BIOMERICA INC
Form 10KSB
August 29, 2007

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

FORM 10-KSB

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

FOR THE FISCAL YEAR ENDED MAY 31, 2007 COMMISSION FILE NUMBER: 0-8765

BIOMERICA, INC.

(Small Business Issuer in its Charter)

DELAWARE	95-2645573
(State or other jurisdiction of Identification No.)	(I.R.S. Employer incorporation or organization)
1533 MONROVIA AVENUE, NEWPORT BEACH, CA (Address of principal executive offices)	92663 (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 (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 disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained herein, and will not 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. [ ]

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

Yes [ ] No [X]

State issuer's revenues for its most recent fiscal year: $5,748,319.

State the aggregate market value of the voting and non-voting stock held by non-affiliates of the issuer (based upon 4,890,972 shares held by non-affiliates and the closing price of $.75 per share for Common Stock in the over-the-counter market as of July 13, 2007): $3,668,229.

Number of shares of the issuer's common stock, par value $0.08, outstanding as of August 27, 2007: 5,976,214.

DOCUMENTS INCORPORATED BY REFERENCE: none

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. During the first two quarters of fiscal 2006 we had one operational subsidiary, Lancer Orthodontics, Inc. ("Lancer"), an international manufacturer of orthodontic products.

Biomerica develops, manufactures, and markets medical diagnostic products designed for the early detection and monitoring of chronic diseases and medical conditions. Lancer is engaged in the design, manufacture and distribution of orthodontic products.

Effective December 1, 2005, Lancer's financial statements were no longer consolidated with those of Biomerica because Biomerica no longer had direct or indirect control of more than 50% of Lancer's common stock. As of December 1, 2005, Biomerica held less than 20% of Lancer's common stock and therefore Biomerica's investment is now accounted for under the provisions of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities".

The Company adopted a formal plan in April 2001 to discontinue operations of its ReadyScript subsidiary. Certain assets were written off during the closure and subsequently were recorded as losses in the consolidated financial statements. During the fiscal years ended May 31, 2007 and 2006 certain liabilities were forgiven and thus ReadyScript recorded income for the years then ended. The subsidiary is being reported in the financial statements as a discontinued operation because it is no longer an operating entity.

OUR MEDICAL DEVICE BUSINESS

During fiscal 2007, our existing medical device business was conducted through one company: (1) Biomerica, Inc., engaged in producing products for the human diagnostic products market.

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 thyroid conditions, food intolerance, H. pylori, 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 during the fiscal year ended May 31, 2007.

LANCER ORTHODONTICS, INC. -- ORTHODONTIC PRODUCTS

Lancer is engaged in developing, manufacturing, and selling orthodontic products. Its products are sold worldwide through a direct sales force and distributors. Lancer conducts its operations at two facilities, one of which is located at 253 Pawnee Street, San Marcos, California 92069-2347 and the other in Mexicali, Mexico.

Effective December 1, 2005 the operations of Lancer Orthodontics were no longer consolidated with those of Biomerica. The consolidated income statement for the year ended May 31, 2006 includes the operations of Lancer Orthodontics for the period of June 1, 2005 through November 30, 2005. The balance sheet as of May 31, 2007 does not include any assets or liabilities of Lancer Orthodontics, except for the long-term available-for-sale securities that Biomerica holds in Lancer Orthodontics. This is included in non-current assets on the Biomerica balance sheet.

DISCONTINUED OPERATIONS

Biomerica's 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. The net liabilities and operating results of ReadyScript are shown separately in the accompanying consolidated financial statements as discontinued operations.

LIQUIDITY

Until three years ago Biomerica had suffered substantial recurring losses from operations. Biomerica has funded its operations through profits as well as debt and equity financings for the past three years. ReadyScript operations were discontinued in May 2001. ReadyScript was a contributor to the Company's losses in prior fiscal years. During the fiscal years ended May 31, 2007 and 2006, certain ReadyScript liabilities were forgiven and thus income from discontinued operations for the years then ended was recorded. The subsidiary is being reported in the financial statements as a discontinued operation because it is no longer an operating entity.

In the last several years the Company has been focusing on increasing efficiencies where possible and concentrating on its core business to increase sales. As a result, sales of medical diagnostic products increased from the fiscal year ended May 31, 2006 to 2007 by approximately $1,488,000, or 35%.

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, 2007 $61,670 was owed on the equipment loan and there was no outstanding balance due on the working capital line of credit. Due to the increased sales and profitability, in particular during the fourth quarter of fiscal 2007, the Company had $516,900 in cash and equivalents as of May 31, 2007 as compared to $119,914 on May 31, 2006. Payments on the shareholder's note payable have been made during fiscal 2007 according to the agreement for repayment (payments that were delinquent have been brought up to date) and, as a result, the balance on the note at May 31, 2007 was $167,870 as compared to $260,942 at May 31, 2006.

For the fiscal years ended May 31, 2003 through 2006 Biomerica's independent auditors had concluded that there was substantial doubt as to the Company's ability to continue as a going concern for a reasonable period of time and thus rendered a "going concern" opinion on the audited financial statements. Because the Company has had an upturn in sales and profitability and has an improved working capital condition, among other factors, the audited financial statements for the fiscal year ended May 31, 2007, do not contain such a "going concern" opinion. However, there is no assurance that the Company will be able to sustain such results in future years.

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, in a building that we share with Lancer Orthodontics. We have moved a significant portion of our diagnostic production (primarily packaging and assembly) to that facility. We subcontract with Lancer 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.

All manufacturing production is regulated by the FDA Good Manufacturing Practices for medical devices. We have an internal quality control unit that monitors and evaluates product quality and output. We also have an internal Quality Systems department which insures that our operating procedures are in compliance with current FDA 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, 2007 and 2006 aggregated $256,101 and $239,004, respectively. Of the above expenses for fiscal 2006 approximately $42,000 (for the first half of fiscal 2006), are for Lancer's product development.

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). Separate marketing plans are utilized in targeting each of the two markets.

For the year ended May 31, 2007 the Company had one customer which accounted for more than 10% of consolidated sales and during fiscal 2006 there were no customers which accounted for more than 10% of consolidated sales On an unconsolidated basis, Biomerica had two customers which accounted for more than 10% of sales during fiscal 2006.

BACKLOG

At May 31, 2007 and 2006 Biomerica had a backlog of approximately $267,000 and $234,000 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, 2007 three companies accounted for more than 30% of the consolidated purchases of raw materials. For the year ended May 31, 2006 one company accounted for more than 10% of the purchases of raw materials for Biomerica on an unconsolidated basis.

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 cooperations 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.

Class III - GAP(tm) IgM H. Pylori ELISA kit, Isletest(tm) GAD ELISA kit, Isletest(tm) ICA ELISA kit, Isletest (tm) IAA ELISA kit, EZ-HP OTC, EZ PSA (Professional and OTC) and IgG Food Additives Kit.

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, 2008. 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:

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

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

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
C-Peptide ELISA Kit
Allerquant(tm) IgG Food Intolerance ELISA Kit (90-foods, 14-foods, custom kits)
Allerquant IgG Food Additives Kit
Fortel(tm) Ultra Midstream Pregnancy Test
Fortel(tm) Ovulation Test
EZ-PSA Rapid Test
EZ-H. Pylori Rapid Test

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. Management made a commitment to correct all of these observations within six weeks of the date of inspection, and has notified the FDA that it has done so. 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.

Effective December 2003, fifteen major European countries require a CE (European Community) certification to sell products within their countries. The European Community Directive 98/79/EC is the IN VITRO Device Directive (IVDD), which regulates the import and sale of IN VITRO devices in the countries that comprise the European Community. In order for Biomerica's products to be sold within the European Community with the CE Mark, a Notified Body (TUV Rheinland) assessed Biomerica's compliance to the IVDD in October of 2003, and the Company was issued approval according to Annex IV, Article 3 of the IVDD in December 2003. Biomerica completed the translation of all direction inserts into the native languages of each of the countries in Europe where products are distributed. The Company is required to pass an annual audit in order to maintain the license. We are required to comply with new regulations as they are introduced. Should the Company fail to maintain required licenses, sales could be adversely affected.

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 and its consolidated subsidiaries: Year Ended May 31, 2007 2006*

U.S. Customers	$2,107,000/36.7%	$2,752,000/38.3%
Asia	543,000/9.4%	405,000/5.6%
Europe	2,378,000/41.4%	2,678,000/37.3%
Middle East	64,000/1.1%	134,000/1.9%
Oceania	540,000/9.4%	582,000/8.1%
S. America	75,000/1.3%	458,000/6.4%
Other foreign	41,000/0.7%	176,000/2.4%
Total Revenues	$5,748,000/100%	$7,185,000/100%

*The fiscal 2006 sales figures include six months of sales of Lancer Orthodontics. On a stand-alone basis, total revenue of Biomerica increased from $4,259,954 to $5,748,319 or $1,488,365 (34.9%) from 2006 to 2007.

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. We cannot predict the impact that conversion to the Euro in the European countries may have on Biomerica or Lancer, if any.

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 critical 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 July 29, 2007, the Company employed 30 employees of whom 2 are part-time employees in the United States. The following is a breakdown between departments:

	2007	2006
Administrative	4	5
Marketing & sales	3	3
Research & development	3	2
Production and operations	20	17
Total	30	27

In addition, Biomerica contracts with Lancer for the services of 20 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 four of the Company's shareholders, one of whom is an officer and director. Effective May 1, 2006, 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 and $158,000 during the years ended May 31, 2007 and 2006, respectively.

The facilities are leased from Mrs. Ilse Sultanian and JSJ Management. Ms. Janet Moore, an officer, director and shareholder of our Company, is a partner in JSJ Management. Mrs. Ilse Sultanian and the other partners of JSJ Management, Susan Irani and Jennifer Irani, are also shareholders of the Company.

Biomerica subleased a portion of its facility under a non-cancelable operating lease, which expired May 16, 2003 and was month-to-month until April 1, 2006, at which time the Company returned that space to the landlord. The Company recorded base rental income of $15,478 during the year ended May 31 2006.

As of May 31, 2007, 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, 2007:

	Payments Due by Period			
	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	5 YEARS
Shareholder debt	$167,870	$167,870		
Capital Leases	$8,574	$4,394	$4,180	
Total	$176,444	$172,264	$4,180	

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, 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
May 31, 2006	$0.50	$0.40
February 28, 2006	$0.55	$0.46
November 30, 2005	$0.59	$0.42
August 31, 2005	$0.75	$0.47

As of July 19, 2007, the number of holders of record of Biomerica's common stock was approximately 904, 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, 2007:

Securities Plan	Number of Securities To be issued upon Exercise of outstanding	Compensation Plans Weighted-Average Exercise Price of	Securities Remaining Availabl for Future Issuanc Under Compensation Plans (Excluding tho Reflected in First Column)

Category	Options	Outstanding Options	
Equity compensation Plans approved by Securities holders	1,449,250	$.48	491,171

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS

EXCEPT FOR HISTORICAL INFORMATION CONTAINED HEREIN, THE STATEMENTS IN THIS FORM 10-KSB ARE FORWARD-LOOKING STATEMENTS. FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS AND UNCERTAINTIES WHICH MAY CAUSE BIOMERICA'S RESULTS IN FUTURE PERIODS TO DIFFER FROM FORECASTED RESULTS. THESE RISKS AND UNCERTAINTIES INCLUDE, AMONG OTHER THINGS, THE CONTINUED DEMAND FOR THE COMPANYS' PRODUCTS, AVAILABILITY OF RAW MATERIALS, THE STATE OF THE ECONOMY 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.

RESULTS OF OPERATIONS

During the first six months of fiscal 2006, Biomerica had one active subsidiary, Lancer Orthodontics, Inc. ("Lancer"), which is engaged in manufacturing, sales and development of orthodontic products. Effective December 1, 2005, Lancer's financial statements were no longer consolidated with those of Biomerica because Biomerica no longer had direct or indirect control of more than 50% of Lancer's common stock. As of December 1, 2005, Biomerica held less than 20% of Lancer's common stock and therefore Biomerica's investment is accounted for under the provisions of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities".

Fiscal 2007 Compared to Fiscal 2006

IN FISCAL 2006, THE LANCER ORTHODONTICS' FINANCIAL STATEMENTS WERE ONLY CONSOLIDATED WITH THOSE OF BIOMERICA FOR SIX OF THE TWELVE MONTHS. PLEASE REFER TO FOOTNOTE 10 FOR A BREAKDOWN BY COMPANY OF THE RESULTS OF OPERATIONS FOR FISCAL 2006.

Our consolidated net sales were $5,748,319 for fiscal 2007 compared to $7,184,992 for fiscal 2006. This represents a decrease of $1,436,673, or 20.0% for fiscal 2007. Of the total consolidated net sales for fiscal 2006, $2,925,038 is attributable to Lancer (which was for the first six months of the fiscal year), and $4,259,954 to Biomerica. Fiscal 2007 represents sales of Biomerica alone. Biomerica stand-alone sales increased from $4,259,954 in fiscal 2006 to $5,748,319 in fiscal 2007, an increase of $1,488,365, or 34.9%. The increase was due to increases of sales to foreign distributors as well as increased sales domestically to chain drug stores.

Cost of sales in fiscal 2007 as compared to fiscal 2006 decreased by $1,277,008 or 26.7%. On a stand-alone basis, the cost of sales of Biomerica increased from $2,604,900 (61.1% of sales) to $3,502,607 (60.9% of sales), or $897,707 (34.5%). The dollar increase at Biomerica was primarily due to an increase in sales and an increase in production head count in anticipation of building larger lot sizes. The percentage of cost of goods relative to sales decreased by .2%.

Selling, general and administrative costs decreased in fiscal 2007 as compared to fiscal 2006 by $794,642 or 35.1%. The overall decrease in selling,

general and administrative costs from May 31, 2006 to 2007 was a result of the deconsolidation of Lancer as of December 1, 2005. On a stand-alone basis, Biomerica had an increase of $234,417, or 19.0%. The increase at Biomerica was primarily due to higher wages and related costs, increased bad debt expense, adoption of SFAS No. 123R on June 1, 2006, which requires employee stock options to be expensed through the income statement, higher bonuses related to the improved performance of the company and higher commissions relating to higher sales. As a percentage of sales, selling, general and administrative expenses decreased by 3.4% from fiscal 2006 to 2007.

Research and development expense was $256,101 in fiscal 2007 as compared to $239,004 in fiscal 2006. On a stand-alone basis Biomerica's research and development expenses increased from $196,534 to $256,101, or $59,567 (30.3%). This was a result of the expenses for several new products.

Interest expense net of interest income, decreased in fiscal 2007 as compared to fiscal 2006 by $9,739 or 21.7%. The overall decrease in interest expense was a result of the deconsolidation of Lancer as of December 1, 2005. On a stand-along basis Biomerica had increased interest of $4,717, primarily due to interest being charged beginning in the last quarter on the accrued wages balance of $264,549.

Other income decreased by $5,535 or 12.1% in fiscal 2007 as compared to fiscal 2006. The overall decrease in other income was a result of the deconsolidation of Lancer as of December 1, 2005. On a stand-alone basis Biomerica had increased other income of $7,064. This increase was primarily a result of income received in fiscal 2007 for the income received on equipment purchased and resold.

Consolidated net income was $536,879 for the year ended May 31, 2007. Prior to recording the expense ($100,000) for employee bonuses according to the Management Incentive Plan, consolidated net income was $636,879. Stand-alone income from diagnostic operations before interest in net loss or income of consolidated subsidiaries and income taxes was $525,779 for fiscal 2007 as compared to $222,041 for fiscal 2006. This represents an increase of $303,738, or 136.8%. The increase was primarily due to increased sales.

As of May 31, 2007 Biomerica had federal and state income tax net operating loss carry forwards of approximately $2,519,000 and $456,000, respectively, and research and development tax credit carry forwards of approximately $90,000 and $42,000, respectively. The federal net operating loss carry forwards begin to expire in 2008. The state net operating loss carry forwards started to expire in 2006. The federal research and development tax credit carry forwards begin to expire in 2009 and the California credits carry forward indefinitely.

Liquidity, Capital Resources and Going Concern

As of May 31, 2007, we had cash and current available for sale securities of $517,432 (see Note 2 of Notes to Consolidated Financial Statements) and working capital of $1,198,844. The Company also has $410,137 of long term available-for-sale securities. During 2006, cash used in operations was $384,369 as compared to cash provided by operations in fiscal 2007 of $463,708. The increase in cash provided by operations was mainly due to increased income from continuing operations of $509,010 and partly due to the deconsolidation of Lancer as of December 1, 2005. During fiscal 2007, cash used in investing activities was $62,695 as compared to $251,743. Both years the cash used in investing activities was primarily for the purchase of property and equipment,

however in fiscal 2006, of the $252,428 in equipment purchases, $211,353 related to Lancer. Cash used in financing activities in fiscal 2007 was $4,027 as compared to cash provided by financing activities of $538,948 in fiscal 2006. During fiscal 2006 Lancer conducted a private placement which contributed $469,800 to Lancer Orthodontics. During fiscal 2007 Biomerica repaid shareholder debt $93,072 as compared to $40,145 in fiscal 2006, which was offset by funds received from the equipment line of credit of $61,670, that was used as deposit for equipment ordered for delivery in fiscal 2008. The change in cash and cash equivalents at May 31, 2007 compared to May 31, 2006 was an increase of $396,986.

Until three years ago Biomerica had suffered substantial recurring losses from operations. Biomerica has funded its operations through profits as well as debt and equity financings for the past three years. ReadyScript operations were discontinued in May 2001. ReadyScript was a contributor to the Company's losses in prior fiscal years. During the fiscal years ended May 31, 2007 and 2006, certain ReadyScript liabilities were forgiven and thus income from discontinued operations for the years then ended was recorded. The subsidiary is being reported in the financial statements as a discontinued operation because it is no longer an operating entity.

In the last several years the Company has been focusing on increasing efficiencies where possible and concentrating on its core business to increase sales. As a result, sales of medical diagnostic products increased from the fiscal year ended May 31, 2006 to 2007 by approximately $1,488,000, or 35%.

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 loan are collateralized by substantially all of the assets of the Company. As of May 31, 2007 $61,670 was owed on the equipment line of credit and there was no outstanding balance due on the working capital line of credit. Due to the increased sales and profitability, in particular during the fourth quarter of fiscal 2007, the Company had $516,900 in cash and equivalents as of May 31, 2007 as compared to $119,914 on May 31, 2006. Payments on the shareholder's note payable have been made during fiscal 2007 according to the agreement for repayment (payments that were delinquent have been brought up toedate) and, as a result, the balance on the note at May 31, 2007 was $167,870 as compared to $260,942 at May 31, 2006.

For the fiscal years ended May 31, 2003 through 2006 Biomerica's independent auditors had concluded that there was substantial doubt as to the Company's ability to continue as a going concern for a reasonable period of time and thus rendered a "going concern" opinion on the audited financial statements. Because the Company has had an upturn in sales and profitability and has an improved working capital condition, among other factors, the audited financial statements for the fiscal year ended May 31, 2007, do not contain such a "going concern" opinion. However, there is no assurance that the Company will be able to sustain such results in future years.

SUBSEQUENT EVENTS

During August 2007 the due date on the note payable was extended until September 1, 2008. The terms of the note payable are the same.

On June 6, 2007, Biomerica received income of $697,034 on the sale of Hollister-Stier Laboratories securities it held for investment. The Hollister-Stier securities were held as an option to purchase shares in Hollister-Stier Laboratories, LLC and were carried on Biomerica's balance sheet

at a zero value as Hollister-Stier is a private company. The acquisition of Hollister-Stier Laboratories by Jubilant Organosys Ltd. closed on June 1, 2007.

Effective July 16, 2007 the Board of Directors of Biomerica, Inc. voted to elect John Roehm to serve on the board of directors of the Company. Mr. Roehm currently serves as President and CEO of Mollen Immunization Clinics of North America. From 1989 to 2006, Mr. Roehm served in a broad range of leadership positions with Albertsons/American Stores (Sav-on & Osco), including as its Director of Pharmacy Marketing since 1999. Mr. Roehm holds a B.S. degree in Pharmacy from Massachusetts College of Pharmacy.

On June 28, 2007 an employee exercised stock options for 7,500 shares. The total proceeds to the Company were approximately $2,588. On August 15, 2007 three employees exercised stock options for a total of 24,500 shares. The total proceeds to the Company were $7,435.

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 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, 2007, that all of our deferred tax assets should remain reserved. 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 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, 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-$1,824,979), business income insurance ($800,000), 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 policies covers injuries to employees as a result of accidental contamination from or by

hazardous materials.

RECENT ACCOUNTING PRONOUNCEMENTS:

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.

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 SFAS 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 adoption of this standard did not 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 Company does not expect the adoption of SFAS No. 155 to 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 Company has not yet determined the impact, if any, of adopting SFAS 156 on its consolidated 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 has not yet determined the impact, if any, of adopting SFAS 157 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. 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 has not yet determined the impact, if any, of adopting FIN 48 on its consolidated 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

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act of 1934 reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Principal Executive Officer and our Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Our management, including our Principal Executive Officer and our Principal Financial Officer, does not expect that our disclosure controls or procedures will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Biomerica have been detected.

We carried out an evaluation, under the supervision and with the participation of our management, including our Principal Executive Officer and our Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the annual period covered by this report. Based on the foregoing, our Principal Executive Officer and our Principal Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

There has been no change in the Company's internal controls over financial reporting during the Company's most recent fiscal year that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART III

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

This information is incorporated by reference to the Company's proxy statement for its 2007 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, 2007.

ITEM 10. EXECUTIVE COMPENSATION

This information is incorporated by reference to the Company's proxy statement for its 2007 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, 2007.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

This information is incorporated by reference to the Company's proxy statement for its 2007 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, 2007.

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, 2007, Biomerica has paid all applicable shelter fees.

Other information regarding related transactions is incorporated by reference to the Company's proxy statement for its 2007 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, 2007.

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, 2007 and 2006 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 and July 16, 2007.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The aggregate fees billed for professional services by PKF (San Diego) in 2007 and 2006 were as follows:

	2007	2006
Audit fees	$ 50,000 (1)	$ 48,725 (2)
Audit related fees		--
Tax fees	5,362	5,219
All other fees	1,732	2,711
Total	$ 57,094	$ 56,655

(1) Also includes fees to be billed in fiscal 2008 for fiscal 2007.
(2) Also includes fees to be billed in fiscal 2007 for fiscal 2006.

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 2007 and 2006, preparation of the tax return (9% of the total cost for both fiscal years) was not 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: 8/29/07

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: 8/29/07

Zackary S. Irani
Director, Chief Executive Officer

/s/ Janet Moore Date: 8/29/07

Janet Moore,
Secretary, Director,
Chief Financial Officer

/s/ Francis R. Cano, Ph.D. Date: 8/29/07

Francis R. Cano, Ph.D.
Director

/s/ Allen Barbieri Date: 8/29/07

Allen Barbieri
Director

/s/ Jane Emerson, M.D., Ph.D. Date: 8/29/07

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

/s/ John Roehm Date: 8/29/07

John Roehm
Director

BIOMERICA, INC. AND SUBSIDIARY
TABLE OF CONTENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	FS-2
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Balance Sheet as of May 31, 2007	FS-3
Consolidated Statements of Operations and Comprehensive Income for the Years Ended May 31, 2007 and 2006	FS-4 - FS-5
Consolidated Statements of Shareholders' Equity for the Years Ended May 31, 2007 and 2006	FS-6 - FS-9
Consolidated Statements of Cash Flows for the Years Ended May 31, 2007 and 2006	FS-10 - FS-11
Notes to the Consolidated Financial Statements	FS-12 - FS-34

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, 2007 and the related consolidated statements of operations and comprehensive income, shareholders' equity, and cash flows for the years ended May 31, 2007 and 2006. 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. 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, 2007, and the results of its consolidated operations and cash flows for the years ended May 31, 2007 and 2006 in conformity with accounting principles generally accepted in the United States of America.

August 20, 2007
San Diego California

/s/ PKF
Certified Public Accountants
A Professional Corporation

BIOMERICA, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET

	MAY 31, 2007
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 516,900
Available-for-sale securities	532
Accounts receivable, less allowance for doubtful accounts of $58,783	504,767
Inventories, net	1,461,713
Prepaid expenses and other	126,435
Total current assets	2,610,347
PROPERTY AND EQUIPMENT, at cost	
Equipment	654,546
Furniture, fixtures and leasehold improvements	166,209
Total property and equipment	820,755
ACCUMULATED DEPRECIATION	(652,718)
Net property and equipment	168,037
INTANGIBLE ASSETS, net	2,588
AVAILABLE-FOR-SALE SECURITIES	410,137

OTHER ASSETS	33,399
	$ 3,224,508
LIABILITIES AND SHAREHOLDERS' EQUITY	
CURRENT LIABILITIES	
Accounts payable and accrued expenses	$ 666,250
Accrued compensation	567,592
Capital lease - short-term portion	4,394
Notes payable-shareholder	167,870
Loan for equipment purchase	5,397
Total current liabilities	1,411,503
Capital lease - long-term portion	4,180
Loan for equipment purchase	56,273
SHAREHOLDERS' EQUITY	
Common stock, $.08 par value; 25,000,000 shares authorized; 5,944,214 shares and issued and outstanding	$ 475,535
Additional paid in capital	17,254,714
Accumulated other comprehensive income (loss)	(229,717)
Accumulated deficit	(15,747,980)
Total shareholders' equity	1,752,552
	$ 3,224,508

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

Note: Due to the deconsolidation of Lancer as of December 1, 2005, consolidated results from fiscal 2006 include only the first two quarters of the results of operations of Lancer.

	YEARS ENDED MAY 31,	
	2007	2006
Net Sales	$ 5,748,319	$ 7,184,992
Cost of sales	3,502,607	4,779,615
GROSS PROFIT	2,245,712	2,405,377

OPERATING EXPENSES		
Selling, general and administrative	1,468,821	2,263,463
Research and development	256,101	239,004
Total operating expenses	1,724,922	2,502,467
OPERATING INCOME (LOSS) FROM CONTINUING OPERATIONS	520,790	(97,090)
OTHER INCOME (EXPENSE)		
Interest expense, net of interest income	(35,051)	(44,790)
Other income, net	40,040	45,575
INCOME (LOSS) FROM CONTINUING OPERATIONS, before minority interest in net loss of consolidated subsidiary and income taxes	525,779	(96,305)
MINORITY INTEREST IN NET LOSS OF CONSOLIDATED SUBSIDIARY	--	251,670
INCOME FROM CONTINUING OPERATIONS, before income taxes	525,779	155,365
INCOME TAX EXPENSE	16,769	1,600
INCOME FROM CONTINUING OPERATIONS	509,010	153,765
DISCONTINUED OPERATIONS		
Income from discontinued operations, net	27,869	76,508
NET INCOME	536,879	230,273

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,	
	2007	2006
OTHER COMPREHENSIVE LOSS, net of tax		
Unrealized loss on available-for-sale securities	(2,746)	(227,497)
COMPREHENSIVE INCOME	$ 534,133	$ 2,776

BASIC NET INCOME PER COMMON SHARE:		
Income from continuing operations	$ .09	$ .03
Income from discontinued operations	.00	.01
Basic net income per common share	$ .09	$ .04
DILUTED NET INCOME PER COMMON SHARE:		
Income from continuing operations	$ .08	$ .02
Income from discontinued operations	.00	.01
Diluted net income per common share	$ .08	$ .03
WEIGHTED AVERAGE NUMBER OF COMMON AND COMMON EQUIVALENT SHARES		
Basic	5,929,445	5,759,082
Diluted	6,513,477	6,220,335

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 Shares	Common Stock Amount	Additional Paid-in Capital	Commo Subs Shares
Balances, May 31, 2005	5,752,431	$ 460,193	$ 17,107,474	--
Change in unrealized gain (loss) on available-for-sale securities	--	--	--	--
Exercise of Stock Options	14,250	1,140	2,295	--
Change in Lancer stock to unrealized gain on available-for sale securities	--	--	--	--
Compensation expense in connection with options and warrants granted	--	--	2,444	--
Expense related to issuance of warrants for private placement	--	--	9,880	--

Private Placement	--	--	--	104,000
Private Placement - receivable	--	--	--	52,000
Change in minority interest related to sale of stock at subsidiary	--	--	(57,769)	--
Net income	--	--	--	--
Balances, May 31, 2006	5,766,681	$ 461,333	$ 17,064,324	156,000

(Continued)

	Common Stock Subscribed Receivable	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit
Balances, May 31, 2005		$ 526	$(16,515,132)
Change in unrealized gain (loss) on available-for-sale securities	--	(4,901)	--
Exercise of Stock Options	--	--	--
Change in Lancer stock to unrealized gain on available-for sale securities	--	(222,596)	--
Compensation expense in connection with options and warrants granted			
Expense related to issuance of warrants for private placement		--	--
Private Placement			
Private Placement - receivable	(24,960)	--	--
Change in minority interest related to sale of stock at subsidiary		--	--
Net Income		--	230,273
Balances, May 31, 2006	$ (24,960)	$ (226,971)	$(16,284,859)

(Continued)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Commo Subs Shares
Exercise of stock options	21,533	1,722	4,406	--
Change in unrealized gain (loss) On available-for-sale securities	--	--	--	--
Compensation expense in connection with options granted	--	--	123,584	--
Private Placement	156,000	12,480	62,400	(104,000)
Private Placement - receivable	--	--	--	(52,000)
Net income	--	--	--	--
Balances, May 31, 2007	5,944,214	$ 475,535	$ 17,254,714	--

	Common Stock Subscribed Receivable	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit
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	--	--	536,879
Balances, May 31, 2007	--	$ (229,717)	$(15,747,980)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	FOR THE YEARS ENDED MAY 31,	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Income from continuing operations	$ 509,010	$ 153,765
Adjustments to reconcile loss from continuing operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	56,736	122,047
Provision for losses on accounts receivable	51,753	12,372
Provision for losses on inventory	--	(3,687)
Gain on sales of available for sale securities	--	(685)
Options issued	123,584	12,324
(Gain) loss on sale of equipment	(29,512)	1,704
Minority interest in net (loss) of consolidated subsidiary	--	(251,670)
Changes in assets and liabilities		
Accounts receivable	4,200	(441,385)
Inventories	(333,683)	(261,864)
Prepaid expenses and other	(69,969)	(33,701)
Notes receivable	1,800	--
Other receivables and assets	(19,980)	--
Accounts payable and other accrued expenses	85,484	243,787
Accrued compensation	84,285	62,624
Net cash provided by (used in) operating activities	463,708	(384,369)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds on sale of equipment	50,000	--
Sales of available-for-sale securities	--	685
Purchases of property and equipment	(112,695)	(252,428)
Net cash used in investing activities	(62,695)	(251,743)

(Continued)

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

	FOR THE YEARS ENDED MAY 31,	
	2007	2006
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase under line of credit at subsidiary	--	65,000
Payments on capital leases	(3,714)	(26,352)
Decrease of shareholder debt	(93,072)	(40,145)

Change in minority interests	--	37,250
Exercise of stock options	6,129	3,435
Sale of common stock, net of offering expenses	24,960	29,960
Increase in loan for equipment purchase	61,670	--
Consolidated subsidiary sale of common stock	--	469,800
Net cash (used in) provided by financing activities	(4,027)	538,948
Net cash provided by (used in) discontinued operations	--	(800)
Net change in cash and cash equivalents	396,986	(97,964)
Net decrease in cash-reclassification of Lancer Orthodontics, Inc. to the cost method	--	(134,003)
CASH AND CASH EQUIVALENTS, beginning of year	119,914	351,881
CASH AND CASH EQUIVALENTS, end of year	$ 516,900	$ 119,914
SUPPLEMENTAL DISCLOSURE OF CASH-FLOW INFORMATION		
CASH PAID DURING THE YEAR FOR:		
Interest	$ 34,859	$ 44,790
Income taxes	$ 1,600	$ 1,600
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Change in unrealized holding (loss) on available-for-sale securities	$ (2,746)	$ (227,497)
Change in minority interest due to subsidiary sale of stock	--	$ (57,769)
Capital lease for purchase of fixed assets	--	$ (373,435)
Increase in investment due to de-consolidation of Lancer	--	$ 632,732
Reduction of accrued compensation through purchase of stock	--	$ 19,960
Subscribed stock receivable	$ (24,960)	$ 24,960
Changes due to de-consolidation of Lancer		
Accounts Receivable	--	$ 1,590,504
Inventories	--	1,838,698
Prepaid expenses and other current assets	--	90,676
Net fixed assets	--	1,197,310
Other	--	48,821
Subtotal assets		4,766,009
Accounts payable and other accrued liabilities	--	899,483
Line of credit	--	240,000

Capital lease	--	334,794
Subscribed stock	--	85,850
Common stock	--	5,670,565
Accumulated deficit	--	(2,330,680)
Subtotal liabilities and equity	--	(4,900,012)
Net decrease in cash	--	$ (134,003)

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, 2007 AND 2006

1. ORGANIZATION AND LIQUIDITY

ORGANIZATION

Biomerica, Inc. and Subsidiary (collectively "the Company") are primarily engaged in the development, manufacture and marketing medical diagnostic kits and the design, manufacture and distribution of various orthodontic products. As of May 31, 2007 the Company had one operational unit. Until November 30, 2005 the Company's financial statements were consolidated with its former subsidiary, Lancer Orthodontics, Inc. "(Lancer"). Therefore the first six months of operations of Lancer are included in results for fiscal 2006 only.

LIQUIDITY

Until three years ago Biomerica had suffered substantial recurring losses from operations. Biomerica has funded its operations through profits as well as debt and equity financings for the past three years. ReadyScript operations were discontinued in May 2001. ReadyScript was a contributor to the Company's losses in prior fiscal years. During the fiscal years ended May 31, 2007 and 2006, certain ReadyScript liabilities were forgiven and thus income from discontinued operations for the years then ended was recorded. The subsidiary is being reported in the financial statements as a discontinued operation because it is no longer an operating entity.

In the last several years the Company has been focusing on increasing efficiencies where possible and concentrating on its core business to increase sales. As a result, sales of medical diagnostic products increased from the fiscal year ended May 31, 2006 to 2007 by approximately $1,488,000, or 35%.

In February 2007 the Company obtained a $200,000 working capital line of credit and approval for a $200,000 equipment loan with Commercial Bank of California. The credit line and loan are collateralized by substantially all of the assets of the Company. As of May 31, 2007 $61,670 was owed on the equipment loan and there was no outstanding balance due on the working capital line of credit. Due to the increased sales and profitability, in particular during the fourth quarter, the Company had $516,900 in cash and equivalents as of May 31, 2007 as compared to $119,914 on May 31, 2006. Payments on the shareholder's note payable have been made during fiscal 2007 according to the agreement for repayment

(payments that were delinquent have been brought up to date) and, as a result, the balance on the note at May 31, 2007 was $167,870 as compared to $260,942 at May 31, 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements for the years ended May 31, 2007 and 2006 (see Note 3) include the accounts of Biomerica, Inc. ("Biomerica"), Lancer Orthodontics, Inc. ("Lancer") (for the first six months of the 2006 fiscal year) and ReadyScript, Inc. (as discontinued operations). All significant intercompany accounts and transactions have been eliminated in consolidation. Effective December 1, 2005 the operations of Lancer Orthodontics were no longer consolidated with those of Biomerica. The consolidated statement of operations for the year ended May 31, 2006 includes the results of Lancer Orthodontics for the period of June 1, 2005 through November 30, 2005. The balance sheet as of May 31, 2007 does not include any assets or liabilities of Lancer Orthodontics (other than the available-for-sale securities of Lancer which Biomerica holds as an investment).

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 line of credit and accounts payable. The carrying amounts of the Company's financial instruments approximate their fair values at May 31, 2007.

Most of the Company's available-for-sale securities include the Company's investment in Lancer Orthodontics in the amount of $410,137. The Company also has current available-for-sale securities in the amount of $532. The ability to sell the Lancer shares on the open market could be affected by market conditions, Lancer's financial reports, and the trading volume of Lancer's shares, among other factors.

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, however, on an unconsolidated basis Biomerica had one customer who accounted for greater than 10% of its sales for the fiscal year ended May 31, 2007 and two customers each of whom accounted for greater than 10% of its sales for the fiscal year ended May 31, 2006. The Company performs ongoing credit evaluations of its customers. 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. At May 31, 2007 three customers each accounted for greater than 10% of gross accounts receivable for Biomerica. At May 31, 2006 no customer accounted for more than 10% of gross consolidated accounts receivable.

On a consolidated basis no customer accounted for 10% or more of the consolidated sales in the fiscal year ended May 31, 2006. No customer accounted for 10% or more of Lancer Orthodontics' sales for the fiscal year ended May 31 2006.

For the year ended May 31, 2007 three companies accounted for more than 30% of the purchases for Biomerica on an unconsolidated basis and for the fiscal year ended May 31, 2006 two companies accounted for more than 20% of the purchases for Biomerica on an unconsolidated basis.

GEOGRAPHIC CONCENTRATION

Approximately $280,000 of Biomerica's gross inventory and $28,000 of Biomerica's property and equipment, net of accumulated depreciation and amortization, is located at Lancer's wholly owned subsidiary in 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 2007 was $0 and during fiscal 2006 it was $685. 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 $(2,746) and $(227,496) for the years ended May 31, 2007 and 2006, respectively. The decrease in fiscal 2006 was primarily a result of a write down of $222,596 to market value of the Lancer securities that the Company previously classified as an investment under the equity method of accounting. See Principles of Consolidation above.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2007 AND 2006

The Company has a total of $410,669 in available-for-sale securities of which $410,137 is its long-term investment in Lancer Orthodontics common stock. As described earlier, effective December 1, 2005, the financial results of the former subsidiary, Lancer Orthodontics, were no longer consolidated with those of Biomerica. At that time the investment amount carried on the Biomerica balance sheet for Biomerica's ownership in Lancer was $632,733, or approximately $.93 per share. Due to the change in status from subsidiary to available-for-sale security, the Company adopted the accounting provisions of SFAS 115 for this investment. This resulted in a write-down to quoted market value with losses recognized in other comprehensive income. On May 31, 2007 the closing price for Lancer common stock was $.60 per share which is equal to a total investment of $410,137. Management evaluated various factors with respect to its investment in Lancer, including advances and changes within the industry, strategic relationships with other manufacturers, and the Company's ability and intent to hold this investment for a reasonable period of time sufficient for a forecasted recovery of fair value. Based on the above, the Company does not consider this investment decline to be other-than-temporary as of May 31, 2007.

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, 2007
Raw materials	$ 630,096
Work in progress	469,524
Finished products	362,093
Total	$ 1,461,713

Approximately $280,000 of Biomerica's gross inventory is located at its manufacturing facility in Mexico as of May 31, 2007.

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. The inventory items identified for disposal at each year-end are generally discarded during the following year.

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 3 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 $56,736 and $122,047 for the years ended May 31, 2007 and 2006, respectively. At May 31, 2007, approximately $28,000 of Biomerica's property and equipment, net of accumulated depreciation and amortization, is located at Lancer's manufacturing facility in 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, 2007.

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 $5,175 for each of the years ended May 31, 2007 and 2006 (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 $120,600 and $101,600 is included in cost of sales for this agreement for the years ended May 31, 2007 and 2006, respectively. Sales of products manufactured under this agreement comprise approximately 8% and 5% of total sales for the fiscal years ended May 31, 2007 and 2006, 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.

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 premarket clearance or premarket 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.

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.

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.

Pro forma information regarding loss per share is required by SFAS 123 for the years ended prior to June 1, 2007, and has been determined as if the Company had accounted for its employee stock options under the fair value method of SFAS 123. The fair value for these 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, 2007 and 2006; risk free interest rates ranging from 4.55% to 5.04%; dividend yield of 0%; expected life of the options ranging from two and a half years to five years; and volatility factors of the expected market price of the Company's common stock ranging from 95% to 119%.

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

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the option vesting period. Adjustments are made for options forfeited prior to vesting. The effect on compensation expense, net loss, and net loss per share (basic and diluted) had compensation costs for the Company's stock option plans been determined based on fair value on the date of grant consistent with the provisions of SFAS 123 are as follows:

	MAY 31, 2006
Income from continuing operations, as reported	$ 153,765
Plus: Stock-based employee compensation expense included in reported loss from continuing operations	2,444
Less: Stock-based employee compensation expense determined using fair value based method	(129,414)
Income from continuing operations, pro forma	$ 26,795
Pro forma Income from continuing operations per share - basic	$ 0.00
Pro forma from continuing operations per share - diluted	$ 0.00
Income from discontinued operations, as reported	$ 76,508
Plus: Stock-based employee compensation expense	

included in reported income from discontinued operations	--
Less: Stock-based employee compensation expense determined using fair value based method	--
Income from discontinued operations, pro forma	$ 76,508
Pro forma income from discontinued operations per share - basic	$ 0.01
Pro forma income from discontinued operations per share - diluted	$ 0.01

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 during fiscal 2007 in the financial statements.

As of May 31, 2007 total compensation cost related to nonvested stock option awards not yet recognized totaled $128,388. The weighted-average period over which this amount is expected to be recognized is 1.29 years.

MINORITY INTEREST

Minority interest represents the minority shareholders' proportionate share of

the equity of Lancer. At May 31, 2007, Biomerica owned 88.9% of ReadyScript (see Notes 3 and 11). 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 2007 and 2006, respectively, was $124,784 and $106,501. 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 $256,101 and $239,004 of research and development expenses during the years ended May 31, 2007 and 2006, respectively. Included in these expenses in fiscal 2006 was $42,470 incurred by Lancer for the six month period ended November 30, 2005.

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.

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 $90,460 and $71,700 for the years ended May 31, 2007 and 2006, respectively. The fiscal 2006 costs include the first six months of the fiscal year for Lancer. Stand-alone advertising costs for Biomerica were $46,052 for the fiscal year 2006.

CURRENCY

The functional currency for the Lancer De Mexico subsidiary (from which Biomerica contracts its labor and facilities in Mexicali) is dollars. Accordingly, all transactions are recorded using dollars and no adjustments, gains and losses on intercompany currency transactions are recorded.

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 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,	
	2007	2006
Numerator:		
Income from continuing operations	$ 509,010	$ 153,765
Income from discontinued operations	27,869	76,508
Numerator for basic and diluted net income per common share	$ 536,879	$ 230,273
Denominator for basic net income per common share	5,929,445	5,759,082
Effect of dilutive securities:		
Options and warrants	584,032	461,253
Denominator for diluted net income per common share	6,513,477	6,220,335
Basic net income per common share:		
Income from continuing operations	$ 0.09	$ 0.03
Income from discontinued operations	0.00	0.01
Basic net income per common share	$ 0.09	$ 0.04
Diluted net income per common share:		
Income from continuing operations	$ 0.08	$ 0.02
Net income from discontinued operations	0.00	0.01
Diluted net income per common share	$ 0.08	$ 0.03

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 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 will require compensation costs related to share-based payment transactions to be recognized in the financial statement (with limited exceptions). The amount of compensation cost will be measured based on the grant-date fair value of the equity or liability instruments issued. Compensation cost is recognized over the period that an employee provides service in exchange for the award.

In March 2005, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 107 ("SAB No. 107"), Share-Based Payment, providing guidance on option valuation methods, the accounting for income tax effects of share-based payment arrangements upon adoption of SFAS No. 123R, and the disclosures in MD&A subsequent to the adoption. The Company 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 SFAS 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 adoption of this standard did not 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 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 expect the adoption of SFAS No. 155 to 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 Company has not yet determined the impact, if any, of adopting SFAS 156 on its consolidated 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 has not yet determined the impact, if any, of adopting SFAS 157 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. 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 has not yet determined the impact, if any, of adopting FIN 48 on its consolidated financial statements.

3. CONSOLIDATED SUBSIDIARY

Lancer is engaged in the design, manufacture and distribution of orthodontic products. Biomerica's direct ownership percentage of Lancer was 23.41% at May 31, 2005 and its direct and indirect (via agreements with certain shareholders/directors) voting control over Lancer was greater than 50% as of May 31, 2005. As a result of Biomerica's control and ownership, the Company's financial statements were consolidated with those of Lancer. During the fiscal year ending May 31, 2005, Biomerica was a party to certain informal agreements with certain of Lancer's officers and directors, pursuant to which they agreed to vote in the same manner as Biomerica (and its directors holding shares of Lancer's common stock) on matters requiring the approval of Lancer's stockholders. Biomerica's percentage of direct ownership in Lancer has continued to decrease due to Lancer's issuance of additional shares of its common stock. As of December 1, 2005, the above-mentioned board members reserved their right no longer to vote their shares of Lancer in the same manner as the Biomerica board votes Biomerica's shares of Lancer. Therefore, effective as of December 1, 2005, Lancer's financial statements were no longer consolidated with those of Biomerica because Biomerica no longer has direct or indirect control of more than 50% of Lancer's common stock. As of December 1, 2005, Biomerica held less than 20% of Lancer's common stock and therefore Biomerica's investment is accounted for under the provision of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities".

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.

Operating results for Lancer (for the six month period ended November 30, 2005) and ReadyScript (as discussed) in the aggregate for the years ended May 31, 2007 and 2006, which are included in the consolidated operating results of the Company, are as follows:

	FOR THE YEARS ENDED MAY 31,	
	2007	2006
Net sales	--	$ 2,925,038
Cost of sales	--	2,190,495
Gross profit		734,543
Operating expenses:		
Selling, general and administrative	--	1,029,059
Research and development	--	42,470
Total operating expenses	--	1,071,529
Other income (expense):		
Interest expense, net	--	(14,456)
Other income, net	--	33,096
Total other income (expense)		18,640
(Loss) from continuing operations before income taxes	--	(318,346)
Income tax expense	--	800
(Loss) from continuing operations -- (319,146)		
Discontinued operations of ReadyScript:		
Income from discontinued operations, net	27,869	76,508
Net income (loss)	$ 27,869	$ (242,638)

BIOMERICA, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2007 AND 2006

4. INTANGIBLE ASSETS

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

	MAY 31, 2007
Patents and other intangible	$ 36,465
Less accumulated amortization	33,877

$	2,588

5. RELATED PARTY TRANSACTIONS

NOTES PAYABLE -SHAREHOLDER

Biomerica, Inc. entered into an agreement for a line of credit agreement on September 12, 2000 with a shareholder whereby the shareholder would loan to the Company, as needed, up to $500,000 for working capital needs. The line of credit expired September 13, 2003. In March 2004 the Company signed a note payable for the principal and interest due at that time of $313,318 and agreed to a forbearance of any payments for the length of the agreement. 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 November 19, 2004, the Company entered into an agreement entitled "Amendment of the Note, Loan and Modification Agreement" and "Amended and Restated Promissory Note" which were included as exhibits to the Form 10QSB filed April 14, 2004. The Amendment of the Note, Loan and Modification Agreement was filed as an exhibit to a Form 8K filed November 24, 2004. The agreement extended the maturity date of the note until August 31, 2005 and allowed for minimum payments of $4,000 per month and additional contingent payments of up to $3,500 per month based on the Company's quarterly performance. 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 $167,870 of outstanding principal and $0 of interest payable under this note payable at May 31, 2007. As of May 31, 2007 all overdue principal had been paid.

During 2007 and 2006, the Company incurred $19,898 and $22,355, respectively, in interest expense related to the shareholder note payable.

During 2005 and 2004, a shareholder/director advanced the Company $0 and $4,000, respectively. At May 31, 2007 and 2006 $1,659, was owed in interest payable on this loan and a previous loan of $10,000. During fiscal 2006, $320 of interest due on the $4,000 was forgiven by the shareholder/director.

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, all of whom are shareholders of the Company. Gross rent expense of approximately $168,000 and $158,000 was incurred during 2007 and 2006, respectively, for this lease. A further expense of $8,013 has been included in accounts payable representing late fees, insurance, property taxes and interest payable on outstanding rent. Rent payable at May 31, 2007 was $86,147. The total of rent, late fees, insurance and interest payable of $94,160 is included in accounts payable in the consolidated balance sheet.

BIOMERICA, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2007 AND 2006

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, 2007, $264,548 of deferred officer's salary is included in accrued compensation in the accompanying consolidated financial statements. During fiscal 2006 one of the officers agreed to participate in the Company's private placement in part by reducing his accrued compensation by approximately $20,000 in exchange for restricted common stock (Note 6). No interest was accrued on the deferred wages until March 2007. As of March 1 the Company has been accruing interest at the rate of 8% per year. For the year ended May 31, 2007 $5,334 in interest expense was incurred.

Included in accrued compensation as of May 31, 2007 is vacation accrual of $169,044. Of this, approximately $121,000 is due to the former chief executive officer's estate. The Company is disputing the validity of this claim.

LANCER ORTHODONTICS, INC.

In fiscal 2003, Biomerica entered into an agreement with Lancer (the Company's former subsidiary) 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, 2007, Biomerica has paid all applicable shelter fees.

Biomerica also contracts the services of certain Lancer employees each month at the manufacturing facility. The costs include wages and other related employment costs, which are billed to Biomerica on a monthly basis. These costs for the fiscal years ended May 31, 2007 and 2006 were approximately $236,000 and $154,000, respectively.

6. SHAREHOLDERS' EQUITY

1991, 1995 AND 1999 STOCK OPTION AND RESTRICTED STOCK PLANS

In December 1991, the Company adopted a stock option and restricted stock plan (the "1991 Plan") which provides that non-qualified options and incentive stock options and restricted stock covering an aggregate of 350,000 of the Company's unissued common stock may be granted to officers, employees or consultants of the Company. Options granted under the 1991 Plan may be granted at prices not less than 85% of the then fair market value of the common stock, vest at not less than 20% per year and expire not more than 10 years after the date of grant.

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 603,999 warrants outstanding at May 31, 2007, 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. Purchase prices range from $.25 to $3.00. As of May 31, 2007 no warrants had been exercised.

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

	NUMBER OF STOCK OPTIONS AND WARRANTS	PRICE RANGE PER SHARE
Options and warrants outstanding at May 31, 2005	1,602,637	$0.20 - $3.00
Options or warrants granted	691,500	$0.47 - $0.65
Options exercised	(14,250)	$0.20 - $0.33
Options and warrants canceled or expired	(378,937)	$0.20 - $3.00
Options and warrants outstanding at May 31, 2006	1,900,950	$0.20 - $3.00
Options granted	419,500	$0.50 - $0.80
Options exercised	(21,533)	$0.20 - $0.33
Options and warrants canceled or expired	(245,668)	$0.20 - $1.90
Options and warrants outstanding at May 31, 2007	2,053,249	$0.20 - $3.00

The weighted average fair value of options and warrants granted during 2007 and 2006 was $0.74 and $0.44 respectively.

The following summarizes information about all of the Company's stock options and warrants outstanding at May 31, 2007. These options and warrants comprise of those granted under the 1991, 1995 and 1999 plan and those granted outside of these plans.

RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING MAY 31, 2007	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE IN YEARS	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT MAY 31, 2007	WEIGHTED AVERAGE EXERCISE PRICE

$ .20 - $ .33	706,250	1.21	$ .27	673,812	$ .27
$ 0.40 - $ 0.87	1,196,999	4.07	$ .54	842,874	$ .52
$3.00	150,000	2.03	$ 3.00	150,000	$ 3.00

STOCK ACTIVITY

In February 2006 the Company granted 20,000 stock options to purchase shares of common stock at an exercise price of $.48 to two employees. The options vest over four years, and have a term of five years. Management assigned a value of $5,520 to these options.

In May 2006 the Company granted 498,500 stock options to purchase shares of common stock at an exercise price of $.40 to various employees, consultants, officers and directors. The options vest over three years, and have a term of five years. Management assigned a value of $118,643 to these options.

In May 2006 the Company granted warrants to purchase 52,000 shares of restricted common stock at an exercise price of $.65 as part of the private placement conducted at that time. The options vest immediately and have a term of five years. Management assigned a value of $9,880 to these warrants.

During fiscal 2006 an employee of the Company exercised a stock option for 750 shares at the purchase price of $.20 per share and 750 shares at the purchase price of $.33 per share. The total proceeds to the Company was $398.

During fiscal 2006 a former employee (then a consultant) of the Company exercised a stock option for 3,000 shares at the purchase price of $.20 per share. The total proceeds to the Company was $600.

During fiscal 2006 a former employee (then a consultant) of the Company exercised a stock option for 6,000 shares at the purchase price of $.20 per share and 3,750 shares at $.33 per share. The total proceeds to the Company was $2,438.

During fiscal 2006 the board of directors approved a private placement of the Company's restricted common stock. There was a total of 156,000 shares sold at the purchase price of $.48 per share. One warrant at the exercise price of $.65 was granted for every three shares of restricted common purchased. Total proceeds to the Company was $74,880, of which $54,920 was to be paid in cash and the balance was a reduction of accrued wages. Three investors participated, one of whom was an officer and director. Of the $74,880, $24,960 was recorded as a receivable at year-end. This amount was paid after year-end in June 2006.

In July 2006 the Company granted 10,000 stock options to purchase shares of common stock at an exercise price of $.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 $.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 $.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 $.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 September 2006 an employee exercised a stock option to purchase 1,875 shares at the purchase price of $.42 per share. The total proceeds to the Company were $787.50.

In October 2006 employees exercised stock options to purchase 6,408 shares at the purchase price of $.42 per share and 2,250 shares at the purchase price of $.20 per share. The total proceeds to the Company were $2,692 and $450, respectively.

In November 2006 an employee exercised stock options to purchase 6,000 shares at the exercise price of $.20 per share. The total proceeds to the Company were $1,200.

In May 2007 an employee exercised stock options to purchase 5,000 shares at the exercise price of $.20 per share. The total proceeds to the Company were $1,000.

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 (in fiscal 2007, expected life of the options was 2.5 years) of the option is calculated using Treasury constant maturity interest rates. 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.

FORMER SUBSIDIARY SALE OF STOCK

During the years ended May 31, 2006 the Company recognized a reduction in its additional paid capital in the amount of $57,769 resulting from a decrease in

its ownership percentage of Lancer as a result of Lancer's sale of common stock. The Company treated this reduction in its equity of the subsidiary as an equity transaction in the accompanying consolidated statement of shareholder's equity.

FORMER SUBSIDIARY OPTIONS, WARRANTS AND STOCK ACTIVITY

In fiscal 2006 Lancer conducted a private placement, the purpose of which was to raise funds to proceed with the terms of the Lingualcare agreement. Lancer sold 722,769 shares of restricted common stock at the price of $.65 per share. Total gross proceeds to Lancer were $469,800. This private placement further reduced Biomerica's control and ownership percentage in Lancer.

7. INCOME TAXES

Income tax expense from continuing operations for the years ended May 31, 2007 and 2006 consists of the following current provisions:

	MAY 31,	
	2007	2006
U.S. Federal	$ 11,384	$ --
State and local	5,385	1,600
	$ 16,769	$ 1,600

Income tax 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,	
	2007	2006
Computed "expected" tax expense (benefit)	$ 187,908	$ 81,366
Increase (reduction) in income taxes resulting from:		
Lancer loss	--	27,494
Tax credits	(1,990)	(13,711)
Change in valuation allowance	(206,000)	(94,000)
State income taxes, net of federal benefit	30,849	13,358
Other	6,002	(12,907)
	$ 16,769	$ 1,600

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

	MAY 31, 2007
Deferred tax assets:	
Accounts receivable, principally due to allowance	

for doubtful accounts and sales returns	$ 23,952
Inventories, due to additional costs inventoried for tax purposes and allowance for obsolescence	--
Compensated absences and deferred payroll	171,036
Net operating loss carryforwards	907,932
Tax credit carryforwards	131,560
Accumulated depreciation of property and equipment	15,408
Other	46,514
Less valuation allowance	(1,296,402)
Net deferred tax asset (liability)	$ --

The Company has provided a valuation allowance for all of its deferred tax assets as of May 31, 2007. 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. Therefore, Management provided such allowance as it is currently more likely than not that the Company will not generate taxable income sufficient to realize such assets in foreseeable future reporting periods. Management will re-evaluate this determination periodically. During fiscal 2007 the valuation allowance related to Biomerica on a stand alone basis decreased by approximately $206,000.

At May 31, 2007, the Company has federal and state income tax net operating loss carry forwards of approximately $2,519,000 and $456,000 respectively. The federal net operating loss carry forwards begin to expire in 2008. The state net operating loss carry forwards expire beginning in 2006.

At May 31, 2007 the Company has federal and California research and development tax credit carryforwards of approximately $90,000 and $42,000 respectively. The federal credits begin to expire in 2009 and the California credits carryforward indefinitely.

Pursuant to Internal Revenue Code Sections 382 and 383, annual use of the Company's net operating loss ("NOL") and credit carryforwards will be limited by statute because of a cumulative change in ownership of more than 50%. The Company has had numerous equity transactions that may have resulted in several changes in ownership of us as defined by Section 382 of the Internal Revenue Code of 1986, as amended, or the Code. 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 the past three years. Should Section 382 ownership change have occurred, there would be a substantial limitation on the Company's ability to utilize its NOLs to offset future taxable income.

8. BUSINESS SEGMENTS

Reportable business segments are identified by product line and for the years ended May 31, 2007 and 2006 are as follows (the amounts for Lancer's orthodontic sales for fiscal 2006 include results for only the six months ended November 30, 2005):

	2007	2006

Domestic sales:		
Orthodontic products	$ --	$ 1,584,000
Medical diagnostic products	$ 2,107,000	$ 1,168,000
Foreign sales:		
Orthodontic products	$ --	$ 1,341,000
Medical diagnostic products	$ 3,641,000	$ 3,092,000
Net sales:		
Orthodontic products	$ --	$ 2,925,000
Medical diagnostic products	5,748,000	4,260,000
Total	$ 5,748,000	$ 7,185,000
Operating profit (loss):		
Orthodontic products	--	$ (337,000)
Medical diagnostic products	521,000	224,000
Total	$ 521,000	$ (113,000)*

*THE INCOME STATEMENT REPORTED A LOSS OF $97,000 FOR FISCAL 2006. THE DIFFERENCE OF $16,000 FOR FISCAL 2006 IS ATTRIBUTABLE TO INTERCOMPANY ELIMINATION ENTRIES UPON CONSOLIDATION.

Operating income from discontinued segment:		
ReadyScript	$ 27,869	$ 76,508
Total	$ 27,869	$ 76,508
Domestic long-lived assets:		
Medical diagnostic products	$ 140,000	$ 115,000
Total	$ 140,000	$ 115,000
Foreign long-lived assets:		
Medical diagnostic products	$ 28,000	$ 12,000
Total	$ 28,000	$ 12,000
Total assets:		
Medical diagnostic products	$ 3,225,000	2,428,000
Total	$ 3,225,000	$ 2,428,000

Depreciation and amortization expense:		
Orthodontic products	$ --	$ 63,000
Medical diagnostic products	57,000	59,000
Total	$ 57,000	$ 122,000
Capital expenditures:		
Orthodontic products	$ --	$ 575,000
Medical diagnostic products	113,000	51,000
Total	$ 113,000	$ 626,000

The net sales as reflected above consist of sales to unaffiliated customers only as there were no significant intersegment sales during fiscal years 2007 and 2006. On a consolidated basis one customer accounted for 10% or more of the consolidated sales in the fiscal year ended May 31, 2007 and no customer accounted for 10% or more of the consolidated sales during 2006. On an unconsolidated basis Biomerica has two customers each of which account for greater than 10% of its sales for the year ended May 31, 2007 and 2006.

Geographic information regarding net sales is as follows (fiscal 2006 includes $2,925,000 sales of Lancer for the six month period ended November 2005):

	2007	2006
Net sales:		
United States	$ 2,107,000	$ 2,752,000
Europe	2,378,000	2,678,000
South America	75,000	458,000
Middle East	64,000	134,000
Asia	543,000	405,000
Oceania	540,000	582,000
Other foreign	41,000	176,000
Total net sales	$ 5,748,000	$ 7,185,000

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 of the Company's shareholders, one of whom is an officer and director. Effective May 1, 2006 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 and $158,000 during the years ended May 31, 2007 and 2006, respectively.

BIOMERICA, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2007 AND 2006

Biomerica subleased a portion of its facility under a non-cancelable operating lease, which expired May 16, 2003 and was month-to-month until April 1, 2006, at which time the Company returned this space to the landlord. The Company recorded base rental income of $15,478 during the year ended May 31, 2006.

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, 2007.

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, 2007 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.

On March 14, 2007, the Company entered into a contract to purchase manufacturing equipment in the amount of $181,200. The Company borrowed the required down-payment of $61,670 on the equipment loan with Commercial Bank of California. Another 50% is due upon acceptance of the equipment at the manufacturer's factory and 15% is due twenty days post delivery. The Company intends to draw further on the equipment loan as payments are due on the equipment.

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. 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, 2007 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 are 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, 2007 the balance due on this loan was $61,670.

BIOMERICA, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2007 AND 2006

10. CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY

The following are condensed, unconsolidated pro forma statements of operations and condensed unconsolidated statements of cash flows for the years ended May 31, 2007 and 2006 for Biomerica Inc and subsidiary. No cash dividends were paid by the consolidated subsidiary (see Note 3) during the years ended May 31, 2007 and 2006.

CONDENSED UNCONSOLIDATED STATEMENT OF OPERATIONS

	MAY 31,	
	2007	2006
Net Sales	$ 5,748,319	$ 4,259,954
Cost Of Sales	3,502,607	2,604,900
Gross Profit	2,245,712	1,655,054
Operating Expenses:		
Selling, General And Administrative	1,468,821	1,234,404
Research And Development	256,101	196,534
Total Operating Expenses	1,724,922	1,430,938
Operating Income (Loss)	520,790	224,116

Other Income (Expense)	4,989	(2,075)
Income From Operations Before Interest In Net Loss (Income) Of Consolidated Subsidiary And Income Taxes	525,779	222,041
Interest In Net Loss Of Consolidated Subsidiary	--	67,476
Interest In Net Income Of Consolidated Subsidiary - Discontinued Operations	(27,869)	(76,508)
Income From Operations Before Income Taxes	553,648	231,073
Income Tax Expense	16,769	800
Net Income	$ 536,879	$ 230,273

BIOMERICA, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2007 AND 2006

PRO FORMA STATEMENT OF OPERATIONS BY COMPANY

Year Ended
May 31, 2006

	Actual	Intercompany Eliminations	Lancer Pro-forma adjustments
Net sales	$ 7,184,992		$ (2,925,038)
Cost of sales	4,779,615	$ 15,780(1)	(2,190,495)
Gross profit	2,405,377	$ (15,780)	(734,543)
Operating expenses:			
Selling, general and admin	2,263,463		(1,029,059)
Research and development	239,004		(42,470)
Total operating expenses	2,502,467		(1,071,529)
Operating income (loss)	(97,090)	(15,780)	336,986
Other (income)expense			
Interest expense	44,790		(14,456)
Other expense (income)	(45,575)	(15,780)(2)	33,096
	(785)	(15,780)(2)	18,640
Income (loss) from operations			

before interest in net income (loss) of consolidated subsidiary and income taxes	(96,305)		318,346
Minority interest in net loss (income) of Lancer	251,670	(319,146)(3) 67,476 (4)	--
Income (loss) from operations before income taxes	155,365	(251,670)	318,346
Income tax expense	1,600		(800)
Discontinued operation	(76,508)		
Net income (loss)	$ 230,273	$ (251,670)	$ 319,146

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

CONDENSED UNCONSOLIDATED STATEMENT OF CASH FLOWS

	FOR THE YEARS ENDED MAY	
	2007	200
Cash Flows From Operating Activities:		
Net Income (loss) From Continuing Operations	$ 509,010	$ 15
Adjustments To Reconcile Net Income (Loss) To Net Cash Provided (Used) in Operating Activities:		
Depreciation and Amortization	56,736	6
Provision For Losses On Accounts Receivable	51,753	(
Realized Gain On Sale Of Available-For-Sale Securities	--	
Loss Of Subsidiary	--	6
Options issued	123,584	1
Gain on sale of equipment	(29,512)	
Net Change In Other Current Assets And Current Liabilities	(247,863)	(20
Net Cash Provided By (Used In) Operating Activities	463,708	9

Cash Flows From Investing Activities:	50,000	
Proceeds on the sale of equipment		
Sales Of Available-For-Sale Securities	--	
Purchase Of Property And Equipment	(112,695)	(4
Net Cash (Used In) Provided By Investing Activities	(62,695)	(4
Cash Flows From Financing Activities:		
Decrease of shareholder debt	(93,072)	(4
Exercise Of Stock Options	6,129	
Sale Of Common Stock, Net Of Offering Expenses	24,960	2
Payments on capital lease	(3,714)	
Borrowing on equipment line of credit	61,670	
Decrease (increase) In Notes Receivable	--	
Net Cash (Used In) Provided By Financing Activities	(4,027)	(
Net cash provided by (used in) discontinued operations	--	
Net Change In Cash And Cash Equivalents	396,986	4
Cash And Cash Equivalents At Beginning Of Year	119,914	7
Cash And Cash Equivalents At End Of Year	$ 516,900	$ 11
Supplemental Disclosure Of Cash Flow Information -		
Cash Paid During The Year For:		
Interest	$ 34,859	$ 2
Income Taxes	1,600	$
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Change in unrealized holding gain (loss) on available-for-sale securities	(2,746)	$ (22
Change in minority interest due to subsidiary sale of stock	$ --	$ (5
Capital lease for purchase of fixed assets	$ --	$ 1
Increase in investment due to de-consolidation of Lancer	$ --	$ 63
Reduction of accrued compensation through purchase of stock	$ --	$ 1
Subscribed stock receivable	$ (24,960)	$ 2

11. DISCONTINUED OPERATIONS

The following summarizes the net liabilities of the discontinued operations, ReadyScript, as of May 31, 2007 and the results of its operations for each of the years in the two-year period ended May 31, 2007.

Balance sheet items:

	MAY 31, 2007
Assets:	
Miscellaneous receivable	$ 5,304
Less liabilities:	
Accrued expenses	4,709
Net liabilities	595

Results of its operations items:

	YEARS ENDED MAY 31,	
	2007	200
Legal settlements and debt forgiveness	$ 27,869	$ 7
Cost and expenses:		
General and administrative (reduction of previous expenses)	--	
Total costs and expenses	--	
Income from operations	$ 27,869	$ 7

12. SUBSEQUENT EVENTS

During August 2007 the due date on the note payable with a related party was extended until September 1, 2008. The terms of the note payable are the same.

On June 6, 2007, Biomerica received income of $697,034 on the sale of Hollister-Stier Laboratories securities it held for investment. The Hollister-Stier securities were held as an option to purchase shares in Hollister-Stier Laboratories, LLC and were carried on Biomerica's balance sheet at a zero value as Hollister-Stier is a private company. The acquisition of Hollister-Stier Laboratories by Jubilant Organosys Ltd. closed on June 1, 2007.

Effective July 16, 2007 the Board of Directors of Biomerica, Inc. voted to elect John Roehm to serve on the board of directors of the Company. Mr. Roehm currently serves as President and CEO of Mollen Immunization Clinics of North America. From 1989 to 2006, Mr. Roehm served in a broad range of leadership positions with Albertsons/American Stores (Sav-on & Osco), including as its Director of Pharmacy Marketing since 1999. Mr. Roehm holds a B.S. degree in Pharmacy from Massachusetts College of Pharmacy.

On June 28, 2007 an employee exercised stock options for 7,500 shares. The total proceeds to the Company were approximately $2,588. On August 15, 2007 three employees exercised stock options for a total of 24,500 shares. The total proceeds to the Company were $7,435.