BIOMERICA INC
Form 10KSB/A
June 11, 2003

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

FORM 10-KSB/A

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

FOR THE FISCAL YEAR ENDED MAY 31, 2002 COMMISSION FILE NUMBER: 0-8765

BIOMERICA, INC.
(Small Business Issuer 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, CA	92663
(Address of principal executive offices)	(Zip Code)

Issuer's Telephone Number: (949) 645-2111

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

(Title of each class)	(Name of each exchange on which registered)
NONE	OTC-Bulletin Board

Securities registered under Section 12(g) of the Exchange Act:
(Title of each class)
COMMON STOCK, PAR VALUE $0.08

Check whether the issuer (1) filed all reports required to be filed by Section13 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.
[X]

State issuer's revenues for its most recent fiscal year: $8,598,000.

State the aggregate market value of the voting and non-voting stock held by non-affiliates of the issuer (based upon 4,337,437 shares held by non-affiliates and the closing price of $.56 per share for Common Stock in the over-the-counter market as of May 31, 2002): $2,428,965.

Number of shares of the issuer's common stock, par value $0.08, outstanding as of August 27 2002: 5,172,364.

DOCUMENTS INCORPORATED BY REFERENCE: The issuer's proxy statement for its 2002 Annual Meeting of Stockholders is incorporated into Part III hereof.

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 fiscal 2002 we had three subsidiaries, Lancer Orthodontics, Inc. ("Lancer"), an international manufacturer of orthodontics products, Allergy Immuno Technologies, Inc. ("AIT"), which is engaged in providing specialized laboratory testing services and ReadyScript, Inc. ("ReadyScript"), which developed a wireless handheld point of care system for physicians, but which operations were discontinued during fiscal 2001. On May 30, 2002, Biomerica sold its controlling interest in AIT. All subsidiaries are majority-controlled subsidiaries.

Lancer is engaged in the design, manufacture and distribution of orthodontic products. During 2002, Lancer issued 37,595 additional shares to Biomerica as reimbursement for expenses paid on Lancer's behalf. The Company valued these shares at $8,271. Biomerica's direct ownership percentage of Lancer is 31.63% and its direct and indirect (via agreements with certain shareholders) voting control over Lancer is greater than 50% as of May 31, 2002. The parties to the voting agreements are Lancer shareholder, Dr. William Thompson and the Biomerica directors.

In June 1999, we raised $2 million in equity to develop the Infrastructure of our e-health business, now incorporated as ReadyScript, Inc. From June 1999 until April 2001 we used the proceeds for developing an on-line drugstore and ReadyScript's infrastructure (a wireless medication management system that enables physicians to wirelessly transmit legible, pre-qualified formulary-compliant prescription orders

directly to the patient's choice of pharmacy).

The Company adopted a formal plan in April 2001 to discontinue Operations of its ReadyScript subsidiary. Management is currently responding to any inquiries about the possible purchase of the ReadyScript technology, but does not have a buyer at the current time. Management has been, and is, presenting the ReadyScript technology to technology companies operating in the healthcare field or companies that could possibly benefit from the ReadyScript technology. Management will work to dispose of this technology, if possible, within the next year, however there is no assurance that a buyer for the technology can be found. As time goes on it may make it harder to sell these assets due to technological changes in the marketplace. These assets have not been valued on the balance sheet since they were obtained through research and development, which was expensed at the time it was incurred. Biomerica has not recognized any losses in revenues as a result of the decision to discontinue the ReadyScript operation because it was a development-stage company with no resources. Certain assets were written off during the closure and these were recorded as losses in the consolidated financial statements. The subsidiary is being reported in the financial statements as a discontinued operation because it is no longer an operating entity.

The Company adopted a formal plan in March, 2002, to discontinue operations of AIT. Biomerica was issued 808,558 shares of AIT common stock in April of 2002 for liabilities it assumed from AIT. The shares were valued at $.015 per share since the stock had been trading at that time between $.01 and $.02 per share. On May 30, 2002, we sold 13,350,000 shares of AIT common stock held by us, representing 98.1% of the shares we owned in AIT, to a third party in exchange for $212,500, which management believes approximated fair market value at the time of the sale. A non-interest bearing loan was transferred to the purchaser of the AIT shares as part of the sale. Biomerica assumed the assets and liabilities of AIT with the exception of the note evidencing the loan. The amount of the transferred loan to the purchaser of AIT was $225,282. The note was due on demand and no payments were made on the note. The operations of AIT are being reported in the financial statements as discontinued operations. We retained 255,575 shares, or 1.4%, of AIT common stock and sold 13,350,000 shares since that was the amount of shares that the purchaser wanted to buy.

Prior to the transaction Biomerica assumed all assets and liabilities of AIT, which included cash ($803), inventory ($2,600), patents ($9,608), accounts payable ($27,463),net receivables ($1,375), prepaids ($747) and net fixed assets ($213). There were no other terms in the agreement which were material. AIT was the holder of a 10,000 share option in Hollister-Stier, a privately held company. Based on information received from Hollister-Stier regarding valuation of the options, these options were transferred to Biomerica in exchange for the reduction of a note payable to Biomerica by $108,100.

OUR MEDICAL DEVICE BUSINESS

Our existing medical device business is conducted through two companies: (1) Biomerica, Inc., engaged in the diagnostic products market and (2) Lancer Orthodontics, Inc., engaged in the orthodontic 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 in three markets: 1) clinical laboratories, 2) physicians offices and 3) 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, 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, require no instrumentation, give reliable results in minutes and can be performed with confidence in the home or the physician's office. The majority of our over-the-counter rapid tests are FDA cleared.

Our clinical laboratory diagnostic products include tests for thyroid conditions, yeast infections, H. pylori, and others. These diagnostic test kits utilize enzyme immunoassay or radioimmunoassay 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.

During fiscal 2002 we introduced the Aware Breast Self-Examination Pad, Which is a patented, FDA-cleared polyurethane pad containing a silicone oil lubricant. The pad is designed to enhance the sense of touch by reducing friction between the fingers and the skin. The pad is packaged with an instructional video which teaches the proper techniques for performing breast self-examination. The target markets for the product include retail, catalog, multi-level marketing channels, and the medical community.

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's product line includes preformed bands, direct bonding pads, various brackets, buccal tubes, arch wires, lingual attachments and related accessories. The foregoing are assembled to standard prescriptions or the specifications of private label customers. Lancer also markets products which are purchased and resold to orthodontists, including sealants, adhesives, elastomerics, headgear cases, retainer cases, and orthodontic wire.

Most of Lancer's manufacturing and shipping operations are located in Mexicali, Mexico, in order to reduce the cost of manufacturing and compete more effectively worldwide. Lancer maintains its headquarters in San Marcos, California where it houses administration, engineering, sales and marketing,

and customer services.

DISCONTINUED OPERATIONS

The Company's fiscal 2002 and 2001 losses were partially the result of its investment in ReadyScript. 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. The net assets and operating results of ReadyScript are shown separately in the accompanying consolidated financial statements as discontinued operations and are held for sale.

On May 30, 2002, Biomerica received $212,500 for its interest in AIT and recorded a gain of $224,481 on the sale. The gain from sale and loss from operations are included in discontinued operations in the accompanying statement of operations for the year ended May 31, 2002. Certain reclassifications have been made to the 2001 balances to conform to the 2002 presentation for discontinued operations.

PRODUCTION

All of our diagnostic test kits are processed and assembled at our facilities in Newport Beach, California. 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. In addition, we employ a qualified external quality assurance consultant who monitors procedures and provides guidance in conforming with the Good Manufacturing Practices 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.

During fiscal 2002 Lancer converted its Mexican assets and obligations to its own division, a Mexican corporation named Lancer Orthodontics de Mexico (Lancer de Mexico). This division administers services previously provided by an independent manufacturing contractor. A new lease was negotiated effective April 1, 2001, for the 16,000 square foot facility used for Lancer's Mexican operations. Utility and Mexican vendor obligations have been converted to the Lancer de Mexico name. This conversion will eliminate the expense of an administrative fee and is expected to provide better control in meeting obligations. The potential impact for the use of Lancer's own facility, in terms of a corporation entity with legal standing in Mexico, is that over a fiscal year Lancer would save approximately $100,000 in service fees over a Mexican contracted corporate entity.

Should Lancer discontinue operations in Mexico, it is responsible for accumulated employee seniority obligations as prescribed by Mexican law. At May 31, 2002, this obligation was approximately $365,000. Such obligation is contingent in nature and accordingly has not been accrued in Lancer's financial statements.

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. Lancer is engaged in development programs to improve and expand its orthodontic products and production techniques. Lancer consults frequently with practicing orthodontists. The dental amalgam development was terminated because of poor sales. This termination did not impact other expenses or revenues.

Research and development expenses incurred by Biomerica for the years Ended May 31, 2002 and 2001 aggregated approximately $160,000 and $322,000, respectively. These expenses included approximately $4,000 and $72,000 for fiscal 2002 and 2001, respectively, for Lancer's product development.

MARKETS AND METHODS OF DISTRIBUTION

Biomerica has approximately 300 current customers for its diagnostic business, of which approximately 60 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 three main markets: (a) clinical laboratories, (b) physicians' offices, and (c) over-the-counter drug stores. Separate marketing plans are utilized in targeting each of the three markets.

Lancer sells its products directly to orthodontists through company-paid sales representatives in the United States. At the end of its fiscal year, Lancer had seven sales representatives, all in the United States, all of whom are employees of Lancer.

In selected foreign countries, Lancer sells its products directly to orthodontists through its international marketing division. Lancer also sells its products through distributors in certain foreign countries and to other companies on a private label basis. Lancer has entered into a number of distributor agreements whereby it granted the marketing rights to its products in certain sales territories in Mexico, Central America, South America, Europe, Canada, Australia, and Japan. The distributors complement the international marketing department which was established in 1982 and currently employs three people.

Lancer also markets products which are purchased and resold to orthodontists, including sealants, adhesives, elastomerics, headgear cases, retainer cases and orthodontic wire.

No customer accounted for 10% or more of Lancer's or Biomerica's sales in the fiscal years ended May 31, 2002 and 2001.

BACKLOG

At May 31, 2002 and 2001 Biomerica had a backlog of $122,000 and $80,000 respectively. As of May 31, 2002 and 2001, Lancer had a backlog of $84,000 and $167,000, respectively. Lancer had decreased backorders in fiscal 2002 compared to fiscal 2001 because had increased efficiencies in planning (thus better forecasting of demand) and softened summer demand that allowed them to catch up their back orders from one year to another. Biomerica had increased backlog due to the initial order for the breast self-examination pad.

RAW MATERIALS

The principal raw materials utilized by us consist of various chemicals, serums, reagents, radioactive isotopes 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. At May 31, 2002, one company accounted for 17.3% of accounts payable. No company accounted for more than 10% of purchases for the years ended May 31, 2002 and 2001.

We maintain inventories of antibodies and antigens as components for our diagnostic test kits. Due to a limited shelf life on some products such as the RIA kits, finished kits are prepared as required for immediate delivery of pending and anticipated orders. Sales orders are normally processed on the day of receipt.

The principal raw materials used by Lancer in the manufacture of its products include: stainless steel, which is available from several commercial sources; nickel titanium, which is available from three sources; and lucolux translucent ceramic, which is currently only available from one source, General Electric, and is purchased on open account. Ceramic material similar to General Electric's lucolux translucent ceramic is available from other sources. Lancer had no difficulty in obtaining an adequate supply of raw materials during its 2002 fiscal year, and does not anticipate that there will be any interruption or cessation of supply in the future.

COMPETITION

Immunodiagnostic products are currently produced by more than 100 companies, a majority of which are located within the United States. Biomerica and its subsidiaries are 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. The prices for our products compare favorably with those charged by most of our competitors.

We believe we compete primarily on the basis of our reputation for the quality of our products, the speed of our test results, the unique niches we fill in the market, our patent position, 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 strategic cooperations with larger companies and distributors.

Lancer encounters intense competition in the sale of orthodontic products. Lancer's management believes that Lancer's seven major competitors are: Unitek, a subsidiary or division of 3M; "A" Company and Ormco, subsidiaries or divisions of Sybron Dental Specialities; RMO Inc., a private company; American Orthodontics, a private company; GAC, a private company; and Dentaurum, a foreign company. Lancer estimates that these seven competitors account for approximately 80% of the orthodontic products manufactured and sold in the United States. Lancer's management also believes that each of these seven competitors is larger than Lancer, has more diversified product lines and has financial resources exceeding those of Lancer. While there is no assurance that Lancer will be successful in meeting the competition of these seven major competitors or other competitors, Lancer has, in the past, successfully competed in the orthodontic market and has achieved recognition of both its name and its products.

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 - FortelT Ultra Midstream Pregnancy Test, FortelT Ovulation test, EZ-LHT Rapid Ovulation test, Strep A Rapid Test

Class II - GAP(tm) IgG H. Pylori ELISA kit, IgG , T3 EIA kit, T4 EIA kit, TSH ELISA kit, Anti-thyroglobulin ELISA kit, anti-TPO ELISA kit, Free T4 ELISA kit, Neo-TSH RIA 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), EZ-PSA Rapid test (professional), Aware(tm) Breast Self-Examination, drugs of abuse rapid tests, EZ-HP Professional, PTH (intact) IRMA kit

Class III - 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, Allerquant(tm) IgG Food Allergy ELISA kit, Allerquant(tm) Med90G, Allerquant(tm) 14 Foods, Custom Food Allergy Kit, Candiquant(tm) IgG ELISA kit, Candiquant(tm) IgM ELISA kit, Candiquant(tm) IgA ELISA kit, Candigen(tm) Candida Albicans antigen ELISA kit, Free Alpha Subunit RIA kit, EZ-HP OTC.

If the FDA finds that the device is not substantially equivalent to a predicate device, the device is 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. 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 requirement, 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 QSR, which, unless the device is a Class I exempt device, 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 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, 2003. We are also registered with the Department of Health and Human Services, Public Health Service of the FDA as a Device establishment. This registration expires on February 28, 2003. We also hold two radioactive materials licenses from the State of California (both expiring on June 20, 2003), and two permits from the USDA, one expiring on January 28, 2003 and the other expiring on June 30, 2003. 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 goes into effect beginning December 2003. The Company has begun the process of complying with the "CE Mark" directives and believes it will be in full compliance by the time the directive becomes effective. 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:

T3 EIA KIT
T4 EIA KIT
TSH ELISA KIT
Anti-thyroglobulin ELISA kit
Anti-TPO ELISA Kit
Free T4 EIA Kit
Neo TSH RIA Kit
GAP IgG H. Pylori ELISA Kit
PTH (Intact) ELISA Kit
Calcitonin ELISA Kit
Erythropoietin ELISA Kit
ACTH ELISA Kit
Midstream Pregnancy Test
EZ-HCG Rapid Pregnancy Test
EZ-LH(tm) Rapid Ovulation Test
EZ Detect(tm) Fecal Occult Blood Test (Physician's package, OTC package)
Strep A Rapid Test
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
PTH (intact) RIA Kit
Isletest(tm) GAD ELISA Kit
Isletest(tm) ICA ELISA Kit
Isletest(tm) IAA ELISA Kit
Allerquant(tm) IgG Food Allergy ELISA Kit (90-foods, 14-foods, custom kits)
Candiquant(tm) IgG, IgM, and IgA ELISA Kits for Candida Albicans antibodies
Candigen Candida Albicans antigen ELISA KIT
Free Alpha Subunit RIA kit
Fortel(tm) Ultra Midstream Pregnancy Test
Fortel(tm) Ovulation Test
EZ-PSA Rapid Test

Lancer is licensed to design, manufacture, and sell orthodontic appliances and is subject to the Code of Federal Regulations, Section 21, parts 800-1299. The FDA is the governing body that assesses and issues Lancer's license to assure that it complies with these regulations. Lancer is currently licensed, and its last assessment was in November 1997. Also, Lancer is registered and licensed with the state of California's Department of Health Services. The Company believes that all Lancer products sold in the U.S. comply with FDA regulations.

Effective June 18, 1998, fifteen major European countries are requiring a CE (European Community) certification to sell products within their countries. In order to obtain this CE certification Lancer retained British Standards Institution (BSI) to evaluate Lancer's quality system. Lancer's quality system is imaged under International Standards Organization (ISO) 9002. ISO 9002 is an internationally recognized standard in which companies establish their methods of operation and commitment to quality. There are 20 clauses for which Lancer has developed standard operating procedures in accordance with these ISO 9002 requirements.

EN 46002 is the medical device directive (MDD) for the European Community. Strict standards and clauses within the MDD are required to be implemented to sell within the European Community. In order for Lancer's medical devices to be sold within the European Community with the CE Mark, Lancer must fully comply with the EN 46002 requirements. Lancer has also constructed a technical file that gives all certifications and risk assessments for Lancer's products as a medical device (the "Product Technical Files").

With ISO 9002, EN 46002, and the Product Technical Files, Lancer applied for and was granted certification under ISO 9002, EN 46002, and CE. With the CE certification, Lancer is now permitted to sell its products within the European Community. The international ISO 9002 and EN 46002 standards will become

obsolete in December 2003. As a result, Lancer is currently in the process of updating its Quality Management System for conformance to the new ISO 9000: 2000 international quality system standards, as well as the ISO 13485 standard for medical devices. Compliance with and certification to both ISO 9000:2000 and ISO 13485 is expected in the Spring of 2003.

Biomerica has begun the process of obtaining CE certification and expects to have it completed by the December 2003 deadline.

SEASONALITY OF BUSINESS

The business of the Company and its subsidiaries has not been subject to significant seasonal fluctuations.

FOREIGN BUSINESS

All of our fixed assets, excluding some of Lancer's assets, are located within southern California. 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 the Biomerica and its consolidated subsidiaries:

Year Ended May 31,

	2002	2001
U.S. Customers	$4,254,000/49.5%	$4,599,000/52.0%
Asia	199,000/ 2.3%	221,000/ 2.5%
Europe	2,313,000/26.9%	2,207,000/25.0%
Middle East	449,000/ 5.2%	445,000/ 5.0%
Oceania	393,000/ 4.6%	318,000/ 3.6%
S. America	498,000/ 5.8%	558,000/ 6.3%
Other foreign	492,000/ 5.7%	491,000/ 5.6%
Total Revenues	$8,598,000/100%	$8,839,000/100%

We recognize that our foreign sales could be subject to some special or unusual risks which are not present in the ordinary course of business in the United States. Changes in economic factors, government regulations 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 are made primarily through a network of over 60 independent distributors in approximately 40 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 vendors, 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.

Lancer has certain license agreements as a licensee for three products. These licenses expire at varying dates from 4/21/04 until 10/12/10. As a licensor they have licensees on the design of a nickel titanium orthodontic archwire. These licenses expire on 4/4/06. All but one of the agreements requires royalty payment on a percentage of net sales dollars sold over a specified period. One specific license specifies a royalty payment based upon the number of units sold. All of such license agreements to which Lancer currently is a party, are for fixed terms which will expire after ten years

from the commencement of the agreement or upon the expiration of the underlying patents. After the expiration of the agreements of the patents, Lancer is free to use the technology that had been licensed.

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," "CAST," "COT," "EquistiK," "FelistiK," "Tri-Level Controls," "Tru-Level Controls," "T-Marker Controls," "AllerHalt," "Candiquant," "Candigen," "EZ-H.P." and "EZ-PSA." A trademark for "Aware" was issued and assigned in January, 2002.

The Company held a license for a diagnostic test for CAG-A as of May 31, 2001. Since that time, the Company decided not to market the product. At May 31, 2002, the Company recorded an impairment expense for the unamortized balance of the license in the amount of $100,320, which was reflected in the cost of sales in the year ended May 31, 2002.

On April 4, 1989, Lancer was granted a patent on its CounterForce design of a nickel titanium orthodontic archwire. On August 1, 1989, Lancer was granted a patent on its bracket design used in the manufacturing of interline and Intrigue orthodontic brackets. On September 17, 1996, Lancer was granted a patent on its method of laser annealing marking of orthodontic appliances. On March 4, 1997, Lancer was granted a patent on an orthodontic bracket and method of mounting. All of the patents are for a duration of 17 years. Lancer has entered into license agreements expiring in 2006 whereby, for cash consideration, the counter party has obtained the rights to manufacture and market certain products patented by Lancer. Lancer has also entered into a number of license and/or royalty agreements pursuant to which it has obtained rights to certain of the products which it manufactures and/or markets. The patents and agreements have had a favorable effect on Lancer's image in the orthodontic marketplace and Lancer's sales.

Lancer has made a practice of selling its products under trademarks and of obtaining protection for those trademarks in the United States and certain foreign countries. Lancer considers these trademarks to be of importance in the operation of its business.

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.

EMPLOYEES

As of August 14, 2002, the Company and its subsidiaries employed 63 full-time employees and 2 part-time employees in the United States. The number of employees between the two companies decreased over the previous year according to the following breakdown between departments:

	Total	
	2002	2001
Administrative	11	11
Marketing & sales	19	22

Research & development	1	3
Production and operations	32	37
	--	--
Total	63	73

In addition, Lancer, through its Mexican subsidiary, employees approximately 97 people. The decrease in employees at the Lancer facility in Mexico from 129 in the prior year was due to attrition of direct labor personnel and certain management whose tasks were assumed by other personnel. 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

During fiscal 2002 the company entered into a lease of the existing facilities of approximately 21,000 square feet of space in Newport Beach, California for a four year term which expires October 31, 2005. Pursuant to the lease we pay an annual base rent of $180,000 plus all real estate taxes and insurance costs. During fiscal 2002 the Company paid a total of approximately $179,000 in rent for approximately 21,000 square feet of space. The rent shall escalate by 3% on September 1, 2003. These facilities were used for diagnostic test kit research and development, manufacturing, marketing and administration. Management believes that the rent for the facilities in Newport Beach, CA is consistent with current market values for comparable property in the area. Management believes that the lease terms are the same as could be obtained in an arm's length transaction.

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.

At May 31, 2002, future aggregate minimum lease payments for Biomerica are as follows:

Years ending May 31	
2003	$163,248
2004	187,398
2005	188,748
2006	80,598
2007	1,674
	$621,666

On May 16, 2002, the Company signed a one-year sub-lease agreement for 1,392 square foot of office space, included in the above-described lease, for the sum of $1,642 per month.

Lancer leases its main facility under a non-cancelable operating lease expiring December 31, 2003, as extended, which requires monthly rentals that increase annually, from $2,900 per month in 1994 to $6,317 per month in 2004. The lease expense is being recognized on a straight-line basis over the term of the lease. The excess of the expense recognized over the cash paid aggregates $8,894 at May 31, 2002, and is included in accrued liabilities in the accompanying balance sheet. Total rental expense for this facility for each of the years ended May 31, 2002 and 2001 was approximately $69,000.

Lancer entered into a non-cancelable operating lease for its Mexico

facility which expires in March 2006 and requires average monthly rentals of approximately $6,000. Total expense for this facility for the years ended May 31, 2002 and 2001, was approximately $69,000 and $74,000.

At May 31, 2002, future aggregate minimum lease payments for Lancer are as follows:

Years ending May 31	
2003	$144,545
2004	114,659
2005	70,440
Thereafter	58,700
Total	$388,344

We believe that our facilities and equipment are in suitable condition and are adequate to satisfy the current requirements of our Company and our subsidiaries.

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

During fiscal 2002 Biomerica's common stock was traded on the Nasdaq Small Cap system under the symbol "BMRA". Since June 20, 2002, the Company's stock has been traded on the OTC Bulletin Board under the symbol "BMRA.OB".

On January 15, 2002, the Company had received a Nasdaq Staff Determination Indicating that the Company failed to comply with the net tangible assets or Shareholders' equity requirements for continued listing set forth in Marketplace Rule 4310(c)(2)(B), and that its securities were, therefore, subject to delisting from the Nasdaq SmallCap Market effective January 23, 2002. The Company requested a hearing before a Nasdaq Listing Qualifications Panel to review the Staff Determination. The request for a hearing stayed the delisting of the Company's securities pending the Panel's decision. On February 21, 2002, the hearing took place. In response to the hearing, on March 25, 2002, the Company received a Nasdaq Staff Determination Letter stating their decision with respect to the continued listing of the Company's securities. The Panel determined to continue the listing of the Company's securities on the Nasdaq SmallCap Market via an exception from the net tangible assets requirement. While the Company failed to meet this requirement, the Company was granted a temporary exception from the standard subject to the Company meeting certain conditions by specified deadlines.

The Company was unable to satisfy the conditions within the deadlines

Established by the Panel. Pursuant to a decision by the Nasdaq Listing Qualifications Panel, the Company's common stock was delisted from the Nasdaq Stock Market effective June 20, 2002, for failure to comply with the net tangible assets or shareholders' Equity requirements as set forth in Marketplace Rule 4310(c)(2)(B). The Company's securities were immediately eligible to trade on the OTC Bulletin Board and are traded under the symbol BMRA.OB.

On February 14, 2002, the Company received a Nasdaq Staff Determination Letter indicating that the Company failed to comply with the minimum $1.00 per share requirement for continued inclusion of its common stock under Marketplace Rule 4310(c)(4), and therefore was subject to delisting from the Nasdaq SmallCap Market. In accordance with Marketplace Rule 4310(c)(8)(D), the Company would have been provided 180 calendar days, or until August 13, 2002, to regain compliance. However, prior to that time, the Company was delisted according to the above mentioned reasons.

Shares traded on the OTC Bulletin Board are not as liquid as those traded on Nasdaq National market or the Nasdaq SmallCap market.

The following table shows the high and low bid prices for Biomerica's common stock over the last two years based upon data reported by NASDAQ.

	Bid Prices	
	High	Low
Quarter ended:		
May 31, 2002	$0.70	$0.41
February 28, 2002	$0.74	$0.45
November 30, 2001	$1.13	$0.35
August 31, 2001	$0.95	$0.52
May 31, 2001	$1.25	$0.656
February 29, 2001	$0.969	$0.313
November 30, 2000	$1.75	$0.75
August 31, 2000	$1.875	$1.25

As of August 21, 2002, the number of holders of record of Biomerica's common stock was approximately 1,019, excluding stock held in street name.

On April 10, 2002, the Company filed a Form S-4 for the proposed registration of between 488,200 and 984,274 shares of Biomerica common stock. The shares were to be issued for the purchase of the assets of the subsidiary Lancer Orthodontics, Inc. Due to market conditions, both boards of directors have agreed not to proceed with the proposed purchase and Biomerica requested in July 2002 that the registration statement be withdrawn. In addition, since Biomerica was unable to remain on the Nasdaq Small Cap Market, Lancer shareholders would not have had increased liquidity. This request was filed by EDGAR on September 27, 2002. The Company has seen no affect on operations as a result of the announcement that we would not be proceeding with the purchase. Fees associated with the proposed asset purchase were approximately $57,500.

No dividends have been declared or paid by Biomerica. We intend to employ all available funds for development of our business and, accordingly, do not intend to pay cash dividends in the foreseeable future.

With respect to the one-for-three reverse stock split that was approved at the last shareholders' meeting, the purpose of the reverse stock split would have been to try to meet the minimum bid price as required by Nasdaq in order to maintain listing. Therefore, the board will not effect the one-for-three reverse stock split.

The following is information on issuances of securities during the past three fiscal years:

Date	Title	Class or Amount	Persons Sold To	Price per Share	Total
9/00	common	113,375	insiders & qualified investors	$1.34	$151,438
5/01	common	34,643	qualified investors	$1.11	$38,615
4/01	common	126,075	insiders & qualified investors	$0.72	$90,774
6/01	common	14,166	insiders & qualified investors	$0.72	$10,200
3/02	common	17,000	insiders & qualified investors	$0.50	$8,500
3/02	common	6,250	qualified investor	$0.61	$3,813

The exemption relied upon for the issuance of the unregistered shares was that the shares were issued to accredited investors within the meaning of Securities and Exchange Commission Rule 501 of Regulation D.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

We currently have one active subsidiary, Lancer Orthodontics, Inc. ("Lancer"), which is engaged in manufacturing, sales and development of orthodontic products. We own approximately 31.63% of the outstanding stock of Lancer. We exercise effective control of 50.1% over Lancer via voting agreements with certain shareholders. As a result of our control and ownership, our financial statements are consolidated with those of Lancer. Lancer is a public company whose common stock is traded on the bulletin board system under the symbol "LANZ,". On May 30, 2002, Biomerica sold its controlling interest in Allergy Immuno Technologies, Inc. The operations of AIT for fiscal 2002 and 2001 are being reported as discontinued operations as a result of this sale.

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. The sale of some of the ReadyScript intangible assets is being discussed with various parties, however at this time there is not purchaser for these assets. The subsidiary is being reported in the financial statements as a discontinued operation because it is no longer an operating entity.

Fiscal 2002 Compared to Fiscal 2001

Our consolidated net sales were $8,598,054 for fiscal 2002 compared to $8,839,252 for fiscal 2001. This represents a decrease of $241,198, or 2.7% for fiscal 2002. Of the total consolidated net sales for fiscal 2002, $6,022,331 is attributable to Lancer, and $2,575,723 to Biomerica. Lancer's sales increased by $94,728 while Biomerica showed a sales decrease of $335,926. The increase at Lancer was primarily attributable to increased sales in the Middle East and Mexico. The decrease in sales at Biomerica was due to the loss of a large customer from fiscal 2001 as compared to fiscal 2002 (approximately $113,000-however less than 10% of revenues) however, most of the rest of the loss was attributable to lower sales with respect to screening programs.

Cost of sales in fiscal 2002 as compared to fiscal 2001 increased by $19,544 or 0.3%. Lancer's cost of sales as a percentage of sales increased from 67.4% to 69.1% in fiscal 2002 as compared to fiscal 2001. The increase was primarily attributable to increased sales to distributors and managed care facilities which have a smaller gross margin. Biomerica had an increase in cost of sales as a percentage of sales from 70.4% to 73.9% in fiscal 2002 as compared to fiscal 2001. The increase was due to the Company recording an impairment expense for the unamortized balance of a license in the amount of $100,320 which is reflected in cost of sales in the accompanying statement of operations for the year ended May 31, 2002. Both companies had decreased number of employees in the production area in fiscal 2002 as compared to fiscal 2001.

Selling, general and administrative costs decreased in fiscal 2002 as compared to fiscal 2001 by $250,804 or 8.1%. Lancer had a decrease of $199,619 in these costs due to decreases in labor costs, travel expenses and show costs. Biomerica had a decrease in fiscal 2002 as compared to fiscal 2001 of $51,185, primarily due to lower wages and related costs. Biomerica had decreased salaries and related expenses due to fewer personnel as well as decreased commission expense due to lower commissionable sales at Biomerica. In fiscal 2002, Lancer had costs associated with financing their line of credit. Approximately $29,000 of the financing cost was for legal, document, and audit fees paid to the asset-based lender that extended a new line of credit to Lancer. Approximately $15,000 of the financing costs was related to searching for investors and obtaining an opinion on the feasibility of the acquisition by Biomerica.

Research and development expense decreased in fiscal 2002 as compared to fiscal 2001 by $162,363 or 50.4%. Of this, Lancer had a decrease of $67,663, as a result of the transfer of personnel from product development to operations. In the prior year, Lancer had incurred research and development expenses on the amalgam product. This product was discontinued due to poor sales. The termination of this product did not impact other expenses or revenues. Biomerica had a decrease in research and development expenses of $94,700 primarily due to the lower wages and related costs due to less personnel in the research and development department.

Interest expense net of interest income, increased in fiscal 2002 as compared to fiscal 2001 by $14,928 or 58.7% due to borrowings against the line of credit at Biomerica which was offset by a decrease in interest at Lancer of $2,749.

Other expense, increased by $80,429 or 168.4% in fiscal 2002 as compared to fiscal 2001. Of this, Lancer had an increase in other expense of $44,287 due to investor relations costs and financing costs expensed associated with

the line of credit and exploring other financing options. Biomerica had decreases in other income due to lower cash balances and therefore less interest income.

As of May 31, 2002, Biomerica had net tax operating loss carryforwards of approximately $5,171,000 and investment tax and research and development credits of approximately $62,000, which are available to offset future federal tax liabilities. These carryforwards expire at varying dates from 2002 to 2022. As of May 31, 2002, Biomerica had net operating tax loss carryforwards of approximately $1,152,000 available to offset future state income tax liabilities, which expire through 2012. As of May 31, 2002, Lancer had net

operating loss carryforwards of approximately $2,037,000 and business tax credits of approximately $80,000 available to offset future Federal tax liabilities. The Lancer federal carryforwards expire through 2021. As of May 31, 2002, Lancer had net tax operating loss carryforwards of approximately $185,000 and business tax credits of approximately $24,000 available to offset future state income tax liabilities. The state carryforwards expire through the year 2011.

Liquidity and Capital Resources

As of May 31, 2002, we had cash and available for sale securities of $331,809 (see Note 1 of Notes to Consolidated Financial Statements) and current working capital of $3,246,030. Of the current working capital, $2,840,291 is attributable to the Lancer subsidiary, which is restricted from distribution of any assets (except for reimbursement of expenses on behalf of Lancer or for services rendered to Biomerica as a result of Lancer's line of credit agreement. The Company's fiscal 2001 losses were substantially the result of its investment in ReadyScript, which has been reported as a discontinued operation. During 2001, cash provided by operations was $165,576. During 2002, the Company used cash flows from operations of $131,073. During fiscal 2002, cash provided by investing activities was $219,452, primarily due to the sale of stock of a subsidiary. The Company generated cash flow from financing activities of $339,662 during fiscal 2001, primarily due to two private placements and a shareholder loan at Biomerica and $228,779 during fiscal 2002 primarily due to the increase in shareholder loan.

On an unconsolidated basis, the Company used cash in operating Activities of $313,475 in fiscal 2002 as compared to $935,492 in fiscal 2001. Net cash provided by investing activities for the years ended May 31, 2002 and 2001 were $222,839 and $82,265, respectively. Net cash provided by financing activities was $291,328 for fiscal 2002 and $343,980 for fiscal 2001. See Note 12 to the Notes to Consolidated Financial Statements.

The Company has suffered substantial recurring losses from operations over the last couple of years. The Company has funded its operations through debt and equity Financings, and may have to do so in the future. ReadyScript operations were discontinued in May 2001 and Allergy Immuno Technologies, Inc. was sold in May 2002 (see Notes 2 and 13). ReadyScript and Allergy Immuno Technologies, Inc. were contributors to the Company's losses. The Company has also obtained a line of credit from a shareholder/officer which it has and will continue to rely on to help fund operations. The Company has reduced operating costs through certain cost reduction efforts and plans to concentrate on its core business in Lancer and Biomerica to increase sales.

Management believes that cash flows from operations and its available credit coupled with reduced costs and anticipated sales will enable the company to fund operations for at least the next twelve months. In the long term the Company will require either additional sales or funding in order to become profitable or withstand further losses. There can be no assurances that the Company will be able to become profitable, generate positive cash flow from operations or obtain the necessary equity or debt financing to fund operations in the future.

During fiscal 2002 Lancer management negotiated a new line of credit with GE Capital Healthcare Financial Services through October 24, 2003. The line of credit allows for borrowings up to $400,000 and is limited to 80% of accounts receivable less than 90 days old with a liquidity factor of 94%. The outstanding balance at May 31, 2002 was $65,669. The unused portion available under the line of credit at May 31, 2002, was approximately $229,000. Borrowings bear interest at prime plus 2.00% per annum, but not lower than 8% (8.00% at May 31, 2002). The debt covenant violations that existed at May 31, 2001 did not affect the bank line of credit that was replaced by the GE Capital Line in October 2001. There was no covenant violation at May 31, 2002.

The line of credit is collateralized by substantially all the assets of Lancer, including inventories, receivables, and equipment. The lending Agreement for the line of credit requires, among other things, that Lancer maintain a tangible net worth ratio of $2,100,000, which was met, and that receivables' payments be sent to a controlled lockbox. In addition to interest, a management fee of .25% of the average monthly outstanding loan balance and an unused balance fee of .0425% on the average monthly unused portion available are required. Lancer is not required to maintain compensating balances in connection with this lending agreement. Lancer is restricted from distribution of any assets to Biomerica except for reimbursement of expenses on behalf of Lancer or for services rendered.

Lancer's management believes that it will be able to finance Lancer's operations through cash flow and available borrowings through the current fiscal year and ensuing fiscal years based upon a level of demand for their products approximately consistent or in excess of prior years.

Biomerica, Inc. entered into an agreement for a line of credit agreement on September 12, 2000 with Janet Moore, an officer/director who will loan to the Company, as needed, up to $500,000 for working capital needs. The line of credit bears interest at 8% and is secured by Biomerica accounts receivable and inventory. There was $365,000 outstanding under this line of credit at May 31, 2002. The line of credit has been extended until September 12, 2003. During 2002 and 2001, the Company incurred $19,661 and $1,051, respectively, in interest expense related to the shareholder line of credit, all of which is accrued as of May 31, 2002. The unused portion available under the line of credit at May 31,2002, was approximately $135,000. As of August 29, 2002, the unused portion available was $169,900. The shareholder loan received in fiscal year 2001 was $95,000. During fiscal 2002 the Company borrowed an additional $280,000, of which $270,000 was on the line of credit and $10,000 was from Zackary Irani, another officer/director. As of May 31, 2002, $19,661 in accrued interest was due.

Pursuant to a decision by the Nasdaq Listing Qualifications Panel, the Company's common stock was delisted from the Nasdaq Stock Market effective

June 20, 2002, for failure to comply with the net tangible assets or shareholders' equity requirements as set forth in Marketplace Rule 310(c)(2)(B). The Company's securities were immediately eligible to trade on The OTC Bulletin Board and are traded under the symbol BMRA.OB.

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.

We recognize product revenues when an arrangement exists, delivery has occurred, the price is determinable and collection is reasonably assured.

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.

In general, we are in a loss position for tax purposes, 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 benefit of our deferred tax assets. Predicting future taxable income is difficult, and requires the use of significant judgment. At May 31, 2002, 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.

POTENTIAL CONSEQUENCES OF ALLERGY IMMUNO TECHNOLOGY, INC.'S FAILURE TO CONDUCT A FORMAL STOCKHOLDER VOTE IN CONNECTION WITH OUR PURCHASE OF ASSETS FROM IT AND ASSUMPTION OF ITS LIABILITIES

During not less than the preceding three years, AIT, a former majority-owned subsidiary of ours, had been unprofitable and, for financial statement reporting purposes, its losses were consolidated into our financial statements. In March of 2002, AIT ceased its clinical testing services. Thereafter, in late April of 2002, we entered into a transaction, pursuant to which, at the end of May of 2002, AIT transferred its remaining assets to us (valued on its financial statements at approximately $8,000), issued to us approximately 808,500 shares of its restricted common stock (valued as of the date of the transaction at approximately $19,000), and we assumed its remaining liabilities (recorded on its financial statements at approximately $27,000) (the "Asset/Liability Transaction"). The Asset/Liability Transaction was approved by our board on April 22, 2002. Approval by our stockholders was not required under Delaware corporate law. We understand that AIT's board approved the Asset/Liability Transaction in April of 2002 and that, rather than calling a formal meeting of AIT's stockholders, our consent to that transaction was deemed to constitute the approval of the holders of a majority of AIT's capital stock, as permitted by Delaware corporate law.

The Company's substantial recurring losses from operations during the preceding years and its lack of readily available capital, other than a line of credit from a stockholder and officer, to help fund operations were the major factors in its decision to stop lending funds to AIT. Both ReadyScript and AIT contributed to the Company's losses. Accordingly, the Company discontinued operations of ReadyScript in May of 2001 and ceased funding of AIT one year later. (See Notes 2 and 13 to the Company's Audited Financial Statements for the year ended May 31, 2002).

At the time of the approval of the Asset/Liability Transaction, our seven directors were Allen Barbieri, David Barrows, Carlos Beharie, M.D., Francis R. Cano, Ph.D., Zackary S. Irani, Janet Moore, and Robert A. Orlando, M.D., Ph.D., three of whom (Mr. Irani, Ms. Moore, and Dr. Orlando) were also directors of AIT. AIT's fourth director at such time was Susan Irani, whom AIT deemed to be an affiliate of ours. Further, at such time, Mr. Irani served as the Chief Executive Officer and Ms. Moore served as the Chief Financial Officer and Secretary of both AIT and us. The Asset/Liability Transaction was negotiated by management common to AIT and us and was approved by all of our directors (including the directors constituting a majority of our board, who did not serve in common with AIT). We were advised that the Asset/Liability Transaction was approved by all of the AIT directors (each of whom also served as one of our directors or was deemed to be an affiliate of ours).

Notwithstanding the approval of the Asset/Liability Transaction by AIT's board and its majority stockholder, AIT may not have provided prompt notice of that approval to all of its stockholders in a manner fully consistent

with Delaware corporate law. That failure could have certain potential consequences. Although AIT did not solicit proxies from its stockholders, it also did not file a Schedule 14C with the Securities and Exchange Commission in connection with the approval of the Asset/Liability Transaction by its majority stockholder. Further, the potential exists that one of AIT's stockholders could bring a legal action under Delaware state law against AIT either to rescind the Asset/Liability Transaction, or to seek damages against AIT. Because of our status as an affiliate of AIT at the time of the Asset/Liability Transaction, such failure to file a Schedule 14C or a potential action could also name us, our directors, and our officers. As of the date of this amended filing, no action has been filed, and no proceeding has been commenced, against us or any of our directors or officers, and no person or agency has contacted us or our directors or officers announcing an intention to bring any action or to commence any proceeding.

We have been advised by counsel to AIT that, as of the date of this amended filing, no action has been filed, and no proceeding has been commenced, against AIT or any of its directors or officers, and no person or agency has contacted AIT or its directors or officers announcing an intention to bring any action or to commence any proceeding. AIT has informed us that its present attorney has advised it that the likelihood of such an action or proceeding is minimal, the possibility of its success on the merits is remote, and the scope of any potential damages award is nominal for a variety of reasons. For example,

- No AIT stockholder or other person with potential standing to sue has announced dissatisfaction with the Asset/Liability Transaction, although it was announced publicly in June of 2002.

- The assets that were the subject of the Asset/Liability Transaction had historically yielded only unprofitable operations, which operations had ceased prior to the approval of the Asset/Liability Transaction, as well as the closing of that transaction.

- The value of the assets that were the subject of the Asset/Liability Transaction was small and less than the amount of liabilities that we concurrently assumed; thus, any award the compensation due to any potential plaintiffs upon a successful claim would be correspondingly small.

- Any potential liability under such a claim would be incapable of precise determination because the measure of damages under such a claim would depend upon a subjective valuation of the assets and liabilities that were the subject of the Asset/Liability Transaction.

We do not believe that such an action is probable, nor that a liability for such an action, if any, could be estimated. Accordingly, we have not accrued a liability in the accompanying consolidated financial statements related to the aforementioned matter.

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; the operating and financial covenants contained in our credit line and Lancer's which could limit our operating flexibility; 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 dental 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 (premises-$2,294,000, personal property-$1,500,000), business income insurance ($800,000), employee benefit liability insurance ($1,000,000), commercial crime insurance ($100,000), crime insurance (pension plan) ($300,000), umbrella liability insurance ($1,000,000), workman's compensation insurance ($1,000,000), directors and officers' insurance ($2,000,000), group health, disability and life insurance. Lancer currently has coverage for personal property ($450,000), business income (($1,200,000), general liability ($2,000,000), employee benefit liability ($1,000,000), products liability ($7,000,000), auto ($1,000,000, commercial fidelity ($100,000), difference in conditions and Mexico required coverage ($2,500,000-personal property; $2,495,000-business income), workman's compensation insurance ($1,000,000); directors and officers' insurance (shared with Biomerica) ($2,000,000); group health and dental. Both Lancer's and Biomerica's workman's compensation policies cover injuries to employees as a result of accidental contamination of hazardous materials. The companies do not have a separate policy for contamination of hazardous materials.

RECENT ACCOUNTING PRONOUNCEMENTS:

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141 ("SFAS 141"), "Business Combinations", which eliminates the pooling method of accounting for business

combinations initiated after June 30, 2001. In addition, SFAS 141 addresses the accounting for intangible assets and goodwill acquired in a business combination. This portion of SFAS 141 is effective for business combinations completed after June 30, 2001. The Company adopted SFAS 141 effective July 1, 2001.

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Intangible Assets", which revises the accounting for purchased goodwill and intangible assets. Under SFAS 142, goodwill and intangible assets with indefinite lives will no longer be amortized and will be tested for impairment annually. SFAS 142 is effective for fiscal years beginning after December 15, 2001, with earlier adoption permitted. The Company has not yet determined the impact on the Company's financial position or results of operations as a result of the future adoption of SFAS 142.

In August 2001, the FASB issued FAS No. 143, "Accounting for Asset Retirement Obligations." This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It applies to all entities and legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal operation of long-lived assets, except for certain obligations of lessees. This statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. Management has not yet determined the impact of the adoption of FAS No. 143 on the Company's financial position or results of operations.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144 ("SFAS 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets," or SFAS 144. SFAS No. 144 requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. SFAS No. 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001 and, generally, is to be applied prospectively. The Company does not expect SFAS 144 will have a material impact on the Company's financial position or results of operations.

In April 2002, the FASB issued Statement of Financial Accounting Standards No. 145 ("SFAS 145"), "Rescission of FASB Statements No. 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections," to update, clarify and simplify existing accounting pronouncements. FASB Statement No. 4, which required all gains and losses from debt extinguishment to be aggregated and, if material, classified as an extraordinary item, net of related tax effect, was rescinded. Consequently, FASB Statement No. 64, which amended FASB Statement No.4, was rescinded because it was no longer necessary. We do not expect the adoption of this statement to have a material effect on our financial statements.

In June 2002, the FASB issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS 146 addresses accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a

Restructuring)." SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value when the liability is incurred. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. We do not expect the adoption of this statement to have a material effect on our financial statements. 18

ITEM 7. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

Inapplicable.

PART III

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

This information is incorporated by reference to the Company's proxy statement for its 2002 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, 2002.

ITEM 10. EXECUTIVE COMPENSATION

This information is incorporated by reference to the Company's proxy statement for its 2002 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, 2002.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

This information is incorporated by reference to the Company's proxy statement for its 2002 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, 2002.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

This information is incorporated by reference to the Company's proxy statement for its 2002 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, 2002.

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

(a) EXHIBITS

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).

10.2	Lancer purchase agreement and warrants (incorporated by reference to Exhibit 10.10 filed with Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 1989).
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).
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).
10.6	Stock Purchase Agreement by and between Biomerica, Inc., RidgeRose Capital Partners, LLC and Zackary Irani and Janet Moore dated June 11, 1999 (incorporated by reference to Exhibit 10.10 filed with Form 8-K on July 7, 1999).
10.7	Stock Purchase Agreement by and between Biomerica, Inc. and Zackary Irani and Janet Moore dated June 11, 1999 (incorporated by reference to Exhibit 10.11 filed with Form 8-K on July 7, 1999).
10.8	Back-end Processing Agreement by and between TheBigStore. com, Inc. and Biomerica, Inc. and dated June 11, 1999 (incorporated by reference to Exhibit 10.12 filed with Form 8-K on July 7, 1999).
10.9	Common Stock Purchase Warrant granted to TheBigStore.com, Inc. dated June 11, 1999 (incorporated by reference to Exhibit 10.13 filed with Form 8-K on July 7, 1999).
10.10	Common Stock Purchase Warrant granted to RJM Consulting, LLC dated June 11, 1999 (incorporated by reference to Exhibit 10.14 filed with Form 8-K on July 7, 1999).
10.11	Non-Qualified Option Agreement by and between Zackary Irani and the Company dated June 10, 1999 (incorporated by reference to Exhibit 10.15 filed with Form 8-K on July 7, 1999).
10.12	Non-Qualified Option Agreement by and between Janet Moore and the Company dated June 10, 1999 (incorporated by reference to Exhibit 10.16 filed with Form 8-K on July 7, 1999).
10.13	Non-Qualified Option Agreement by and between Philip Kaplan, M.D. and the Company dated June 10, 1999 (incorporated by reference to Exhibit 10.17 filed with Form 8-K on July 7, 1999).
10.14	Non-Qualified Option Agreement by and between Robert A.

Orlando, M.D., Ph.D. and the Company dated June 10, 1999 (incorporated by reference to Exhibit 10.18 filed Form 8-K on July 7, 1999).

10.15	Strategic Marketing Agreement entered into as of the 2nd day of September, 1999 by and between TheBigHub.com, Inc., a Florida corporation and Biomerica, Inc. (incorporated by reference to Exhibit 10.16 filed with Registrant's Registration Statement on Form SB-2, Commission No. 333-87231 filed on September 16, 1999).
10.16	First Amendment to Back-End Processing Agreement entered into as of September 2, 1999 whereby TheBigStore.com, Inc., a Delaware corporation and Biomerica amend the Back-End Agreement dated June 11, 1999 (incorporated by reference to Exhibit 10.17 filed with Registrant's Registration Statement on Form SB-2, Commission No. 333-87231 filed on September 16, 1999).
10.17	Private Placement Memorandum of Biomerica, Inc. dated June 9, 1999 offering 400,000 shares of its Common Stock at $5.00 per share (incorporated by reference to Exhibit 10.18 filed with Registrant's Registration Statement on Form SB-2, Commission No. 333-87231 filed on September 16, 1999).
10.18	Employment Agreement entered into as of August 30, 1999 by and between the Internet division of Biomerica, Inc. and Steven J. Goto (incorporated by reference to Exhibit 10.19 filed with Registrant's Registration Statement on Form SB-2, Commission No. 333-87231 filed on September 16, 1999).
10.19	Employment Offer Letter dated August 12, 1999 from Biomerica, Inc. to Pete McKinley to join the Internet division of Biomerica, Inc. (incorporated by reference to Exhibit 10.20 filed with Registrant's Registration Statement on Form SB-2, Commission No. 333-87231 filed on September 16, 1999).
10.20	Employment Offer Letter dated August 12, 1999 from Biomerica, Inc. to Richard Jay, Pharm.D. to join the Internet division of Biomerica, Inc. (incorporated by reference to Exhibit 10.21 filed with Registrant's Registration Statement on Form SB-2, Commission No. 333-87231 filed on September 16, 1999).
10.21	Amendment to Lease Extension/Lease Term effective January 1, 1999, whereby Lancer Orthodontics, Inc. and L&T Corporation, a California corporation entered into an amendment and extension to the terms of that certain lease agreement dated November 4, 1993 for the premises located at 253 Pawnee Street, Suite A, San Marcos, California 92069 (incorporated by reference to Exhibit 10.22 filed with Registrant's Registration Statement on Form SB-2, Commission No. 333-87231 filed on September 16, 1999).
10.22	Sublease Agreement entered into by and between Eagleson de California S.A. de C.V. and Lancer Orthodontics, Inc. commencing on November 1, 1998 covering approximately 16,000

square feet located in the Industrial Park at Ave. Saturno No. 20 and of certain improvements constructed on the land as detailed in that certain sublease between the parties dated April 1, 1996 (incorporated by reference to Exhibit 10.23 filed with Registrant's Registration Statement on Form SB-2, Commission No. 333-87231 filed on September 16, 1999).

10.23	Fifth Revision to Manufacturing Shelter Agreement effective November 1, 1998, whereby Lancer Orthodontics, Inc. and Eagleson Industries, Inc. revised and amended that certain Manufacturing Shelter Agreement entered into on May 11, 1990, revised on June 20, 1991, December 2, 1992, July 1, 1994 and April 1, 1996 (incorporated by reference to Exhibit 10.24 Filed with Registrant's Registration Statement on Form SB-2, Commission No. 333-87231 filed on September 16, 1999).
10.24	Technical Skills Consulting Agreement entered into on January 1, 1999 by and between Lancer Orthodontics, Inc. and Alejandro Carnero, a non-resident alien, independent contractor and citizen of the Republic of Mexico (incorporated by reference to Exhibit 10.25 filed with Registrant's Registration Statement on Form SB-2, Commission No. 333-87231 filed on September 16, 1999).
10.25	Product Development and Marketing Agreement entered into as of August 3, 1998 by and between Lancer Orthodontics, Inc. and AG Metals, Inc., a Nevada corporation (incorporated by reference to Exhibit 10.26 filed with Registrant's Registration Statement on Form SB-2, Commission No. 333-87231 filed on September 16, 1999).
10.26	Agreement between Lancer Orthodontics, Inc. and Gary Weikel, an individual, incorporating by reference that certain Product Development and Marketing Agreement of even date between Lancer Orthodontics, Inc. and AG Metals, Inc. (incorporated by reference to Exhibit 10.27 filed with Registrant's Registration Statement on Form SB-2, Commission No. 333-87231 filed on September 16, 1999).
10.27	Lease between Biomerica, Inc., JSJ Management and Ilse Sultanian dated September 1, 2001.
10.28	Agreement between Biomerica, Inc. and Lancer Orthodontics, Inc. for the acquisition of the remaining outstanding shares of Lancer Orthodontics, Inc., common stock by Biomerica (incorporated by reference to an exhibit filed with the S-4 filed on April 10, 2002).
10.29	General Assignment of Assets Agreement with Allergy Immuno Technologies, Inc.
16.1	Letter on Change of Certifying Accountant (incorporated by reference to Exhibit A to Form 8-K filed with the Securities and Exchange Commission on May 24, 1993).
16.2	Letter on change of certifying accountant (incorporated by reference to Exhibit A to Form 10-QSB/A filed with the

Securities and Exchange Commission on April 14, 1999).

21.1 Subsidiaries of Registrant (incorporated by reference to Exhibit 21.1 to Form 10-KSB filed with the Securities and Exchange Commission on September 14, 1999).

99.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbarnes-Oxley Act of 2002 signed by Zackary S. Irani, Chief Executive Officer.

99.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted P0ursuant to Section 906 of the Sarbanes-Oxley Act of 2002 signed by Janet Moore, Chief Financial Officer.

99.3 Biomerica, Inc. and Subsidiaries Consolidated Financial Statements For The Years Ended May 31, 2002 and 2001 and Independent Auditors' Report.

(b) Reports on Form 8-K

Biomerica filed a report on Form 8-K with the Securities and Exchange Commission on June 6, 2002.

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: 6/05/03

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: 6/05/03
Zackary S. Irani
President, Director, Chief Executive Officer

/s/ Janet Moore Date: 6/05/03
Janet Moore, Secretary
Director, Chief Financial Officer

/s/ Robert Orlando Date: 6/05/03

Robert Orlando, M.D., Ph.D.
Director

/s/ Carlos St. Aubyn Beharie Date: 6/05/03

Carlos St. Aubyn Beharie
Director

/s/ David Burrows Date: 6/05/03

David Burrows
Director

/s/ Francis R. Cano
--- Date: 6/05/03
Francis R. Cano
Director

/s/ Allen Barbieri Date: 6/05/03

Allen Barbieri
Director, Vice President Finance

Exhibit 10.27
STANDARD OFFICE LEASE - NET
AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION

1. BASIC LEASE PROVISIONS ("Basic Lease Provisions")

1.1 PARTIES: This Lease, dated, for reference purposes only, October 1, 2001, is made by and between ILSE SULTANIAN & JSJ MANAGEMENT, (herein called "Lessor") and BIOMERICA, INC., A DELAWARE CORPORATION, doing business under the name of same (herein called "Lessee").

1.2 PREMISES: Suite Numbers(s) A, B, D, H, I, J, K, L, M, plus, the second floor of L, M and the 2nd floor of 1527 - first building floors, consisting of approximately 21,000 square feet, more or less, as defined in paragraph 2 and as shown on Exhibit "A" hereto (the "Premises").

1.3 BUILDING: Commonly described as being located at 1527 & 1531-1533 Monrovia Avenue in the City of Newport Beach, County of Orange, State of CA, as more particularly described in Exhibit A hereto, and as defined in paragraph 2.

1.4 USE: general office, R & D and Laboratory, subject to paragraph 6.

1.5 TERM: Four (4) years commencing November 1, 2001 ("Commencement Date") and ending October 31, 2005, as defined in paragraph 3.

1.6 BASE RENT: 15,000 per month, payable on the first day of each month, per paragraph 4.1 and Paragraph 50 in the Addendum to Lease.

1.7 BASE RENT INCREASE: On See Paragraph 50 in Addendum to Lease the monthly Base Rent payable under paragraph 1.6 above shall be adjusted as

provided in paragraph 4.3 below.

1.8 RENT PAID UPON EXECUTION: 15,000 for Not applicable.

1.9 SECURITY DEPOSIT None

1.10 LESSEE'S SHARE OF OPERATING EXPENSES: N/A % as defined in paragraph 4.2.

2. PREMISES, PARKING AND COMMON AREAS.

2.1 PREMISES: The Premises are a portion of a building, herein sometimes referred to as the "Building" identified in paragraph 1.3 of the Basic Lease Provisions. "Building" shall include adjacent parking structures used in connection therewith. The Premises, the Building, the Common Areas, the land upon which the same are located, along with all other buildings and improvements thereon or thereunder, are herein collectively referred to as the "Office Building Project." Lessor hereby leases to Lessee and Lessee leases from Lessor for the term, at the rental, and upon all of the conditions set forth herein, the real property referred to the Basic Lease Provisions, paragraph 1.2, as the "Premises", including rights to the Common Areas as hereinafter specified.

2.2 VEHICLE PARKING: So long as Lessee is not in default, and subject to the rules and regulations attached hereto, and as established by Lessor from time to time, Lessee shall be entitled to rent and use of approximately thirty (30) in common parking spaces in the Office Building Project at the monthly rate applicable from time to time for monthly parking as set by Lessor and/or its licensee.

2.2.1 If Lessee commits, permits or allows any of the prohibited activities described in the Lease or the rules then in effect, then Lessor shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove or tow away the vehicle involved and charge the cost to Lessee, which coat shall be immediately payable upon demand by Lessor.

2.2.2 The monthly parking rate per parking space will be $_____ per month at the commencement of the term of this Lease, and is subject to change upon five (5) days prior written notice to Lessee. Monthly parking fees shall be payable one month in advance prior to the first day of each calendar
month.

2.3 COMMON AREAS - DEFINITION. The term "Common Areas" is defined as all areas and facilities outside the Premises and within the exterior boundary line of the Office Building Project that are provided and designated by the Lessor from time to time for the general non-exclusive use of Lessor, Lessee and of other lessees of the Office Building Project and their respective employees, suppliers, shippers, customers and invitees, including but not limited to common entrances, lobbies, corridors, stairways and stairwells, public restrooms, elevators, escalators, parking areas to the extent not otherwise prohibited by this Lease, loading and unloading areas, trash areas, roadways, sidewalks, walkways, parkways, ramps, driveways, landscaped areas and decorative walls.

2.4 COMMON AREAS - RULES AND REGULATIONS. Lessee agrees to abide by and conform to the rules and regulations attached hereto as Exhibit B with respect to the Office Building Project and Common Areas, and to cause its employees, suppliers, shippers, customers, and invitees to so abide and conform. Lessor or such other person(s) as Lessor may appoint shall have the exclusive control and management of the Common Areas and shall have the

right, from time to time, to modify, amend and enforce said rules and regulations. Lessor shall not be responsible to Lessee for the non-compliance with said rules and regulations by other lessees, their agents, employees and invitees of the Office Building Project.

2.5 COMMON AREAS - CHANGES. Lessor shall have the right, in Lessors sole discretion, from time to time:

(a) To make changes to the Building interior and exterior and Common Areas, including, without limitation, changes in the location, size, shape, number, and appearance thereof, including but not limited to the lobbies, windows, stairways, air shafts, elevators, escalators, restrooms, driveways, entrances, parking spaces, parking areas, loading and unloading areas, ingress, egress, direction of traffic, decorative walls, landscaped areas and walkways; provided, however, Lessor shall at all times provide the parking facilities required by applicable law;

(b) To close temporarily any of the Common Areas for maintenance purposes so long as reasonable access to the Premises remains available;

(c) To designate other land and improvements outside the boundaries of the Office Building Project to be a part of the Common Areas, provided that such other land and improvements have a reasonable and functional relationship to the Office Building Project;

(d) To add additional buildings and improvements to the Common Areas;

(e) To use the Common Areas while engaged in making additional improvements, repairs or alterations to the Office Building Project, or any portion thereof;

(f) To do and perform such other acts and make such other changes in, to or with respect to the Common Areas and Office Building Project as Lessor may, in the exercise of sound business judgment deem to be appropriate.

3. TERM

3.1 TERM. The term and Commencement Date of this Lease shall be as specified in paragraph 1.5 of the Basic Lease Provisions.

3.2 DELAY IN POSSESSION. Notwithstanding said Commencement Date, if for any reason Lessor cannot deliver possession of the Premises to Lessee on said date and subject to paragraph 3.2.2, Lessor shall not be subject to any liability therefore, nor shall such failure affect the validity of this Lease or the

obligations of Lessee hereunder or extend the term hereof; but in such case, Lessee shall not be obligated to pay rent or perform any other obligation of Lessee under the terms of this Lease, except as may be otherwise provided in this Lease, until possession of the Premises is tendered to Lessee, as hereinafter defined; provided, however, that if Lessor shall not have delivered possession of the Premises within sixty (60) days following said Commencement Date, as the same may be extended under the terms of a Work Letter executed by Lessor and Lessee, Lessee may, at Lessee's option, by notice in writing to Lessor within ten (10) days thereafter, cancel this Lease, in which event the parties shall be discharged from all obligations hereunder; provided, however, that, as to Lessee's obligations, Lessee first reimburses Lessor for all costs incurred for Non-Standard Improvements and, as to Lessor's obligations, Lessor shall return any money previously deposited by Lessee (less any offsets due Lessor for Non-Standard Improvements); and provided further, that if such written notice by Lessee is not received by Lessor within said ten (10) day period, Lessee's right to cancel this Lease hereunder shall terminate and be of no further force or

effect.

3.2.1 POSSESSION TENDERED - DEFINED. Possession of the Premises shall be deemed tendered to Lessee ("Tender of Possession") when (1) the improvements to be provided by Lessor under this Lease are substantially completed, (2) the Building utilities are ready for use in the Premises, (3) Lessee has reasonable access to the Premises, and (4) ten (10) days shall have expired following advance written notice to Lessee of the occurrence of the matters described in (1), (2) and (3), above of this paragraph 3.2.1.

3.2.2 DELEYS CAUSED BY LESSEE. There shall be no abatement of rent, and the sixty (60) day period following the Commencement Date before which Lessee's right to cancel this Lease accrues under paragraph 3.2, shall be deemed extended to the extent of any delays caused by acts or omissions of Lessee, its agents, employees and contractors.

3.3 EARLY POSSESSION. If Lessee occupies the Premises prior to said Commencement Date, such occupancy shall be subject to all provisions of this Lease, such occupancy shall not change the termination date, and Lessee shall pay rent for such occupancy.

3.4 UNCERTAIN COMMENCEMENT. In the event commencement of the Lease term is defined as the completion of the improvements, Lessee and Lessor shall execute an amendment to this Lease establishing the date of Tender of Possession (as defined in paragraph 3.2.1) or the actual taking of possession by Lessee, whichever first occurs, as the Commencement Date.

4. RENT.

4.1 BASE RENT. Subject to adjustment as hereinafter provided in paragraph 4.3, and except as may be otherwise expressly provided in this Lease, Lessee shall pay to Lessor the Base Rent for the Premises set forth in paragraph 1.6 of the Basic Lease Provisions, without offset or deduction. Lessee shall pay Lessor upon execution hereof the advance Base Rent described in paragraph 1.8 of the Basic Lease Provisions. Rent for any period during the term hereof which is for less than one month shall be prorated based upon the actual number of days of the calendar month involved. Rent shall be payable in lawful money of the United States to Lessor at the address stated herein or to such other persons or at such other places as Lessor may designate in writing.

4.2 OPERATING EXPENSES. Lessee shall pay to Lessor during the term hereof, in addition to the Base Rent, Lessee's Share, as hereinafter defined, of all Operating Expenses, as hereinafter defined, during each calendar year of the term of this Lease, in accordance with the following provisions:

(a) "Lessee's Share" is defined, for purposes of this Lease, as the percentage set forth In paragraph 1.10 of the Basic Lease Provisions, which percentage has been determined by dividing the approximate square footage of the premises by the total approximate square footage of the rentable space contained in the Office Building Project. It is understood and agreed that the square footage figures set forth in the Basic Lease Provisions are approximations which Lessor and Lessee agree are reasonable and shall not be subject to revision except in connection with an actual change In the size of the Premises or a change In the space available for lease In the Office Building Project.

(b) "Operating Expenses" is defined, for purposes of this Lease to include all costs, if any, incurred by Lessor in the exercise of its reasonable discretion, for:

(i) The operation, repair, maintenance, and replacement, in neat, clean, safe, good order and condition, of the Office Building Project, including but not limited to, the following:

(aa) The Common Areas, including their surfaces, coverings, decorative items, carpets, drapes and window coverings, and including parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, stairways, parkways, driveways, landscaped areas, striping, bumpers, irrigation systems, Common Area lighting facilities, building exteriors and roofs, fences and gates;

(bb) All heating, air conditioning, plumbing, electrical systems, life safety equipment, telecommunication and other equipment used in common by, or for the benefit of, lessees or occupants of the Office Building Project, including elevators and escalators, tenant directories, fire detection systems including sprinkler system maintenance and repair.

(ii) Trash disposal, janitorial and security services;

(iii) Any other service to be provided by Lessor that is elsewhere in this Lease stated to be an "Operating Expense";

(iv) The cost of the premiums for the liability and property insurance policies to be maintained by Lessor under paragraph 8 hereof;

(v) The amount of the real properly taxes to be paid by Lessor under paragraph 10.1 hereof;

(vi) The cost of water, sewer, gas, electricity, and other publicly mandated services to the Office Building Project;

(vii) Labor, salaries, end applicable fringe benefits and costs, materials, supplies and tools, used in maintaining and/or cleaning the Office Building Project and accounting and a management fee attributable to the operation of the Office Building Project;

(viii) Replacing and/or adding improvements mandated by any governmental agency and any repairs or removals necessitated thereby amortized over its useful life according to Federal income tax regulations or guidelines for depreciation thereof (including interest on the unamortized balance as is then reasonable in the judgment of Lessors accountants);

(ix) Replacements of equipment or improvements that have a useful life for depreciation purposes according to Federal Income tax guidelines of five (5) years or less, as amortized over such life.

(c) Operating Expenses shall not include the costs of replacements of equipment or improvements that have a useful life for Federal income tax purposes in excess of five (5) years unless it is of the type described in paragraph 4.2(b)(viii), in which case their cost shall be included as above provided.

(d) Operating Expenses shall not include any expenses paid by any lessee directly to third parties, or as to which Lessor is otherwise reimbursed by any third party, other tenant, or by insurance proceeds.

(e) Lessee's Share of Operating Expenses shall be payable by Lessee within ten (10) days after a reasonably detailed statement of actual expenses is presented to Lessee by Lessor. At Lessors option, however, an amount may be estimated by Lessor from time to time of Lessee's Share of annual Operating Expenses and the same shall be payable monthly or quarterly, as Lessor shall designate, during each calendar year of the Lease term, on the

same day as the Base Rent is due hereunder. In the event that Lessee pays Lessor's estimate of Lessee's Share of Operating Expenses as aforesaid, Lessor shall deliver to Lessee within sixty (60) days after the expiration of each calendar year a reasonably detailed statement showing Lessee's Share of the actual Operating Expenses incurred during the preceding year. If Lessee's payments under this paragraph 4.2(e) during said preceding calendar year exceed Lessee's Share as indicated on said statement, Lessee shall be entitled to credit the amount of such overpayment against Lessee's Share of Operating Expenses next falling due. If Lessee's payments under this paragraph during said preceding calendar year were less than Lessee's Share as indicated on said statement, Lessee shall pay to Lessor the amount of the deficiency within ten (10) days after delivery by Lessor to Lessee of said statement.

4.3 RENT INCREASE. SEE PARAGRAPH 50 IN ADDENDUM TO LEASE.

4.3.1 At the times set forth in paragraph 1.7 of the Basic Lease Provisions, the monthly Base Rent payable under paragraph 4.1 of this Lease shall be adjusted by the increase, if any, in the Consumer Price Index of the Bureau of Labor Statistics of the Department of Labor for All Urban Consumers, (1967 = 100), "All Items," for the city nearest the location of the Building, herein referred to as "C.P.I.," since the date of this Lease.

4.2.2 The monthly Base Rent payable pursuant to paragraph 4.3.1 shall be calculated as follows: the Base Rent payable for the first month of the term of this Lease, as set forth in paragraph 4.1 of this Lease, shall be multiplied by a fraction the numerator of which shall be the C.P.I. of the calendar month during which the adjustment is to take effect, and the denominator of which shall be the C.P.I. for the calendar month in which the original Lease term commences. The sum so calculated shall constitute the new monthly Base Rent hereunder, but, in no event, shall such new monthly Base Rent be less than the Base Rent payable for the month immediately preceding the date for the rent adjustment.

4.3.3 In the event the compilation and/or publication of the C.P.I. shall be transferred to any other governmental department or bureau or agency or shall be discontinued, then the index most nearly the same as the C.P.I. shall be used to make such calculations. In the event that Lessor and Lessee cannot agree on such alternative index, then the matter shall be submitted for decision to the American Arbitration Association in the county in which the Premises are located, in accordance with the then rules of said association and the decision of the arbitrators shall be binding upon the parties, notwithstanding one party failing to appear after due notice of the proceeding. The cost of said Arbitrators shall be paid equally by Lessor and Lessee.

4.3.4 Lessee shall continue to pay the rent at the rate previously in effect until the increase, if any, is determined. Within five (5) days following

the date on which the increase is determined, Lessee shall make such payment to Lessor as will bring the increased rental current, commencing with the effective date of such increase through the date of any rental installments then due. Thereafter the rental shall be paid at the increased rate.

4.3.5 At such time as the amount of any change in the rental required by this Lease is known or determined, Lessor and Lessee shall

execute an amendment to this Lease setting forth such change.

5. SECURITY DEPOSIT. Lessee shall deposit with Lessor upon execution hereof the security deposit set forth in paragraph 1.9 of the Basic Lease Provisions as security for Lessee's faithful performance of Lessee's obligations hereunder. If Lessee fails to pay rent or other charges due hereunder, or otherwise defaults with respect to any provision of this Lease, Lessor may use, apply or retain all or any portion of said deposit for the payment of any rent or other charge in default for the payment of any other sum to which Lessor may become obligated by reason of Lessee's default, or to compensate Lessor for any loss or damage which Lesser may suffer thereby. If Lessor so uses or applies all or any portion of said deposit, Lessee shall within ten (10) days after written demand therefore deposit cash with Lessor in an amount sufficient to restore said deposit to the full amount then required of Lessee. If the monthly Base Rent shall, from time to time, increase during the term of this Lease, Lessee shall, at the time of such increase, deposit with Lessor additional money as a security deposit so that the total amount of the security deposit held by Lessor shall at all times bear the same proportion to the then current Base Rent as the initial security deposit bears to the initial Base Rent set forth in paragraph 1.6 of the Basic Lease Provisions. Lessor shall not be required to keep said security Deposit separate from its general accounts, if Lessee performs all of Lessee's obligations hereunder, said deposit, or so much thereof as has not Heretofore been applied by Lessor, shall be returned, without payment of interest or other increment for its use, to Lessee (or, at Lessors option, to the last assignee, if any, of Lessee's interest hereunder) at the expiration of the term hereof, and after Lessee has vacated the Premises. No trust relationship is created herein between Lessor and Lessee with respect to said Security Deposit.

6. USE.

6.1 USE. The Premises shall be used and occupied only for the purposes set forth in paragraph 1.4 of the Basic Lease Provisions or any other use which is reasonably comparable to that use and for no other purpose.

6.2 COMPLIANCE WITH LAW.

(a) Lessor warrants to Lessee that the Premises, in the state existing on the date that the Lease term commences, but without regard to alterations or improvements made by Lessee or the use for which Lessee will occupy the Premises, does not violate any covenants or restrictions of record, or any applicable building code, regulation or ordinance in effect on such Lease term Commencement Date. In the event it is determined that this warranty has been violated, then it shall be the obligation of the Lessor, after written notice from Lessee, to promptly, at Lessors sole cost and expense, rectify any such violation.

(b) Except as provided in paragraph 6.2(a) Lessee shall, at Lessee's expense, promptly comply with all applicable statutes, ordinances, rules, regulations, orders, covenants end restrictions of record, and requirements of any fire insurance underwriters or rating bureaus, now in effect or which may hereafter come into effect, whether or not they reflect a change in policy from that now existing, during the term or any part of the term hereof, relating in any manner to the Premises and the occupation and use by Lessee of the Premises. Lessee shall conduct its business in a lawful manner and shall not use or permit the use of the Premises or the Common Areas in any manner that will tend to create waste or a nuisance or shall tend to disturb other occupants of the Office Building Project.

6.3 CONDITION OF PREMISES.

(a) Lessor shall deliver the Premises to Lessee in a clean condition on the Lease Commencement Date (unless Lessee is already in possession) and Lessor warrants to Lessee that the plumbing, lighting, air conditioning, and heating system in the Premises shall be in good operating condition. In the event that it is determined that this warranty has been violated, then it shall be the obligation of Lessor, after receipt of written notice from Lessee setting forth with specificity the nature of the violation, to promptly, at Lessor's sole cost, rectify such violation.

(b) Except as otherwise provided in this Lease, Lessee hereby accepts the Premises and the Office Building Project in their condition existing as of the Lease Commencement Data or the date that Lessee takes possession of the Premises, whichever is earlier, subject to all applicable zoning, municipal, county and state laws, ordinances and regulations governing and regulating the use of the Premises, and any easements, covenants or restrictions of record, and accepts this Lease subject thereto and to all matters disclosed thereby and by any exhibits attached hereto. Lessee acknowledges that it has satisfied itself by its own independent investigation that the Premises are suitable for its intended use, and that neither Lessor nor Lessors agent or agents has made any representation or warranty as to the present or future suitability of the Premises, Common Areas, or Office Building Project for the conduct of Lessee's business.

7. MAINTENANCE, REPAIRS, ALTERATIONS AND COMMON AREA SERVICES.

7.1 LESSOR'S OBLIGATIONS. Lessor shall keep the Office Building Project, including the Premises, interior and exterior walls, roof, and common areas, and the equipment whether used exclusively for the Premises or in common with other premises, in good condition and repair; provided, however, Lessor shall not be obligated to paint, repair or replace wall coverings, or to repair or replace any improvements that are not ordinarily a part of the Building or are above then Building standards, Except as provided in paragraph 9.2, there shall be no abatement of rent or liability of Lessee on account of any injury or interference with Lessee's business with respect to any improvements, alterations or repairs made by Lessor to the Office Building Project or any part thereof. Lessee expressly waives the benefits of any statute now or hereafter in effect which would otherwise afford Lessee the right to make repairs at Lessor's expense or to terminate this Lease because of Lessor's failure to keep the Premises in good order, condition and repair.

7.2 LESSEE'S OBLIGATIONS.

(a) Notwithstanding Lessor's obligation to keep the Premises in good condition and repair, Lessee shall be responsible for payment of the cost thereof to Lessor as additional rent for that portion of the cost of any maintenance and repair of the Premises, or any equipment (wherever located) that serves only Lessee or the Premises, to the extent such cost is attributable to causes beyond normal wear and tear. Lessee shall be responsible for the cost of painting, repairing or replacing wail coverings, and to repair or replace any Premises improvements that are not ordinarily a part of the Building or that are above then Building standards. Lessor may, at its option, upon reasonable notice, elect to have Lessee perform any particular such maintenance or repairs the cost of which is otherwise Lessee's responsibility hereunder.

(b) On the last day of the term hereof, or on any sooner termination, Lessee shall surrender the Premises to Lessor in the same condition as received, ordinary wear and tear excepted, clean and free of debris. Any damage or deterioration of the Premises shall not be deemed ordinary wear and tear if the same could have been prevented by good maintenance practices by Lessee. Lessee shall repair any damage to the Premises occasioned by the installation or removal of Lessee's trade

fixtures, alterations, furnishings and equipment. Except as otherwise stated in this Lease, Lessee shall leave the air lines, power panels, electrical distribution systems, lighting fixtures, air conditioning, window coverings, wall coverings, carpets, wall paneling, ceilings and plumbing on the Premises and in good operating condition.

7.3 ALTERATIONS END ADDITIONS.

(a) Lessee shall not, without Lessor's prior written consent make any alterations, improvements, additions, Utility Installations or repairs in, on or about the Premises or the Office Building Project. As used in this paragraph 7.3 the term "utility Installation" shall mean carpeting, window and wall coverings, power panels, electrical distribution systems, lighting fixtures, air conditioning, plumbing, and telephone and telecommunication wiring and equipment. At the expiration of the term, Lessor may require the removal of any or all of said alterations, improvements, additions or Utility Installations, and the restoration of the Premises and the Office Building Project to their prior condition, at Lessee's expense. Should Lessor permit Lessee to make its own alterations, improvements, additions or Utility Installations, Lessee shall use only such contractor as has been expressly approved by Lessor, and Lessor may require Lessee to prov