2008
Raw materials	$ 687,959
Work in progress	570,011
Finished products	506,232
Total	$ 1,764,202

Approximately $523,000 of Biomerica's gross inventory is located at its manufacturing facility in Mexicali, Mexico as of May 31, 2008.

Allowances for inventory obsolescence are recorded as necessary to reduce obsolete inventory to estimated net realizable value or to specifically reserve for obsolete inventory that the Company intends to dispose of.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Expenditures for additions and major improvements are capitalized. Repairs and maintenance costs are charged to operations as incurred. When property and equipment are retired or otherwise disposed of, the related cost and accumulated depreciation or amortization are removed from the accounts, and gains or losses from retirements and dispositions are credited or charged to income.

Depreciation and amortization are provided over the estimated useful lives of the related assets, ranging from 5 to 10 years, using the straight-line method. Leasehold improvements are amortized over the lesser of the estimated useful life of the asset or the term of the lease. Depreciation and amortization expense amounted to $65,827 and $56,736 for the years ended May 31, 2008 and 2007, respectively. At May 31, 2008, approximately $22,000 of Biomerica's property and equipment, net of accumulated depreciation and amortization, is located in Mexicali, Mexico.

Management of the Company assesses the recoverability of property and equipment by determining whether the depreciation and amortization of such assets over their remaining lives can be recovered through projected undiscounted cash flows. The amount of impairment, if any, is measured based on fair value (projected discounted cash flows) and is charged to operations in the period in which such impairment is determined by management. Management has determined that there is no impairment of property and equipment at May 31, 2008.

INTANGIBLE ASSETS

On June 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142 ("SFAS No. 142"), "Goodwill and Other Intangible Assets." SFAS No. 142 requires that the Company's license agreements be tested annually (or more frequently if impairment indicators arise) for impairment. Upon initial application of SFAS No. 142, the Company determined there was no impairment. The Company has established the date of May 31 on which to conduct its annual impairment test.

Intangible assets are being amortized using the straight-line method over the useful life, not to exceed 18 years for marketing and distribution rights and purchased technology use rights, and 17 years for patents. Amortization amounted to $2,588 and $5,175 for each of the years ended May 31, 2008 and 2007, respectively (see Note 4).

The Company assesses the recoverability of these intangible assets by determining whether the amortization of the asset's balance over its remaining life can be recovered through projected undiscounted future cash flows. The amount of impairment, if any, is measured based on fair value and charged to operations in the period in which the impairment is determined by management.

RISKS AND UNCERTAINTIES

Biomerica has entered into a royalty agreement which continues pursuant to which it has obtained rights to manufacture and market certain products for the life of the products. Royalty expense of approximately $118,500 and $120,600 is included in cost of sales for this agreement for the years ended May 31, 2008 and 2007, respectively. Sales of products manufactured under this agreement comprise approximately 17.6% and 8% of total sales for the fiscal years ended May 31, 2008 and 2007, respectively. Biomerica may license other products or technology in the future as the Company deems necessary for conducting business.

Distribution - Biomerica has entered into various exclusive and non-exclusive distribution agreements (the "Agreements") which generally specify territories of distribution. The Agreements range in term from one to five years. Biomerica may be dependent upon such distributors for the marketing and selling of its

products worldwide during the terms of these agreements. Such distributors are generally not obligated to sell any specified minimum quantities of the Company's product. There can be no assurance of the volume of product sales that may be achieved by such distributors. The Company has several large distributors which account for a significant portion of its business. The loss of one of these distributors could adversely affect the Company's financial results.

Government Regulation - Biomerica's immunodiagnostic products are regulated in the United States as medical devices primarily by the FDA and as such, require regulatory clearance or approval prior to commercialization in the United States. Pursuant to the Federal Food, Drug and Cosmetic Act, and the regulations promulgated thereunder, the FDA regulates, among other things, the clinical testing, manufacture, labeling, promotion, distribution, sale and use of medical devices in the United States. Failure of Biomerica to comply with applicable regulatory requirements can result in, among other things, warning letters, fines, injunctions, civil penalties, recall or seizure of products, total or partial suspension of production, the government's refusal to grant pre-market clearance or pre-market approval of devices, withdrawal of marketing approvals, and criminal prosecution.

Sales of medical devices outside the United States are subject to foreign regulatory requirements that vary widely from country to country. The time required to obtain registrations or approvals required by foreign countries may be longer or shorter than that required for FDA clearance or approval, and requirements for licensing may differ significantly from FDA requirements. There can be no assurance that Biomerica will be able to obtain regulatory clearances for its current or any future products in the United States or in foreign markets.

European Community - Biomerica is required to obtain certification in the European community to sell products in those countries. The certification requires Biomerica to maintain certain quality standards. Biomerica has been granted certification and undergoes annual audits to assure that the Company remains in compliance with regulations. There is no assurance that Biomerica will be able to retain its certification in the future. The loss of business or the ability to conduct business in Europe could materially adversely affect the results of the Company.

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

Hazardous Materials - Biomerica's manufacturing and research and development involves the controlled use of hazardous materials and chemicals. Although Biomerica believes that safety procedures for handling and disposing of such materials comply with the standards prescribed by state and Federal regulations, the risk of accidental contamination or injury from these materials cannot be completely eliminated. In the event of such an accident, the Company could be held liable for any damages that result and any such liability could exceed the

resources of the Company. The Company may incur substantial costs to comply with environmental regulations.

Common stock performance - The common stock of the Company is subject to fluctuations as a result of a variety of factors including, but not limited to, financial results, general economic conditions, fluctuations in sales volumes and expenses, competition, and our failure to generate new products.

STOCK-BASED COMPENSATION

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

The fair value for granted options was estimated at the date of grant using the Black Scholes option pricing model with the following assumptions for the years ended May 31, 2008 and 2007; risk free interest rates ranging from 3.09% to 5.1%; dividend yield of 0%; expected life of the options of two and a half and three and a half years; and volatility factors of the expected market price of the Company's common stock ranging from 60.39% to 75.53%.

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

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

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

In April 2005, the Securities and Exchange Commission adopted a new rule that amends the compliance dates for SFAS No. 123R. The Statement requires that compensation cost relating to share-based payment transactions be recognized in financial statements and that this cost be measured based on the fair value of the equity or liability instruments issued. SFAS No. 123R covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. The Company adopted SFAS No. 123R on June 1, 2006 and recognized stock based compensation which vested beginning in fiscal 2007 in the financial statements.

As of May 31, 2008 total compensation cost related to nonvested stock option awards not yet recognized totaled $31,965. The weighted-average period over which this amount is expected to be recognized is 1.88 years.

MINORITY INTEREST

At May 31, 2008 and 2007, Biomerica owned 88.9% of ReadyScript (see Notes 3 and 11), the business of which was discontinued in 2001. ReadyScript's results of operations are reported under discontinued operations.

REVENUE RECOGNITION

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

SHIPPING AND HANDLING FEES AND COSTS

The consolidated financial statements reflect, for all periods presented, the adoption of the classification or disclosure requirements pursuant to Emerging Issues Task Force ("EITF") 00-10, "Accounting for Shipping and Handling Fees and Costs." The Company has historically classified income from freight charges to customers as sales, which has been offset by shipping and handling costs. The income from freight for the fiscal years 2008 and 2007, respectively, was $122,668 and $124,784. The financial statements presented herein show the income from shipping and handling as a component of sales for both periods and the costs of shipping and handling as a component of cost of goods sold.

RESEARCH AND DEVELOPMENT

Research and development expenses are expensed as incurred. The Company expensed $259,085 and $256,101 of research and development expenses during the years ended May 31, 2008 and 2007, respectively.

INCOME TAXES

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "ACCOUNTING FOR INCOME TAXES." Under the asset and liability method of Statement No. 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under Statement No. 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

BIOMERICA, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2008 AND 2007

ADVERTISING COSTS

The Company reports the cost of all advertising as expense in the period in which those costs are incurred. Advertising costs were approximately $57,000 and $90,460 for the years ended May 31, 2008 and 2007, respectively.

CURRENCY

The functional currency for the contractor for labor and facilities in Mexicali, (Lancer de Mexico) is primarily in dollars. However, the Company does incur some monthly charges that must be paid in pesos. The invoices are paid in pesos according to the current conversion rate at the time the invoice is paid. The currency that is used for our other international business is dollars. Therefore, all customers pay their invoices in dollars and we pay international vendors in dollars.

INCOME (LOSS) PER SHARE

In February 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 128 ("SFAS 128"), "EARNINGS PER SHARE" ("EPS"). SFAS 128 requires dual presentation of basic EPS and diluted EPS on the face of all income statements issued after December 15, 1997 for all entities with complex capital structures. Basic EPS is computed as net income/(loss) divided by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur from common shares issuable through stock options, warrants and other convertible securities. The total amount of anti-dilutive warrants or options not included in the earnings per share calculation for the years ended May 31, 2008 and 2007 was 150,000 and 201,999, respectively.

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

	For the Years Ended May 31,	
	2008	2007
Numerator:		
Income from continuing operations	$ 1,710,044	$ 509,0
Income from discontinued operations	--	27,8
Numerator for basic and diluted net income per common share	$ 1,710,044	$ 536,8
Denominator for basic net income per common share	6,125,981	5,929,4
Effect of dilutive securities:		
Options and warrants	852,058	584,0
Denominator for diluted net income per common share	6,978,039	6,513,4
Basic net income per common share:		
Income from continuing operations	$ 0.28	$ 0.

Income from discontinued operations	0.00	0.
Basic net income per common share	$ 0.28	$ 0.
Diluted net income per common share:		
Income from continuing operations	$ 0.25	$ 0.
Net income from discontinued operations	0.00	0.
Diluted net income per common share	$ 0.25	$ 0.

BIOMERICA, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2008 AND 2007

SEGMENT REPORTING

The FASB has issued SFAS No. 131 "DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION". SFAS 131 requires public companies to report information about segments of their business in their annual financial statements and requires them to report selected segment information in their quarterly reports issued to shareholders. It also requires entity-wide disclosures about the product, services an entity provides, the material countries in which it holds assets and reports revenues, and its major customers. The Company's business segments are disclosed in Note 8.

REPORTING COMPREHENSIVE INCOME

In June 1997, the FASB issued SFAS No. 130, "REPORTING COMPREHENSIVE INCOME." This statement establishes standards for reporting the components of comprehensive income (loss) and requires that all items that are required to be recognized under accounting standards as components of comprehensive income (loss) be included in a financial statement that is displayed with the same prominence as other financial statements. Comprehensive income (loss) includes net income (loss) as well as certain items that are reported directly within a separate component of shareholders' equity.

RECENT ACCOUNTING PRONOUNCEMENTS

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

which the fair value election has been applied and information on the income statement impact of the changes in fair value of those instruments. The Company is required to apply SFAS No. 155 to all financial instruments acquired, issued or subject to a remeasurement event beginning June 1, 2007. The Company does not believe that the adoption of SFAS No. 155 has had a material impact on the Company's financial statements.

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

In September 2006, the FASB issued SFAS No. 157, Defining Fair Value Measurement. The purpose of SFAS No. 157 is to eliminate the diversity in practice that exists due to the different definitions of fair value and the limited guidance for applying those definitions in GAAP that are dispersed among the many accounting pronouncements that require fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company does not believe that the adoption of SFAS No. 157 has had a material impact on the Company's financial statements.

In September 2006, the FASB issued SFAS No. 158, Employers' Accounting For Defined Benefit Pension and Other Postretirement Plans. Effective in calendar-year 2006 (with certain exceptions) for public companies and calendar-year 2007 (with certain exceptions) for private companies, SFAS No. 158 represents the "first phase" of a planned "two-phased" project where the FASB is working on improving financial reporting related to pension and other postretirement (OPB) plans, SEC registrants have been required to disclose the "expected impact" of implementing SFAS No. 158. The adoption of SFAS No. 158 did not have a material impact on the Company's financial statements.

In July 2006, the FASB issued FIN 48, entitled Accounting for Uncertainty in Income Taxes. FIN 48 interprets the guidance in SFAS No. 109, entitled Accounting for Income Taxes. Through the interpretive guidance, the FASB clarifies the accounting for uncertainty in income taxes, provides recognition and measurement guidance related to accounting for income taxes, and provides guidance related to classification and disclosure of income tax-related financial statement components. The Company does not believe that the adoption of FIN 48 has had a material impact, if any, on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, Accounting for the Fair Value Option for Financial Assets and Financial Liabilities, Including an amendment of FASB Statement No. 115. This Statement permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. This Statement also establishes presentation and disclosure requirements designed to facilitate comparisons

between entities that choose different measurement attributes for similar types of assets and liabilities. This Statement shall be effective as of the beginning of each reporting entity's first fiscal year that begins after November 15, 2007, therefore Biomerica will not be required to adopt SFAS No. 159 until June 1, 2008. The Company does not believe that the adoption of SFAS No. 159 will have a material impact on its financial statements.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements--an amendment of ARB No. 51. This statement applies to all entities that prepare consolidated financial statements, except for non-profit organizations, but will affect only those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. SFAS No. 160 is effective for annual periods beginning December 15, 2008. The Company does not believe that the adoption of SFAS No. 160 will have a material impact on its financial statements.

In December 2007, the FASB issued SFAS No. 141R, Business Combinations. SFAS 141R establishes a defined measurement period that governs the time period within which the business combination must be reported. In addition, the revised standard significantly expands the scope of disclosure requirements. SFAS No. 141R is effective for annual periods beginning after December 15, 2008. The Company does not believe that the adoption of SFAS No. 141R will have a material impact on its financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities-an Amendment of FASB Statement No. 133. This Statement requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS No. 161 is effective for financial statements issue years and interim periods beginning after November 15, 2008. The Company does not believe that the adoption of SFAS No. 161 will have a material impact on its financial statements.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles. This Statement identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). SFAS No. 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411. The Company does not believe that the adoption of SFAS No. 161 will have a material impact on its financial statements.

3. CONSOLIDATED SUBSIDIARY

The ReadyScript subsidiary was a development-stage enterprise and required the raising of a significant amount of capital to fund its short-term working capital needs. The ReadyScript operations were discontinued in May 2001 (see Note 11). The net assets and operating results of ReadyScript are included in the accompanying consolidated financial statements as discontinued operations.

	For the Years Ended May 31,	
	2008	2007
Gain from continuing operations		
Discontinued operations of ReadyScript:		
Income from discontinued operations, net	--	27,869

Net income	$ --	$ 27,869

BIOMERICA, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2008 AND 2007

4. INTANGIBLE ASSETS

Intangible assets, net of accumulated amortization, consist of the following:

	MAY 31, 2008
Patents and other intangible	$ 36,465
Less accumulated amortization	36,465
	$ --

5. RELATED PARTY TRANSACTIONS

NOTES PAYABLE -SHAREHOLDER

In March 2004 the Company signed a note payable for the principal and interest due at that time of $313,318 and agreed to a forbearance of any payments for the length of the agreement. The note payable was secured by all the Company's assets except for the Lancer common stock owned by Biomerica. The note was due September 1, 2004. On March 9, 2007 the Company entered into an additional agreement entitled "Second Amendment of the Note, Loan and Modification Agreement" which was filed as an exhibit to a Form 10-QSB on April 16, 2007. The agreement called for payment of overdue principal by August 31, 2007, agreement by Janet Moore to enter into a Commercial Subordination Agreement, pledge of additional collateral to Janet Moore (all of which is subordinate to the Commercial Bank of California) and the reduction by Moore of additional payments of $3,500 per month, depending on certain quarterly results of the Company, to $2,000 per month. There was $95,936 of outstanding principal and $0 of interest payable under this note payable at May 31, 2008. On July 31, 2008, the remaining principal and interest were paid.

During 2008 and 2007, the Company incurred $10,973 and $19,898, respectively, in interest expense related to the shareholder note payable.

During 2004, a shareholder/director advanced the Company $4,000. At May 31, 2008 and 2007 $1,659, was owed in interest payable on this loan and a previous loan of $10,000.

During fiscal 2007 a shareholder/director advanced the Company $15,000, $50,000 and $35,000 in short term loans. The loans were repaid in two days, twenty-five days and fourteen days, respectively. Interest of $388 was paid on the loans.

RENT EXPENSE

Biomerica, Inc. currently leases facilities from four individuals, some of whom are shareholders of the Company. Gross rent expense of approximately $168,000

was incurred during 2008 and 2007, for this lease. There was no rent payable at May 31, 2008.

ACCRUED COMPENSATION

During fiscal 2002-2005, two officers, who are also shareholders of the Company, agreed to defer payment of a portion of their salaries. At May 31, 2008, $240,118 of deferred officer's salary is included in accrued compensation in the accompanying consolidated financial statements. No interest was accrued on the deferred wages until March 2007. As of March 1, 2007 the Company has been accruing interest at the rate of 8% per year. For the year ended May 31, 2008, $20,299 in interest expense was incurred.

Included in accrued compensation as of May 31, 2008 is vacation accrual of $171,998. Of this, approximately $121,000 is due to the former chief executive officer's estate. The Company is disputing the validity of this claim.

6. SHAREHOLDERS' EQUITY

1995 AND 1999 STOCK OPTION AND RESTRICTED STOCK PLANS

In January 1996, the Company adopted a stock option and restricted stock plan (the "1995 Plan") which provides that non-qualified options and incentive stock options and restricted stock covering an aggregate of 500,000 of the Company's unissued common stock may be granted to affiliates, employees or consultants of the Company. Options granted under the 1995 Plan may be granted at prices not less than 85% of the then fair market value of the common stock and expire not more than 10 years after the date of grant.

In August 1999, the Company adopted a stock option and restricted stock plan (the "1999 Plan") which provides that non-qualified options and incentive stock options and restricted stock covering an aggregate of 1,000,000 of the Company's unissued common stock may be granted to affiliates, employees or consultants of the Company. As of January 1, of each calendar year, commencing January 1, 2000, this amount is subject to automatic annual increases equal to the lesser of 1.5% of the total number of outstanding common shares, assuming conversion of convertible securities, or 500,000. Options granted under the 1999 Plan may be granted at prices not less than 85% of the then fair market value of the common stock and expire not more than 10 years after the date of grant.

The Company has 371,999 warrants outstanding at May 31, 2008, which are included in the table below. The warrants were issued in transactions related to financing, primarily as a component of private placements. The warrants are for restricted stock and have expiration dates ranging from five to ten years from date of issue. Purchase prices range from $0.25 to $3.00.

Activity as to stock options and warrants granted are as follows:

	NUMBER OF STOCK OPTIONS AND WARRANTS	PRICE RANGE PER SHARE	WEIG AVER EXER PRI
	---	---	---

Options and warrants outstanding at May 31, 2007	2,053,249	$0.20-$3.00	$0.
Options granted	41,000	$0.78-$1.30	$0.
Options and warrants exercised	(557,625)	$0.20-$0.73	$0.
Options and warrants canceled or expired	(34,500)	$0.33-$0.80	$0.
Options and warrants outstanding at May 31, 2008	1,502,124	$0.25-$3.00	$0.

The weighted average fair value of options and warrants granted during 2008 and 2007 was $0.98 and $0.74 respectively. The aggregate intrinsic value of options exercised during 2008 and 2007 was approximately $295,000 and $6,700, respectively. The aggregate intrinsic value of options outstanding at May 31, 2008 was approximately $579,600. The aggregate intrinsic value of options vested and exercisable at May 31, 2008 was approximately $543,400.

The following summarizes information about all of the Company's stock options and warrants outstanding at May 31, 2008. These options and warrants are comprised of those granted under the 1995 and 1999 plan and those granted outside of these plans.

RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING MAY 31, 2008	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE IN YEARS	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT MAY 31, 2008	WEIGHTED AVERAGE EXERCISE PRICE
$0.20 - $0.33	197,250	.85	$0.27	197,250	$0.27
$0.40 - $0.87	1,138,874	3.07	$0.55	1,023,499	$0.53
$1.30 - $3.00	166,000	1.36	$2.84	154,000	$2.96

STOCK ACTIVITY

In July 2006 the Company granted 10,000 stock options to purchase shares of common stock at an exercise price of $0.50 to one employee. The options vest over four years and have a term of five years. Management assigned a value of $3,636 to these options.

In February 2007 the Company granted 50,000 stock options to purchase shares of common stock at an exercise price of $0.57 to two directors. The options vest over three years and have a term of five years. Management assigned a value of $18,112 to these options.

In April 2007 the Company granted 163,500 stock options to purchase shares of common stock at an exercise price of $0.73 to various employees and consultants. The options vest over three years and have a term of five years. Management assigned a value of $72,489 to these options.

In April 2007 the Company granted 25,000 stock options to purchase shares of common stock at an exercise price of $0.76 to a new director. The options vest over three years and have a term of five years. Management assigned a value of $11,632 to these options.

In May 2007 the Company granted 171,000 stock options to purchase shares of common stock at an exercise price of $0.80 to various employees and officers of the Company. The options vest over three years and have a term of five years. Management assigned a value of $78,895 to these options.

In July 2007 the Board of Directors granted a stock option for 25,000 options to a new Company director. The options vested one half immediately and then will vest one quarter per year thereafter. The option is exercisable at a price of $0.78 per share and expires in five years. Management assigned a value of $10,541 to this option.

In November 2007 the Board of Directors granted stock options for 16,000 options to employees of the Company. The options vested one quarter immediately and then will vest one quarter per year thereafter. The options are at the exercise price of $1.30 and expire in five years. Management assigned a value of $10,952 to these options

During the fiscal year ended May 31, 2007, options to purchase 21,533 shares were exercised at prices ranging from $0.20 to $0.42 per share. Total proceeds to the Company were $6,130.

During the fiscal year ended May 31, 2008, options and warrants to purchase 557,625 shares were exercised at prices ranging from $0.20 to $0.73. Total proceeds to the Company were $162,386.

Options or warrants granted are assigned values according to current market value, using the Black-Scholes model for option valuation. The term used in the calculation of the options or warrants is the expected life of the option, taking into consideration cancellations, exercises and expirations. A discount rate equivalent to the expected life of the option is calculated using Treasury constant maturity interest rates. For the options granted in fiscal 2008 Biomerica used the simplified method (as defined in SAB 107) for calculating the expected life of an option because estimating the expected life is difficult based on historical data. The historical volatility of the stock is calculated using weekly historical closing prices for the length of the vesting period as reported by Yahoo Finance. For purposes of the SFAS 123 footnote disclosure, the Black-Scholes Model is also used for calculating employee options and warrants valuations.

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

7. INCOME TAXES

Income tax (benefit) expense from continuing operations for the years ended May 31, 2008 and 2007 consists of the following current (benefit) provisions:

	May 31,	
	2008	2007
U.S. Federal	$ (149,000)	$ 11,769

State and local	82,000	5,000
	$ (67,000)	$ 16,769

Income tax benefit expense from continuing operations differs from the amounts computed by applying the U.S. Federal income tax rate of 35 percent to pretax loss as a result of the following:

	May 31,	
	2008	2007
Computed "expected" tax expense benefit	$ 575,000	$ 188,000
Increase (reduction) in income taxes resulting from:		
Tax credits - true up of carryforwards	148,000	(2,000)
Change in valuation allowance	(731,000)	(206,000)
State income taxes, net of federal benefit	94,000	31,000
Tax benefit from the release of deferred tax allowance	(170,000)	--
Other	17,000	5,769
	$ (67,000)	$ 16,769

The tax effect of temporary differences that give rise to significant portions of liabilities are presented below.

	May 31,	
	2008	2007
Deferred tax assets:		
Accounts receivable, principally due to allowance for doubtful accounts and sales returns	$ 34,000	$ 24,000
Compensated absences and deferred payroll	196,000	170,000
Net operating loss carryforwards	391,000	908,000
Tax credit carryforwards	6,000	154,000
Accumulated depreciation of property and equipment	16,000	16,000
Other	93,000	25,000
Less valuation allowance	(566,000)	(1,297,000)
Net deferred tax asset	$ 170,000	$ 0

The Company has provided a valuation allowance for $566,000 as of May 31, 2008. Although the Company has achieved net income in increasing amounts over the last three fiscal years, predicting future taxable income is difficult and influenced

by many factors. After analyzing our tax position, Management has provided such allowance against deferred tax assets. In fiscal 2008 Management recorded a net deferred tax asset of $170,000. Management will re-evaluate this determination periodically.

At May 31, 2008, the Company has federal income tax net operating loss carryforwards of approximately $1,119,000. The federal net operating loss carryforwards begin to expire in 2021. At May 31, 2008 the Company has federal research and development tax credit carryforwards of approximately $6,000. The federal credits begin to expire in 2026.

Pursuant to Internal Revenue Code Sections 382 and 383, annual use of the Company's net operating loss ("NOL") and credit carryforwards may be limited by statute because of a cumulative change in ownership of more than 50%. Pursuant to Sections 382 and 383 of the Code, the annual use of the Company's NOLs would be limited if there is a cumulative change of ownership (as that term is defined in Section 382(g) of the Code) of greater than 50% in a three year period. Based on management's analysis the Company does not believe that a cumulative change in ownership of greater than 50% has taken place.

In June 2006, the FASB issued Interpretation No. 48, or FIN 48, Accounting for Uncertainty in Income Taxes - an Interpretation of FAS 109. FIN 48 provides clarification for the financial statement measurement and recognition of tax positions that are taken or expected to be taken on a tax return. For the fiscal year ended May 31, 2008 and 2007 the Company did an analysis of its FIN 48 position and has not identified any uncertain tax positions as defined under FIN 48. Should such position be identified in the future and should the Company owe interest and penalties as a result of this, these would be recognized as income taxes in the financial statements.

8. BUSINESS SEGMENTS

Reportable business segments are identified by product line and for the years ended May 31, 2008 and 2007 are as follows:

Operating income from discontinued segment:		
ReadyScript	$ --	$ 27,869
Total	$ --	$ 27,869
Domestic long-lived assets, net:		
Medical diagnostic products	$ 348,000	$ 140,000
Total	$ --	$ 140,000
Foreign long-lived assets, net:		
Medical diagnostic products	$ 22,000	$ 28,000
Total	$ 22,000	$ 28,000

The Company operates in one business segment, Medical Diagnostic Products.

The net sales as reflected above consist of sales to unaffiliated customers only as there were no significant intersegment sales during fiscal years 2008 and 2007. Biomerica had one customer which accounted for greater than 10% of its sales for the fiscal year ended May 31, 2008 and one customer which accounted for greater than 10% of its sales for the fiscal year ended May 31, 2007.

Geographic information regarding net sales is as:

	2008	2007
Net sales:		
United States	$ 1,359,000	$ 2,107,000
Europe	2,549,000	2,378,000
South America	70,000	75,000
Middle East	57,000	64,000
Asia	854,000	543,000
Oceania	3,000	540,000
Other foreign	35,000	41,000
Total net sales	$ 4,927,000	$ 5,748,000

Identifiable assets by business segment are those assets that are used in the Company's operations in each industry. Identifiable assets are held primarily in the United States.

9. COMMITMENTS AND CONTINGENCIES

OPERATING LEASES

The Company is currently leasing its facilities on a month-to-month basis while management explores various other facility options. The facilities are owned and operated by four individuals, some of whom are shareholders and one of whom is an officer and director. Effective May 1, 2007 the monthly rent was set at $14,000. Management believes there would be no significant difference in the terms of the property rental if the Company leased from a third party. Total rent expense for this facility was approximately $168,000 during each of the years ended May 31, 2008 and 2007.

Biomerica has various insignificant leases for office equipment.

RETIREMENT SAVINGS PLAN

Effective September 1, 1986, the Company established a 401(k) plan for the benefit of its employees. The plan permits eligible employees to contribute to the plan up to the maximum percentage of total annual compensation allowable under the limits of Internal Revenue Code Sections 415, 401(k) and 404. The Company, at the discretion of its Board of Directors, may make contributions to

the plan in amounts determined by the Board each year. No contributions by the Company have been made since the plan's inception.

LITIGATION

The Company is, from time to time, involved in legal proceedings, claims and litigation arising in the ordinary course of business. While the amounts claimed may be substantial, the ultimate liability cannot presently be determined because of considerable uncertainties that exist. Therefore, it is possible the outcome of such legal proceedings, claims and litigation could have a material effect on quarterly or annual operating results or cash flows when resolved in a future period. However, based on facts currently available, management believes such matters will not have a material adverse affect on the Company's consolidated financial position, results of operations or cash flows. There were no legal proceedings pending as of May 31, 2008, except for proceedings related to the collection of accounts receivable which have been previously reserved for.

CONTRACT

During the first quarter of fiscal 2006 the Company entered into an agreement with another company for the purpose of developing certain technology for Biomerica. The total amount of the contract was for $55,000, with a 40% down payment required and milestone payments for the balance of the contract. The balance due at May 31, 2007 was $16,500. On June 5, 2006, a milestone payment of $16,500 was made which was included in payables as of May 31, 2006. The remaining $16,500 has not been recorded as a liability at May 31, 2008 due to the fact that payment of it is contingent upon performance of certain functions by the contractor. The Company does not expect to make payment in the future on this contract because complete performance of the contract has not been achieved and the contract has been discontinued.

COMMERCIAL LINE OF CREDIT

In February 2007 the Company entered into a Commercial Security Agreement, two Promissory Notes (loan #0100000250 and loan #0100000251), a Subordination Agreement and a Business Loan Agreement. These agreements pertain to a $200,000 working capital line of credit and a $200,000 equipment loan with Commercial Bank of California and are collateralized by substantially all of the assets of the Company. Copies of these agreements in their entirety were filed on April 16, 2007, with Biomerica's Form 10-QSB for the period ended February 28, 2007.

Any outstanding balance on the Promissory Note for Loan #0100000250 (up to $200,000) is due at the maturity date on September 1, 2008. On August 21, 2008, Commercial Bank of California agreed to an extension of the working capital line of credit for an additional sixty days to allow time to work on its renewal. Accrued unpaid interest on the outstanding balance is due on a monthly basis. The initial interest rate was 9.75% and is subject to change based on changes in the Wall Street Journal Prime Rate. The interest rate is set at 1.500 percentage points over the Index. As of May 31, 2008 no balance was due on this note.

With respect to the balance due on Promissory Note for Loan #0100000251, nine monthly consecutive interest payments, beginning April 1, 2007, with interest calculated on the unpaid principal balances at an interest rate based on the Wall Street Journal Prime Rate, plus a margin of 1.250 percentage points were

due. In addition, 47 monthly consecutive principal and interest payments in the initial amount of $5,038.21 each (assuming a balance of $200,000), beginning January 1, 2008, with interest calculated on the unpaid principal balances at an interest rate of 9.500%, and one principal and interest payment of $5,038.46 on December 1, 2011, with interest calculated on the unpaid principal balances at an interest rate of 9.500% are due. As of May 31, 2008 the balance due on this loan was $162,993. On July 16, 2008, Commercial Bank of California agreed to lower the interest rate on the equipment loan to a fixed rate of 8%.

Future maturities of the Shareholder note and commercial line of credit are as follows:

Year Ended May 31,	
2009	$ 144,364
2010	51,019
2011	54,782
2012	8,764
Total obligation	258,929
Less current portion	144,364
Long-term portion	$ 114,565

10. DISCONTINUED OPERATIONS

The following summarizes the net liabilities of the discontinued operations, ReadyScript, as of May 31, 2008 and the results of its operations for each of the years in the two-year period ended May 31, 2008.

Balance Sheet Items:

	May 31, 2008
Assets:	
Miscellaneous receivable	$ 5,304
Less liabilities:	
Accrued expenses	4,709
Net liabilities	$ 595

Results of its operations items:

	Years Ended May 31,	
	2008	2007
Legal settlements and debt forgiveness	$ --	$ 27,869
Cost and expenses:		
General and administrative (reduction of previous expenses)	--	--
Total costs and expenses	--	--
Income from operations	$ --	$ 27,869

11. SUBSEQUENT EVENTS

On July 31, 2008, the Company paid off the remaining principal and interest balance on the shareholder note payable.

In June 2008 warrants for 120,000 shares were exercised at $.25 per share which resulted in net proceeds to the Company of $30,000.

In June 2008 the Company incorporated in Mexico under the name of Biomerica de Mexico for the purpose of establishing our own mequiladora operation in Mexico at some time in the future.