BIOMERICA INC
Form 10QSB
April 14, 2008

FORM 10-QSB
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended February 29, 2008 Commission File No. 0-8765

BIOMERICA, INC.

(Exact name of registrant as specified in its charter)

Delaware	95-2645573
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1533 Monrovia Avenue, Newport Beach, California	92663
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number including area code: (949) 645-2111

(Not applicable)

(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

Indicate by check mark whether the Registrant is an accelerated filer (as Defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 6,298,839 shares of common stock as of April 14, 2008.

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BIOMERICA, INC.

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PART I

PART I - FINANCIAL INFORMATION
SUMMARIZED FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	Nine Months Ended February 29, 2008	Nine Months Ended February 28, 2007
Net sales	$3,608,408	$ 3,797,051
Cost of sales	(2,023,022)	(2,427,578)

Gross profit	$1,585,386	$1,369,473
Operating Expenses:		
Selling, general and administrative	1,044,288	943,601
Research and development	200,932	170,759
	1,245,220	1,114,360
Operating income from continuing operations	340,166	255,113
Other Expense (income):		
Interest expense	38,288	24,090
Interest (income)	(26,990)	(1,464)
Other income, net	(697,125)	(40,040)
	(685,827)	(17,414)
Income from continuing operations, before income taxes	1,025,993	272,527
Income tax expense (benefit)	13,405	8,006
Net income from continuing operations	1,012,588	264,521

The accompanying notes are an integral part of these financial state

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

	Nine Months Ended	
	February 29, 2008	February 2 2007
Discontinued operations:		
Income from discontinued operations, net	--	27,8
Net income	1,012,588	292,3
Other comprehensive gain (loss), net of tax:		
Unrealized gain (loss) on available-for-sale securities	54,575	(36,8
Comprehensive income	$ 1,067,163	$ 255,5
Basic net income per common share:		
Net income from continuing operations	$ .17	$.
Net income from discontinued operations	.00	.

Basic net income per common share	$ .17	$.
Diluted net income per common share:		
Net income from continuing operations	$ .14	$.
Net income from discontinued operations	.00	.
Diluted net income per common share	$ .14	$.
Weighted average number of common and common equivalent shares:		
Basic	6,061,285	5,925,8
Diluted	7,129,887	6,368,2

The accompanying notes are an integral part of these financial stateme

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BIOMERICA, INC.

BALANCE SHEET (UNAUDITED)

	February 29, 2008
Assets	
Current Assets	
Cash and cash equivalents	$ 822,285
Available for-sale securities	412
Accounts receivable, less allowance for doubtful accounts of $105,051	664,645
Inventories..	1,679,232
Notes receivable	1,050
Prepaid expenses and other	93,825
Net assets from discontinued operations	598
Total Current Assets	3,262,047
Available-for-sale securities	464,823
Property and Equipment, net of accumulated depreciation and amortization ..	349,608
Other Assets	55,368
	$4,131,846

The accompanying notes are an integral part of these financial statements.

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BIOMERICA, INC.

CONSOLIDATED BALANCE SHEET - Continued (UNAUDITED)

	February 29, 2008
Liabilities and Shareholders' Equity	
Current Liabilities	
Accounts payable and accrued liabilities	$ 401,739
Accrued compensation	490,823
Current portion of shareholder loan	128,784
Capital lease - short-term portion	5,343
Equipment loan - short-term portion..........................	45,689
Total Current Liabilities	1,072,378
Equipment loan -long-term portion	128,371
Shareholders' Equity	
Common stock, $0.08 par value authorized 25,000,000 shares, issued and outstanding 6,257,839	500,626
Additional paid-in-capital	17,341,006
Accumulated other comprehensive loss	(175,142)
Accumulated deficit	(14,735,393)
Total Shareholders' Equity	2,931,097
Total Liabilities and Equity	$ 4,131,846

The accompanying notes are an integral part of these financial statements.

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

For the nine months,	February 29, 2008	Febru 20
Cash flows from operating activities:		
Net income from continuing operations	$ 1,012,588	$ 2
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	47,845	
Common stock, warrants and options issued for services rendered	14,837	
Provision for losses on accounts receivable	46,268	
(Gain)on disposal of equipment	--	(
Changes in current assets and liabilities:		
Accounts receivable	(206,147)	(1
Inventories	(217,519)	(3
Prepaid expenses and other current assets	9,003	
Accounts payable and other accrued liabilities	(264,511)	1
Accrued compensation	(76,769)	

Net cash provided by (used in) operating activities	365,595	
Cash flows from investing activities:		
Purchases of property and equipment	(226,828)	(1
Proceeds from sale of equipment	--	
Net cash used in investing activities	(226,828)	(
Cash flows from financing activities:		
Payments on capital lease	(3,231)	
Decrease in shareholder loan	(39,086)	(
Exercise of stock options or warrants	96,545	
Proceeds from sale of common stock	--	
Increase in borrowings on equipment line of credit	112,390	
Net cash provided by financing activities	166,618	
Net increase (decrease) in cash and cash equivalents	305,385	(
Cash at beginning of period	516,900	1
Cash at end of period	$ 822,285	$
Supplemental Disclosure of Cash Flow Information		
Cash Paid During The Year For:		
Interest	$ 37,621	$
Income taxes	$ 3,768	$
Supplemental disclosures on non-cash investing & financing activity		
Change in unrealized holding loss on available-for-sale securities	$ 54,575	$ (
Capital lease for purchase of fixed assets	$ --	$

The accompanying notes are an integral part of these financial statements.

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NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

February 29, 2008

(1) Reference is made to Note 2 of the Notes to Consolidated Financial Statements contained in Biomerica, Inc.'s (the "Company") Annual Report on Form 10-KSB for the fiscal year ended May 31, 2007, for a summary of significant accounting policies utilized by the Company.

(2) As of February 29, 2008 the Company had cash and available-for-sale securities in the amount of $822,697 and working capital of $2,189,669. The Company also has $464,823 of long term available-for-sale securities of Lancer Orthodontics. This stock is restricted and should the Company desire to sell this stock on the open market, it may be subject to certain trading restrictions as imposed by the Federal Securities Act of 1933.

(3) 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 is measured based on the grant-date fair value of the equity or liability instruments issued. Compensation cost is recognized over the period that an employee provides service in exchange for the award. As of the beginning of fiscal 2007, June 1, 2006, the Company has been required to account for stock-based compensation using this method.

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

For the nine months ended February 29, 2008, the Company expensed approximately $14,837 of stock option expense due to SFAS 123(R) in its financial statements.

(4) The following summary presents the options granted, exercised, expired, and outstanding as of February 29, 2008:

	Number of Options and Warrants			Weighted Average Exercise Price
	Employee	Non-employee	Total	
Outstanding May 31, 2007	1,836,083	217,166	2,053,249	$ 0.48
Granted	41,000	--	41,000	1.08
Exercised	(301,625)	(12,000)	(313,625)	0.31
Expired or cancelled	(25,500)	--	(25,500)	0.63
Outstanding February 29, 2008	1,549,958	205,166	1,755,124	$ 0.70

(5) The information set forth in these condensed consolidated statements is unaudited and may be subject to normal year-end adjustments. The information reflects all adjustments which, in the opinion of management, are necessary to present a fair statement of the consolidated results of operations of Biomerica, Inc., for the periods indicated. It does not include all information and footnotes necessary for a fair presentation of financial position, results of operations, and cash flow in conformity with generally accepted accounting principles.

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

(7) Reference is made to Note 3 of the Notes to Consolidated Financial Statements contained in the Company's Annual Report on Form 10-KSB for the

fiscal year ended May 31, 2007, for a description of the investments in affiliates and consolidated subsidiaries.

(8) Reference is made to Notes 5 & 9 of the Notes to Consolidated Financial Statements contained in the Company's Annual Report on Form 10-KSB for the fiscal year ended May 31, 2007, for information on commitments and contingencies.

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(9) Aggregate cost exceeded market value of available-for-sale securities by approximately $175,000 at February 29, 2008.

(10) Earnings Per Share

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

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

	Nine Months Ended February 29, 2008	Nine Months Ended February 28, 2007	Three Months E[nded] February 29, 2008
Numerator:			
Income from continuing operations	$1,012,588	$ 264,521	$ 123,846
Income from discontinued operations	--	27,869	--
Numerator for basic and diluted net income per common share	$1,012,588	$ 292,390	$ 123,846
Denominator for basic net income per common share	6,061,285	5,925,860	6,173,817
Effect of dilutive securities:			
Options and warrants	1,068,602	442,385	1,040,020
Denominator for diluted net income per common share	7,129,887	6,368,245	7,213,837
Basic net income per common share:			
Income from continuing operations	$ .17	$ .04	$ .02
Income from discontinued operations	--	--	--
Basic net income per common share	$ .17	$ .04	$ .02

Diluted net income per common share:			
Income from continuing operations	$ .14	$ .04	$ .02
Net income from discontinued operations	--	--	--
Diluted net income per common share	$ .14	$ .04	$ .02

(11) 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 is measured based on the grant-date fair value of the equity or liability instruments issued. Compensation cost is recognized over the expected life of the option. As of the beginning of fiscal 2007, June 1, 2006, the Company has been required to account for stock-based compensation using this method.

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 SAB No. 107 required disclosures 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.

In June 2005, the FASB issued SFAS No. 154, Accounting Changes and Errors Corrections, a replacement of APB Opinion No. 20 and FAS No. 3. The Statement applies to all voluntary changes in accounting principle, and changes the requirements for accounting for and reporting of a change in accounting principle. SFAS No. 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is impractical. APB Opinion No. 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. SFAS No.154 improves the financial reporting because its requirements enhance the consistency of financial reporting between periods. The Company does not believe the adoption of this standard will have an impact on its results of operations.

In February 2006, the FASB issued 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 was 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 Company does not believe that adoption of SFAS No. 157 has had a material impact on its consolidated 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 in filings made after September 30, 2006 and before the effective date of 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 the adoption of FIN 48 has had a material impact on its consolidated financial statements.

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

For the nine months ended:	2/29/08	2/28/07
Revenues from sales to unaffiliated customers:		
United States	$ 945,000	$ 994,000
Asia	614,000	387,000
Europe	1,934,000	1,854,000
South America	51,000	56,000
Oceania	1,000	447,000
Other	63,000	59,000
	$3,608,000	$3,797,000

In July 2006 the Board of Directors granted a stock option for 10,000 options to an employee of the Company. The options vested one quarter immediately and then one quarter per year thereafter. The option is at the exercise price of $.50 per share and expires in five years. Management assigned a value of $2,830 to this option.

In February 2007 the Board of Directors granted a stock option for 50,000 options to directors of the Company. The options vested one quarter immediately and one quarter in May 2007. One quarter will vest each year thereafter on the grant date. The exercise price is $.57 per share and the option expires in five years. Management assigned a value of $15,900 to these options.

In April 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 one quarter per year thereafter. The option is at the exercise price of $.76 per share and expires in five years. Management assigned a value of $11,632 to this option.

In April 2007 the Board of Directors granted stock options for 163,500 options to employees and consultants of the Company. The options vested one half immediately and then one quarter per year thereafter. The options are at the exercise price of $.73 and expire in five years. Management assigned a value of $72,489 to these options.

In May 2007 the Board of Directors granted stock options for 171,000 options to certain officers and directors. The options vested one half immediately and then one quarter per year thereafter. The options are at the exercise price of $.80 and expire in 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 one quarter per year thereafter. The option is at the exercise price of $.78 per share and expire in five years. Management assigned a value of $11,343 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 $12,589 to these options. During the nine month period ended February 29, 2008, employees and consultants exercised warrants and stock options for 313,625 shares at purchase prices ranging from $.20-$.73 per share. The total proceeds to the Company were $96,545.

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 vesting period. A discount rate equivalent to two and one half-years (or other life of the option or warrant) Treasury constant maturity interest rates is utilized. The historical volatility of the stock is calculated using weekly historical closing prices for the prior year as reported by Yahoo Finance. For purposes of the SFAS 123 footnote disclosure, the Black-Scholes Model is also used for calculating employee options and warrants valuations.

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

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

As a result of its insurance policy coverage, the Company believes the estimated fair value of these indemnification agreements is minimal and has no liabilities recorded for these agreements as of February 29, 2008. The Company enters into indemnification provisions under (i) its agreements with other companies in its ordinary course of business, typically with business partners, contractors, and customers, landlords and (ii) its agreements with investors. Under these provisions the Company generally indemnifies and hold harmless the indemnified party for losses suffered or incurred by the indemnified party as a result of the Company's activities or, in some cases, as a result of the indemnified party's activities under the agreement. These indemnification provisions often include indemnifications relating to representations made by the Company with regard to intellectual property rights. These indemnification provisions generally survive termination of the underlying agreement. The maximum potential amount of future payments the Company could be required to make under these indemnification provisions is unlimited. The Company has not incurred material costs to defend lawsuits or settle claims related to these indemnification agreements. As a result, the Company believes the estimated fair value of these agreements is minimal. Accordingly, the Company has no liabilities recorded for these agreements as of February 29, 2008.

(15) CRITICAL ACCOUNTING POLICIES

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

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

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

Revenues from product sales are recognized at the time the product is shipped, customarily FOB shipping point, at which point title passes.

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.

We have been in a loss position for tax purposes in prior years, and have established a valuation allowance against deferred tax assets, and although we are currently generating net income, we do not believe that it is likely that we will generate sufficient taxable income in future periods to realize the full benefit of our deferred tax assets. Predicting future taxable income is difficult, and requires the use of significant judgment. At February 29, 2008, all of our deferred tax assets were reserved. Accruals are made for specific tax exposures and are generally not material to our operating results or financial position, nor do we anticipate material changes to these reserves in the near future.

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

(16) Risks and Uncertainties

License Agreements - On occasion the Company enters into agreements for the licensing of certain products. The Company currently does not have any such agreements. Historically, the Company has successfully obtained all the licenses it believed necessary to conduct its business.

(17) Subsequent Events

During March 2008 employees exercised options and warrants for 41,000 shares at prices ranging from $.25 to $.33. Total proceeds to the Company were $11,100. Of this, $4,500 was in the form of the reduction of the shareholder note payable.

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

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

European Community - The Company is required to obtain certification in the European Community to sell products in those countries. The certification requires the Company to maintain certain quality standards. The Company has been granted certification on certain products. There is no assurance that the Company will be able to retain its certification in future years.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND SELECTED FINANCIAL DATA
ITEM 2.

CERTAIN INFORMATION CONTAINED HEREIN (AS WELL AS INFORMATION INCLUDED IN ORAL STATEMENTS OR OTHER WRITTEN STATEMENTS MADE OR TO BE MADE BY BIOMERICA) CONTAINS STATEMENTS THAT ARE FORWARD-LOOKING, SUCH AS STATEMENTS RELATING TO ANTICIPATED FUTURE REVENUES OF THE COMPANY AND SUCCESS OF CURRENT PRODUCT OFFERINGS. SUCH FORWARD-LOOKING INFORMATION INVOLVES IMPORTANT RISKS AND UNCERTAINTIES THAT COULD SIGNIFICANTLY AFFECT ANTICIPATED RESULTS IN THE FUTURE, AND ACCORDINGLY, SUCH RESULTS MAY DIFFER MATERIALLY FROM THOSE EXPRESSED IN ANY

FORWARD-LOOKING STATEMENTS MADE BY OR ON BEHALF OF BIOMERICA. THE POTENTIAL RISKS AND UNCERTAINTIES INCLUDE, AMONG OTHERS, FLUCTUATIONS IN THE COMPANY'S OPERATING RESULTS. THESE RISKS AND UNCERTAINTIES ALSO INCLUDE THE SUCCESS OF THE COMPANY IN RAISING NEEDED CAPITAL, THE CONTINUAL DEMAND FOR THE COMPANY'S PRODUCTS, COMPETITIVE AND ECONOMIC FACTORS OF THE MARKETPLACE, AVAILABILITY OF RAW MATERIALS, HEALTH CARE REGULATIONS AND THE STATE OF THE ECONOMY. READERS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS, WHICH SPEAK ONLY AS OF THE DATE HEREOF, AND THE COMPANY UNDERTAKES NO OBLIGATION TO UPDATE THESE FORWARD-LOOKING STATEMENTS.

RESULTS OF OPERATIONS

Consolidated net sales for Biomerica were $3,608,408 for the first nine months of fiscal 2008 as compared to $3,797,051 for the same period in the previous year. This represents a decrease of $188,643, or 5.0%. For the quarter then ended sales were $1,240,809 as compared to $1,311,609 for the same period in the previous year. This represents a decrease of $70,800, or 5.4%. The decrease in sales from fiscal 2007 to 2008 is primarily a result of the loss of one large customer in Australia.

For the nine months ended February 29, 2008 as compared to 2007, cost of sales decreased from $2,427,578, or 63.9% of sales, to $2,023,022, or 56.1% of sales. For the quarter then ended cost of sales decreased from $836,204, or 63.8% of sales, to $747,690, or 60.3% of sales. This decrease was primarily due to the product mix of the sales, decreases in Mexico expenses and the building of inventory, including new products, which has associated labor and overhead costs capitalized into the inventory value.

For the nine months ended February 29, 2008 compared to February 28, 2007, selling, general and administrative costs increased from $943,601 to $1,044,288, or $100,687 (10.7%). For the quarter then ended these expenses decreased from $308,403 to $302,367, or $6,036 (2.0%). The increase for the nine months was due to an increase in the bad debt reserve and increased accounting expenses for the SOX compliance project.

For the nine months ended February 29, 2008 compared to 2007, research and development increased by $30,173, or 17.7%, and for the three months increased by $1,496, or 2.1%. The increases were due to higher wages and materials for the research of new products and materials used in the products.

For the nine months ended February 29, 2008, other income of $697,124 was realized as compared to $40,040 in the prior year. This represents an increase of $657,084. For the three months then ended other expense of $10 was realized as compared to income of $40,005 in the prior fiscal year. The increase for the nine months was a result of the sale of a marketable security that had been carried on the Company's books at zero value. Interest expense increased from $24,090 for the nine months ended February 28, 2007 to $38,288 for the period ended February 29, 2008 and for the three month period from $6,791 to $12,438. Increases in interest expense are due to the increased amount owed for the equipment line of credit and for interest on accrued wages, which was not being paid in the first nine months of fiscal 2007. Interest income increased from $1,464 to $26,990 for the nine months ended February 29, 2008 and from $406 to $7,446 for the three months then ended. The increase was due to the increased cash balances.

LIQUIDITY AND CAPITAL RESOURCES

As of February 29, 2008, the Company had cash and current available-for-sale securities in the amount of $822,697 and working capital of $2,189,669. The Company also had long-term available-for-sale securities in the amount of $464,823.

During the nine months ended February 29, 2008, the Company operations provided cash in the amount of $365,595 as compared to cash used in operations of $4,137 in the same period in the prior fiscal year. Cash provided by financing activities for the nine months ended February 29, 2008 was $166,618 as compared to cash provided by financing activities of $852 in the prior fiscal year.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

Item 4. CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Chief Financial Officer (the Company's principal executive officer and principal financial officer, respectively) have concluded, based on their evaluation as of February 29, 2008, that the design and operation of the Company's "disclosure controls and procedures" (as defined in rules 13a-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act") are effective to ensure that information required to be disclosed by the Company in the reports filed or submitted by the Company under the Exchange Act is accumulated, recorded, processed, summarized and reported to the Company's management, including the Company's principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding whether or not disclosure is required.

During the quarter ended February 29, 2008, there were no changes in the Company's "internal controls over financial reporting" (as defined in Rule

13a-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS. Inapplicable.

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

Item 3. DEFAULTS UPON SENIOR SECURITIES. Inapplicable.

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

Item 5. OTHER INFORMATION. Inapplicable.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K. Inapplicable.

(a) Exhibits

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

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

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

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

SIGNATURES

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

Date: April 14, 2008

BIOMERICA, INC.

By: /S/ Zackary S. Irani

Zackary S. Irani
Chief Executive Officer