BIOMERICA INC
Form 10QSB
January 14, 2008

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

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

For Quarter Ended November 30, 2007 Commission File No. 0-8765

BIOMERICA, INC.

(Exact name of registrant as specified in its charter)

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

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

(Not applicable)

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

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

Yes [X] No [ ]

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

Yes [ ] No [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 6,133,839 shares of common stock as of January 14, 2008.

BIOMERICA, INC.

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

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

| | Six Months Ended November 30, 2007 | Six Months Ended November 30, 2006 |
|---|---|---|
| Net sales | $ 2,367,599 | $ 2,485,442 |
| Cost of sales | 1,276,809 | 1,591,373 |
| Gross profit | 1,090,790 | 894,069 |
| Operating Expenses: | | |

| | | |
|---|---|---|
| Selling, general and administrative | 741,920 | 635,198 |
| Research and development | 128,190 | 99,513 |
| | 870,110 | 734,711 |
| Operating gain from continuing operations | 220,680 | 159,358 |
| Other Expense (income): | | |
| Interest expense | 15,448 | 16,242 |
| Other income, net | (707,754) | (35) |
| | (692,306) | 16,207 |
| Income from continuing operations, before income taxes | 912,986 | 143,151 |
| Income tax expense | 24,242 | -- |
| Net income from continuing operations | 888,744 | 143,151 |
| Discontinued operations: | | |
| Income from discontinued operations, net | -- | 27,869 |
| Net income | 888,744 | 171,020 |
| Other comprehensive gain, net of tax | | |
| Unrealized gain (loss) on available-for-sale securities | 54,819 | (28,207) |
| Comprehensive Income | $ 943,563 | $ 142,813 |
| Basic net income per common share: | | |
| Net income from continuing operations | $ .15 | .02 |
| Net income from discontinued operations | .00 | .00 |
| Basic net income per common share | $ .15 | $ .02 |
| Diluted net income per common share: | | |
| Net income from continuing operations | $ .12 | $ .02 |
| Net income from discontinued operations | .00 | .00 |
| Diluted net income per common share | $ .12 | $ .02 |
| Weighted average number of common and common equivalent shares: | | |
| Basic | 6,009,282 | 5,926,111 |
| Diluted | 7,347,671 | 6,379,965 |

The accompanying notes are an integral part of these statements.

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BIOMERICA, INC.
CONSOLIDATED BALANCE SHEET (UNAUDITED)

| | November 30, 2007 |
|---|---|
| **Assets** | |
| **Current Assets** | |
| Cash and cash equivalents | $ 807,805 |
| Available for-sale securities | 666 |
| Accounts receivable, less allowance for doubtful accounts of $132,333 | 662,352 |
| Inventories, net | 1,668,990 |
| Notes receivable | 1,500 |
| Prepaid expenses and other | 235,239 |
| Net assets from discontinued operations | 598 |
| Total Current Assets | 3,377,150 |
| Property and Equipment, net of accumulated depreciation and amortization | 179,202 |
| Intangible assets, net of accumulated amortization | -- |
| Available-for-sale securities | 464,823 |
| Other Assets | 57,083 |
| | $4,078,258 |

The accompanying notes are an integral part of these statements.

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BIOMERICA, INC.
CONSOLIDATED BALANCE SHEET - Continued (UNAUDITED)

| | November 30, 2007 |
|---|---|
| **Liabilities and Shareholders' Equity** | |
| **Current Liabilities** | |
| Accounts payable and accrued liabilities | $ 563,688 |
| Accrued compensation | 423,930 |
| Shareholder loan | 138,111 |
| Capital lease - short-term portion | 4,733 |
| Equipment loan - short-term portion | 44,873 |
| Total Current Liabilities | 1,175,335 |
| Capital lease - long-term portion | 1,729 |

| | |
|---|---|
| Equipment loan - long-term portion | 136,327 |
| Shareholders' Equity | |
| Common stock, $0.08 par value authorized 25,000,000 shares, issued and outstanding 6,113,839 | 489,105 |
| Additional paid-in-capital | 17,309,898 |
| Accumulated other comprehensive loss | (174,898) |
| Accumulated deficit | (14,859,238) |
| Total Shareholders' Equity | $ 2,764,867 |
| Total Liabilities and Equity | $ 4,078,258 |

The accompanying notes are an integral part of these statements.

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

| For the six months ended November 30, | 2007 |
|---|---|
| Cash flows from operating activities: | |
| Net income from continuing operations | $ 888,744 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | |
| Depreciation and amortization | 31,750 |
| Common stock, warrants and options issued for services rendered | 10,309 |
| Provision for losses on accounts receivable | 73,550 |
| Changes in current assets and liabilities: | |
| Accounts Receivable | (231,135) |
| Inventories | (207,277) |
| Prepaid expenses and other current assets | (134,586) |
| Accounts payable and other accrued liabilities | (102,563) |
| Accrued compensation | (143,662) |
| Net cash provided by (used in) operating activities | 185,130 |
| Cash flows from investing activities: | |
| Purchases of property and equipment | (40,328) |
| Net cash used in investing activities | (40,328) |
| Cash flows from financing activities: | |
| Repayment of shareholder loan | (29,759) |
| Proceeds from sale of common stock | -- |
| Proceeds from exercise of stock options | 58,444 |
| Payments on capital lease | (2,112) |

| | |
|---|---|
| Increase in loan for equipment purchase | 119,530 |
| Net cash provided by financing activities | 146,103 |
| Net increase (decrease) in cash and cash equivalents | 290,905 |
| Cash and cash equivalents at beginning of period | 516,900 |
| Cash and cash equivalents at end of period | $ 807,805 |
| Supplemental Disclosure of Cash Flow Information: | |
| Cash paid during the period for: | |
| Interest | $ 24,636 |
| Income taxes | 1,600 |
| Change in unrealized holding gain (loss) on available-for-sale securities | $ 54,819 |

The accompanying notes are an integral part of these statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

November 30, 2007

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

(2) As of November 30, 2007, the Company had cash and available-for-sale securities in the amount of $808,471 and working capital of $2,201,815. The Company also has $464,823 of long term available-for-sale securities.

(3) In December 2004, the Financial Accounting Standards Board ("FASB") Issued Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS No. 123R). SFAS No. 123R revised SFAS No. 123, Accounting For Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance. SFAS No. 123R requires compensation costs related to share-based payment transactions to be recognized in the financial statement (with limited exceptions). The amount of compensation cost is measured based on the grant- date fair value of the equity or liability instruments issued. Compensation cost is recognized over the period that an employee provides service in exchange for the award. As of the beginning of fiscal 2007, June 1, 2006, the Company was required to account for stock-based compensation using this method.

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

For the six months ended November 30, 2007, the Company expensed $10,309 of stock option expense due to SFAS 123(R) in its financial statements.

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(4) The following summary presents the options granted, exercised, expired, cancelled and outstanding as of November 30, 2007:

| | Number of Options and Warrants | | | Weighted Average Exercise |
|---|---|---|---|---|
| | Employee | Non-employee | Total | Price |
| Outstanding May 31, 2007 | 1,836,083 | 217,166 | 2,053,249 | $ 0.48 |
| Granted | 41,000 | -- | 41,000 | .98 |
| Exercised | (169,625) | -- | (169,625) | .34 |
| Cancelled or expired | (25,500) | -- | (25,500) | .63 |
| Outstanding November 30, 2007 | 1,681,958 | 217,166 | 1,899,124 | $ .66 |

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

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

(7) Reference is made to Note 3 of the Notes to Consolidated Financial Statements contained in the Company's Annual Report on Form 10-KSB for the fiscal year ended May 31, 2007, for a description of the investments in affiliates and consolidated subsidiaries.

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

(9) Aggregate cost exceeded market value of available-for-sale securities by approximately $174,900 at November 30, 2007.

(10) Earnings Per Share

In February 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards (SFAS) No. 128, EARNINGS PER SHARE ("EPS"). SFAS No. 128 requires dual presentation of basic EPS and diluted

EPS on the face of all income statements issued after December 15, 1997 for all entities with complex capital structures. Basic EPS is computed as net income divided by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur from common shares issuable through stock options, warrants and other convertible securities.



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

| | Six Months Ended | | Three Months En | |
|---|---|---|---|---|
| November 30, | 2007 | 2006 | 2007 | |
| Numerator: | | | | |
| Income from continuing operations | $ 888,744 | $ 143,151 | $ 3,358 | $ 1 |
| Income from discontinued operations | -- | 27,869 | -- | |
| Numerator for basic and diluted net income per common share | $ 888,744 | 171,020 | $ 3,358 | $ 1 |
| Denominator for basic net income per common share | 6,009,282 | 5,926,111 | 6,066,454 | 5,9 |
| Effect of dilutive securities: | | | | |
| Options and warrants | 1,338,389 | 453,854 | 1,262,812 | 4 |
| Denominator for diluted net income per common share | 7,347,671 | 6,379,965 | 7,329,266 | 6,3 |
| Basic net income per common share: | | | | |
| Income from continuing operations | $ .15 | $ .02 | $ .00 | $ |
| Income from discontinued operations | .00 | .00 | .00 | |
| Basic net income per common share | $ .15 | $ .02 | $ .00 | $ |
| Diluted net income per common share: | | | | |
| Income from continuing operations | $ .12 | $ .02 | $ .00 | $ |
| Net income from discontinued operations | .00 | .00 | .00 | |
| Diluted net income per common share | $ .12 | $ .02 | $ .00 | $ |

(11) In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS No. 123R). SFAS No. 123R revised SFAS No. 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance. SFAS No.

123R 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 expected life of the option.

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

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



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

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

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

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

In September 2006, the FASB issued SFAS No. 158, Employers' Accounting For Defined Benefit Pension and Other Postretirement Plans. Effective in calendar- year 2006 (with certain exceptions) for public companies and calendar-year 2007 (with certain exceptions) for private companies, SFAS No. 158 represents the "first phase" of a planned "two-phased" project where the FASB is working on improving financial reporting related to pension and other postretirement (OPB) plans. SEC registrants have been required to disclose the "expected impact" of implementing SFAS No. 158 in filings made after September 30, 2006 and before the effective date of SFAS No. 158. The adoption of SFAS No. 158 did not have a material impact on the Company's financial statements.



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

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

| | For the Six Months Ended 11/30/07 | 11/30/06 |
|---|---|---|
| Revenues from sales to unaffiliated customers: | | |
| United States | $ 568,000 | $ 710,000 |
| Asia | 443,000 | 224,000 |
| Europe | 1,272,000 | 1,185,000 |
| South America | 35,000 | 37,000 |
| Middle East | 17,000 | 11,000 |
| Oceania | 1,000 | 289,000 |

| | | |
|---|---|---|
| Other | 32,000 | 29,000 |
| | $2,368,000 | $2,485,000 |

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

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

In February 2007 the Board of Directors granted a stock option for 50,000 options to directors of the Company. The options vested one quarter immediately and one quarter in May 2007. One quarter will vest each year thereafter on the grant date. The exercise price is $.57 per share and the option expires in five years. Management assigned a value of $18,112 to these options.

In April 2007 the Board of Directors granted a stock option for 25,000 options to a new Company director. The options vested one half immediately and then one quarter per year thereafter. The option is at the exercise price of $.76 per share and expires in five years. Management assigned a value of $11,632 to this option.

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

In May 2007 the Board of Directors granted stock options for 171,000 options to certain officers and directors. The options vested one half immediately and then one quarter per year thereafter. The options are at the exercise price of $.80 and expire in five years. Management assigned a value of $78,895 to these options.

In July 2007 the Board of Directors granted a stock option for 25,000 options to a new Company director. The options vested one half immediately and then one quarter per year thereafter. The option is at the exercise price of $.78 per share and expires in five years. Management assigned a value of $11,343 to this option.

In November 2007 the Board of Directors granted stock options for 16,000 options to employees of the Company. The options vested one quarter immediately and then will vest one quarter per year thereafter. The options are at the exercise price of $1.30 and expire in five years. Management assigned a value of $12,589 to these options.



During the six month period ended November 30, 2007, employees exercised warrants and stock options for 169,625 shares at purchase prices ranging from $.20-$.73 per share. The total proceeds to the Company was $58,444.

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. A discount rate equivalent to 5-year (or other life of the option or warrant) Treasury constant maturity interest rates is utilized. The historical volatility of the stock is calculated using weekly historical closing prices for the period prior to the option grant that is equivalent to the expected life of the option as reported by Yahoo Finance. For purposes of the SFAS 123 footnote disclosure, the Black-Scholes Model is also used for calculating employee options and warrants valuations.

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

(14) In August 2007, the Company and the holder of the Note payable-shareholder agreed to the extension of the note due date until September 1, 2008, at the same terms and conditions agreed upon in August 2006.

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

As a result of its insurance policy coverage, the Company believes the estimated fair value of these indemnification agreements is minimal and has no liabilities recorded for these agreements as of November 30, 2007. The Company enters into indemnification provisions under (i) its agreements with other companies in its ordinary course of business, typically with business partners, contractors, and customers, landlords and (ii) its agreements with investors. Under these provisions the Company generally indemnifies and hold harmless the indemnified party for losses suffered or incurred by the indemnified party as a result of the Company's activities or, in some cases, as a result of the indemnified party's activities under the agreement. These indemnification provisions often include indemnifications relating to representations made by the Company with regard to intellectual property rights. These indemnification provisions generally survive termination of the underlying agreement. The maximum potential amount of future payments the Company could be required to make under these indemnification provisions is unlimited. The Company has not incurred material costs to defend lawsuits or settle claims related to these indemnification agreements. As a result, the Company believes the estimated fair value of these agreements is minimal. Accordingly, the Company has no liabilities recorded for these agreements as of November 30, 2007.

(16) Subsequent Events

In December 2007 the holder of warrants to purchase 8,000 shares of Biomerica restricted common stock, at the exercise price of $.25, exercised his warrant. Proceeds to the Company were $2,000.



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND SELECTED FINANCIAL DATA

CERTAIN INFORMATION CONTAINED HEREIN (AS WELL AS INFORMATION INCLUDED IN ORAL STATEMENTS OR OTHER WRITTEN STATEMENTS MADE OR TO BE MADE BY BIOMERICA) CONTAINS STATEMENTS THAT ARE FORWARD-LOOKING, SUCH AS STATEMENTS RELATING TO ANTICIPATED FUTURE REVENUES OF THE COMPANY AND SUCCESS OR CURRENT PRODUCT OFFERINGS. SUCH

FORWARD-LOOKING INFORMATION INVOLVES IMPORTANT RISKS AND UNCERTAINTIES THAT COULD SIGNIFICANTLY AFFECT ANTICIPATED RESULTS IN THE FUTURE, AND ACCORDINGLY, SUCH RESULTS MAY DIFFER MATERIALLY FROM THOSE EXPRESSED IN ANY FORWARD-LOOKING STATEMENTS MADE BY OR ON BEHALF OF BIOMERICA. THE POTENTIAL RISKS AND UNCERTAINTIES INCLUDE, AMONG OTHERS, FLUCTUATIONS IN THE COMPANY'S OPERATING RESULTS. THESE RISKS AND UNCERTAINTIES ALSO INCLUDE THE SUCCESS OF THE COMPANY IN RAISING NEEDED CAPITAL, THE ABILITY OF THE COMPANY TO MAINTAIN REQUIREMENTS TO BE LISTED ON NASDAQ, THE CONTINUAL DEMAND FOR THE COMPANY'S PRODUCTS, COMPETITIVE AND ECONOMIC FACTORS OF THE MARKETPLACE, AVAILABILITY OF RAW MATERIALS, HEALTH CARE REGULATIONS AND THE STATE OF THE ECONOMY. READERS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS, WHICH SPEAK ONLY AS OF THE DATE HEREOF, AND THE COMPANY UNDERTAKES NO OBLIGATION TO UPDATE THESE FORWARD-LOOKING STATEMENTS.

RESULTS OF OPERATIONS

Consolidated net sales for Biomerica were $2,367,599 for the first six months of fiscal 2008 as compared to $2,485,442 for the same period in the previous year. This represents a decrease of $117,843, or 4.7%. For the quarter then ended net sales were $1,027,534 as compared to $1,332,176 for the same period in the previous year. This represents a decrease of $304,642, or 22.9%. The decrease in sales from fiscal 2007 to 2008 is primarily a result of the loss of one large customer in Australia.

For the six months ended November 30, 2007 as compared to 2006, cost of sales decreased from $1,591,373, or 64.0% of sales, to $1,276,809, or 53.9% of sales. For the three month period then ended cost of sales decreased from $813,758, or 61.1% of sales, to $541,188, or 52.7% of sales. This decrease was primarily due to the product mix of the sales, decreases in Mexico expenses and the building of inventory, including new products, which has associated labor and overhead costs included in the valuation.

For the six months ended November 30, 2007 compared to 2006, selling, general and administrative costs increased by $106,722, or 16.8%. For the three months then ended these expenses increased by $76,894, or 22.3%. These increases were primarily a result of increased advertising, commissions, wages and bad debt expense.

For the six months ended November 30, 2007 compared to 2006, research and development increased by $28,677, or 28.8% and for the three months decreased by $66. The increase for the six months was due to a higher wages and materials for the research of new products and materials.

For the six months ended November 30, 2007, other income of $707,754 was realized as compared to $35 in the prior year, which resulted in an increase of $707,719. For the three months then ended, other income of $8,925 was realized as compared to $25 in the prior fiscal year. The increase for the six months was a result of the sale of a marketable security that had been carried on the Company's books at zero value.

For the six months interest expense decreased from $16,242 to $15,448. For the three months interest expense increased from $8,740 to $11,830.

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LIQUIDITY AND CAPITAL RESOURCES

As of November 30, 2007, the Company had cash and current available-for-sale securities in the amount of $808,471 and working capital of $2,201,815. The Company also has long-term available-for-sale securities in the amount of $464,823.

During the six months ended November 30, 2007, the Company operations provided cash in the amount of $185,130 as compared to cash used in operations of $4,292 in the same period in the prior fiscal year. Cash provided by financing activities for the six months ended November 30, 2007 was $146,103 due to borrowing of $119,530 to finance the purchase of equipment as compared to cash provided by financing activities of $9,486 in fiscal 2007. Purchases of property and equipment for fiscal 2008 were $40,328 compared to $86,737 in fiscal 2007. The Company expects delivery of $181,200 in equipment during the month of January 2008. Funds paid for this equipment are included in prepaid assets until the Company takes delivery of the equipment.

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 contained in the Company's annual report on Form 10KSB for the period ended May 31, 2007, 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. When necessary an allowance is established for estimated returns as revenue is recognized.

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

Reserves are provided for excess and obsolete inventory, which are estimated based on a comparison of the quantity and cost of inventory on hand to management's forecast of customer demand. Customer demand is dependent on many factors and requires us to use significant judgment in our forecasting process. We must also make assumptions regarding the rate at which new products will be accepted in the marketplace and at which customers will transition from older products to newer products. Once a reserve is established, it is maintained until the product to which it relates is sold or otherwise disposed of, even if in subsequent periods we forecast demand for the product. The Company has classified certain inventory as long-term since it is estimated that it will not be used within the next year.

We have been in a loss position for tax purposes in prior years, and have established a valuation allowance against deferred tax assets, as we do not believe it is likely that we will generate sufficient taxable income in future periods to realize the entire benefit of our deferred tax assets. Predicting future taxable income is difficult, and requires the use of significant judgment. At November 30, 2007, all of our deferred tax assets were reserved. Accruals are made for specific tax exposures and are generally not material to our operating results or financial position, nor do we anticipate material changes to these reserves in the near future.

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 six months ended November 30, 2007 and 2006, respectively, was $56,792 and $46,785 and for the quarters then ended was $21,899 and $21,716. 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.



Please refer to the annual report on Form 10-KSB for the period ended May 31, 2007 for an in-depth discussion of risk factors.

FACTORS THAT MAY AFFECT FUTURE RESULTS

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

Item 4. CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Chief Financial Officer (the Company's principal executive officer and principal financial officer, respectively) have concluded, based on their evaluation as of November 30, 2007, that the design and operation of the Company's "disclosure controls and procedures" (as defined in rules 13a-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act") are effective to ensure that information required to be disclosed by the Company in the reports filed or submitted by the Company under the Exchange Act is accumulated, recorded, processed, summarized and reported to the Company's management, including the Company's principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding whether or not disclosure is required.

During the six months ended November 30, 2007, there were no changes in the Company's "internal controls over financial reporting" (as defined in Rule 13a-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.



PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS. Inapplicable.

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

Item 3. DEFAULTS UPON SENIOR SECURITIES. Inapplicable.

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

The 2007 Annual Meeting of the Company's stockholders was held on November 29, 2007. The only matter voted upon at the meeting, as set forth in the proxy statement dated September 28, 2007, as filed with the Securities and Exchange Commission pursuant to Rule 14 under the Securities Act of 1934, was the election of directors. The following summarizes the voting:

Proposal No. 1: Election of Directors

| Name | For | Votes Withheld |
|---|---|---|
| Barbieri | 5,037,500 | 65,927 |
| Cano | 5,045,870 | 57,557 |
| Emerson | 5,047,420 | 56,007 |
| Irani | 5,041,895 | 61,532 |
| Moore | 5,048,970 | 54,457 |
| Roehm | 5,048,370 | 55,057 |

All directors were elected.

Item 5. OTHER INFORMATION. Inapplicable.

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

(a) Exhibits

31 Certifications of Chief Executive Officer and 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 Certifications of Chief Executive Officer and Chief Financial Officer pursuant To 18 U.S.C., Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.



SIGNATURES

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

Date: January 14, 2008

BIOMERICA, INC.

By: /S/ Zackary S. Irani
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Zackary S. Irani
Chief Executive Officer