

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

FORM 10 - Q

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

For the quarterly period ended June 30, 2010

**000-30379**

(Commission File Number)



**ChemBio Diagnostics, Inc.**

(Exact name of registrant as specified in its charter)

**Nevada**

(State or other jurisdiction of  
incorporation)

**88-0425691**

(IRS Employer Identification Number)

**3661 Horseblock Road  
Medford, New York 11763**

(Address of principal executive offices including zip code)

**(631) 924-1135**

(Registrant's telephone number, including area code)

(Former Name or Former Address, if Changed Since Last Report)

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

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☒

(Do not check if a smaller reporting company)

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

Yes ☐ No ☒

As of July 27, 2010, the Registrant had 62,138,151 shares outstanding of its \$.01 par value common stock.

Quarterly Report on FORM 10-Q For The Period Ended

June 30, 2010

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**PART I**  
**Item 1. FINANCIAL STATEMENTS**

**CHEMBIO DIAGNOSTICS, INC. AND SUBSIDIARY**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**AS OF**

- ASSETS -

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	<b>(UNAUDITED)</b>	
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 746,848	\$ 1,068,235
Accounts receivable, net of allowance for doubtful accounts of \$20,000 for 2010 and 2009	1,817,284	1,776,327
Inventories	1,849,708	1,555,903
Prepaid expenses and other current assets	300,790	266,637
<b>TOTAL CURRENT ASSETS</b>	<b>4,714,630</b>	<b>4,667,102</b>
<b>FIXED ASSETS</b> , net of accumulated depreciation	<b>853,181</b>	<b>580,213</b>
<b>OTHER ASSETS:</b>		
License agreements, net of current portion	650,000	700,000
Deposits on manufacturing equipment	52,824	338,375
Deposits and other assets	36,226	29,560
<b>TOTAL ASSETS</b>	<b>\$ 6,306,861</b>	<b>\$ 6,315,250</b>

- LIABILITIES AND STOCKHOLDERS' EQUITY -

<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued liabilities	\$ 1,310,745	\$ 1,906,163
Current portion of loans payable	54,852	9,600
Deferred research and development revenue	115,006	360,833
License fee payable	875,000	875,000
Current portion of obligations under capital leases	23,062	21,536
<b>TOTAL CURRENT LIABILITIES</b>	<b>2,378,665</b>	<b>3,173,132</b>
<b>OTHER LIABILITIES:</b>		
Loans payable - net of current portion	214,113	14,931
Obligations under capital leases - net of current portion	27,347	39,273
<b>TOTAL LIABILITIES</b>	<b>2,620,125</b>	<b>3,227,336</b>

**COMMITMENTS AND CONTINGENCIES**

**STOCKHOLDERS' EQUITY:**

Preferred stock – 10,000,000 shares authorized, none outstanding	-	-
Common stock - \$.01 par value; 100,000,000 shares authorized, 62,138,151 and 61,979,901 shares issued and outstanding for 2010 and 2009, respectively	621,382	619,799
Additional paid-in capital	39,586,170	39,453,522
Accumulated deficit	(36,520,816)	(36,985,407)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>3,686,736</b>	<b>3,087,914</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 6,306,861</b>	<b>\$ 6,315,250</b>

*See accompanying notes to condensed consolidated financial statements*

**CHEMBIO DIAGNOSTICS, INC. AND SUBSIDIARY**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(UNAUDITED)**

	For the three months ended		For the six months ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
<b>REVENUES:</b>				
Net product sales	\$ 2,335,665	\$ 3,051,385	\$ 4,550,562	\$ 5,320,801
License and royalty income	717,472	52,322	738,968	52,322
R&D contracts and grants	696,305	269,817	1,243,328	545,999
<b>TOTAL REVENUES</b>	<b>3,749,442</b>	<b>3,373,524</b>	<b>6,532,858</b>	<b>5,919,122</b>
Cost of product sales	1,654,476	2,011,579	3,131,518	3,558,488
<b>GROSS MARGIN</b>	<b>2,094,966</b>	<b>1,361,945</b>	<b>3,401,340</b>	<b>2,360,634</b>
<b>OPERATING EXPENSES:</b>				
Research and development expenses	791,596	702,986	1,592,354	1,350,358
Selling, general and administrative expenses	680,014	542,449	1,341,862	1,218,262
	1,471,610	1,245,435	2,934,216	2,568,620
<b>INCOME (LOSS) FROM OPERATIONS</b>	<b>623,356</b>	<b>116,510</b>	<b>467,124</b>	<b>(207,986)</b>
<b>OTHER INCOME (EXPENSES):</b>				
Other expense	-	(6,696)		(6,696)
Interest income	618	1,531	1,729	4,915
Interest expense	(2,057)	(1,406)	(4,262)	(5,527)
	(1,439)	(6,571)	(2,533)	(7,308)
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	<b>621,917</b>	<b>109,939</b>	<b>464,591</b>	<b>(215,294)</b>
Provision for income taxes	-	-	-	-
<b>NET INCOME (LOSS)</b>	<b>\$ 621,917</b>	<b>\$ 109,939</b>	<b>\$ 464,591</b>	<b>\$ (215,294)</b>
<b>Basic earnings (loss) per share</b>	<b>\$ 0.01</b>	<b>\$ 0.00</b>	<b>\$ 0.01</b>	<b>\$ (0.00)</b>
<b>Diluted earnings (loss) per share</b>	<b>\$ 0.01</b>	<b>\$ 0.00</b>	<b>\$ 0.01</b>	<b>\$ (0.00)</b>
<b>Weighted average number of shares outstanding, basic</b>	<b>62,070,736</b>	<b>61,944,901</b>	<b>62,028,450</b>	<b>61,944,901</b>
<b>Weighted average number of shares outstanding, diluted</b>	<b>70,614,048</b>	<b>74,814,205</b>	<b>71,340,820</b>	<b>61,944,901</b>

*See accompanying notes to condensed consolidated financial statements*

**CHEMBIO DIAGNOSTICS, INC. AND SUBSIDIARY**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED**  
**(UNAUDITED)**

	June 30, 2010	June 30, 2009
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:</b>		
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers	\$ 6,491,901	\$ 6,088,328
Cash paid to suppliers and employees	(6,922,455)	(5,239,948)
Interest received	1,110	4,915
Interest paid	(2,204)	(5,527)
<b>Net cash (used in) provided by operating activities</b>	<b>(431,648)</b>	<b>847,768</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of fixed assets	-	13,750
Acquisition of fixed assets	(144,345)	(234,830)
<b>Net cash used in investing activities</b>	<b>(144,345)</b>	<b>(221,080)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from option exercises	20,572	-
Proceeds from loan	250,000	29,228
Payment of loan obligation	(5,566)	-
Payment of capital lease obligation	(10,400)	(9,069)
<b>Net cash provided by financing activities</b>	<b>254,606</b>	<b>20,159</b>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(321,387)</b>	<b>646,847</b>
Cash and cash equivalents - beginning of the period	1,068,235	1,212,222
<b>Cash and cash equivalents - end of the period</b>	<b>\$ 746,848</b>	<b>\$ 1,859,069</b>
<b>RECONCILIATION OF NET LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:</b>		
<b>Net income (loss)</b>	<b>\$ 464,591</b>	<b>\$ (215,294)</b>
Adjustments:		
Depreciation and amortization	148,052	191,999
Loss on sale of fixed asset	-	6,696
Share based compensation	113,659	91,850
Changes in assets and liabilities:		
Accounts receivable	(40,957)	198,434
Inventories	(293,805)	166,187
Prepaid expenses and other current assets	(34,153)	(23,178)
Deposits and other assets	52,210	74,510
Accounts payable and accrued liabilities	(595,418)	(138,184)
Deferred research and development revenue	(245,827)	494,748
<b>Net cash (used in) provided by operating activities</b>	<b>\$ (431,648)</b>	<b>\$ 847,768</b>
<b>Supplemental disclosures for non-cash investing and financing activities:</b>		
Deposits on manufacturing equipment transferred to fixed assets	\$ 300,000	\$ -

*See accompanying notes to condensed consolidated financial statements*

**CHEMBIO DIAGNOSTICS, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2010**  
**(UNAUDITED)**

**NOTE 1—DESCRIPTION OF BUSINESS:**

Chembio Diagnostics, Inc. (the “Company” or “Chembio”) and its subsidiary, Chembio Diagnostic Systems, Inc., develop, manufacture, and market rapid diagnostic tests that detect infectious diseases. The Company’s main products are three rapid tests for the detection of HIV antibodies in whole blood, serum and plasma samples, two of which were approved by the FDA in 2006; the third is sold for export only. Rapid HIV tests represented nearly 91% of the Company’s product revenues in the six months ended June 30, 2010. The Company also has other rapid tests that together represented approximately 9% of sales in the first six months of 2010. The Company’s products are sold to medical laboratories and hospitals, governmental and public health entities, no n-governmental organizations, medical professionals and retail establishments both domestically and internationally. Chembio’s products are sold under the Company’s STAT PAK®, SURE CHECK® or DPP® registered trademarks, or under the private labels of its marketing partners, for example the Clearview® label owned by Alere North America, Inc. (“Alere”, formerly Inverness Medical Innovations, Inc.), which is the Company’s exclusive marketing partner for its rapid HIV lateral flow test products in the United States. These products employ lateral flow technologies that are proprietary and/or licensed to the Company. All of the Company’s products that are currently being developed are based on its patented Dual Path Platform (DPP®), which is a unique diagnostic point-of-care platform that has certain advantages over lateral flow technology. In 2008, 2009 and the first six months of 2010, the Company completed development of its first four products that employ the DPP®, and the Company has a number of additional products under development that employ the DPP®.

**NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

***(a) Basis of Presentation:***

The consolidated interim financial information as of June 30, 2010 and for the three and six-month periods ended June 30, 2010 and 2009 have been prepared without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Certain information and footnote disclosures, which are normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted pursuant to such rules and regulations, although we believe that the disclosures made are adequate to provide for fair presentation. The interim financial information should be read in conjunction with the Financial Statements and the notes thereto, included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2009, previously filed with the SEC.

In the opinion of management, all adjustments (which include normal recurring adjustments) necessary to present a fair statement of the Company’s consolidated financial position as of June 30, 2010, its consolidated results of operations for the three and six-month periods ended June 30, 2010 and 2009 and its cash flows for the six-month periods ended June 30, 2010 and 2009, as applicable, have been made. The interim results of operations are not necessarily indicative of the operating results for the full fiscal year or any future periods.

***(b) Revenue Recognition***

The Company recognizes revenue in accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 104, “Revenue Recognition” (“SAB 104”). Under SAB 104, revenue is recognized when there is persuasive evidence of an arrangement, delivery has occurred or services have been rendered, the sales price is determinable, and collectability is reasonably assured. Revenue typically is recognized at time of shipment. Sales are recorded net of discounts, rebates and returns.

For certain contracts the Company recognizes revenue from R&D contracts and grants when earned. Grants are invoiced after expenses are incurred. Revenues from projects or grants funded in advance are deferred until earned.

For certain collaborative research projects the Company recognizes revenue by defining milestones at the inception of the agreement and determining when it may be appropriate to apply the milestone method of revenue recognition.

Any projects or grants funded in advance are deferred until earned. As of June 30, 2010, an aggregate of \$115,000 of advanced revenues was unearned.

**CHEMBIO DIAGNOSTICS, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2010**  
**(UNAUDITED)**

**(c) Inventories:**

Inventories consists of the following at:

	<b>June 30, 2010</b>	(Audited) December 31, 2009
<b>Raw materials</b>	<b>\$ 869,670</b>	<b>\$ 1,031,567</b>
<b>Work in process</b>	<b>273,909</b>	<b>184,081</b>
<b>Finished goods</b>	<b>706,129</b>	<b>340,255</b>
	<b><u>\$ 1,849,708</u></b>	<b><u>\$ 1,555,903</u></b>

**(d) Earnings (Loss) Per Share:**

The following weighted average number of shares was used for the computation of basic and diluted earnings (loss) per share:

	<b>For the three months ended</b>		<b>For the six months ended</b>	
	<b>June 30, 2010</b>	June 30, 2009	<b>June 30, 2010</b>	June 30, 2009
<b>Basic</b>	<b>62,070,736</b>	61,944,901	<b>62,028,450</b>	61,944,901
<b>Diluted</b>	<b>70,614,048</b>	74,814,205	<b>71,340,820</b>	61,944,901

Basic earnings (loss) per share is computed by dividing net income (loss) attributable to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted income (loss) per share reflects the potential dilution from the exercise or conversion of other securities into common stock, but only if dilutive. Diluted loss per share for the six-month period ended June 30, 2009 is the same as basic loss per share, since the effects of the calculation were anti-dilutive due to the fact that the Company incurred losses for that period. The following securities, presented on a common share equivalent basis for the three-month periods ended June 30, 2010 and 2009 and the six-month period ended June 30, 2010, were included in computing diluted earnings per share; for the six month period ending June 30, 2009, these were excluded from the diluted loss per share computation:

	<b>For the three months ended</b>		<b>For the six months ended</b>	
	<b>June 30, 2010</b>	June 30, 2009	<b>June 30, 2010</b>	June 30, 2009
<b>1999 and 2008 Plan Stock Options</b>	<b>5,704,933</b>	4,140,554	<b>5,683,602</b>	3,264,033
<b>Other Stock Options</b>	<b>124,625</b>	124,625	<b>124,625</b>	124,625
<b>Warrants</b>	<b>2,713,754</b>	8,604,125	<b>3,504,143</b>	9,383,684
	<b><u>8,543,312</u></b>	<u>12,869,304</u>	<b><u>9,312,370</u></b>	<u>12,772,342</u>

**CHEMBIO DIAGNOSTICS, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2010**  
**(UNAUDITED)**

**(e) Employee Stock Option Plan:**

The Company has a 1999 Stock Option Plan ("SOP") that originally covered the potential issuance of options to purchase 1,500,000 shares of Common Stock. Under the terms of the SOP, the Compensation Committee of the Company's Board is authorized to grant incentive options to key employees and to grant non-qualified options to key employees and other key individuals. The options become exercisable at such times and under such conditions as determined by the Compensation Committee. The SOP was amended at the Company's 2005 stockholders' meeting. The number of options under the SOP was increased to 3,000,000 shares of Common Stock. It was also amended to allow independent directors to be eligible for grants under the portion of the SOP concerning non-qualified options.

Effective June 3, 2008, the Company's stockholders voted to approve the 2008 Stock Incentive Plan ("SIP"), with 5,000,000 shares of Common Stock. Under the terms of the SIP, the Compensation Committee of the Company's Board has the discretion to select the persons to whom awards are to be granted. Awards can be incentive stock options, restricted stock and/or restricted stock units. The awards become vested at such times and under such conditions as determined by the Compensation Committee.

The weighted average estimated fair value, at their respective dates of grant, of stock options granted in the six-month periods ended June 30, 2010 and 2009 was \$.22 and \$.09 per share, respectively. The fair value of options at the date of grant was estimated using the Black-Scholes option pricing model. The expected volatility is based upon the historical volatility of our stock. The expected term is determined using the simplified method as permitted by SAB 107, as the Company has limited history of employee exercise of options to date.

The assumptions made in calculating the fair values of options are as follows:

	<b>For the three months ended</b>		<b>For the six months ended</b>	
	<b>June 30, 2010</b>	<b>June 30, 2009</b>	<b>June 30, 2010</b>	<b>June 30, 2009</b>
<b>Expected term (in years)</b>	<b>n/a</b>	<b>4</b>	<b>5</b>	<b>4</b>
<b>Expected volatility</b>	<b>n/a</b>	<b>123.81%</b>	<b>116.82%</b>	<b>123.81%</b>
<b>Expected dividend yield</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
<b>Risk-free interest rate</b>	<b>n/a</b>	<b>2.98%</b>	<b>1.43%</b>	<b>1.81-1.95%</b>

The Company's results for the six-month periods ended June 30, 2010 and 2009 include share-based compensation expense totaling \$114,000 and \$92,000, respectively. Such amounts have been included in the Condensed Consolidated Statements of Operations within cost of goods sold (\$13,000 and \$9,000, respectively), research and development (\$60,000 and \$36,000, respectively) and selling, general and administrative expenses (\$41,000 and \$47,000, respectively). No income tax benefit has been recognized in the statement of operations for share-based compensation arrangements due to the history of operating losses.

Stock option compensation expense for the six-month periods ended June 30, 2010 and 2009 represents the estimated fair value of options outstanding which is being amortized on a straight-line basis over the requisite vesting period of the entire award.



**CHEMBIO DIAGNOSTICS, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2010**  
**(UNAUDITED)**

The following table provides stock option activity for the six months ended June 30, 2010:

Stock Options	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2009	2,416,650	\$ 0.36	3.23 years	\$ -
<u>Impact of re-price (for accounting purposes treated as a cancellation and re-issue):</u>				
effect as if cancelled	(1,252,750)	\$ 0.48		
effect as if re-issued	1,252,750	\$ 0.13		
Granted	3,459,000	\$ 0.13		
Exercised	(35,000)	\$ 0.13		
Forfeited/expired /cancelled	(253,750)	\$ 0.17		
<b>Outstanding at December 31, 2009</b>	<b>5,586,900</b>	<b>\$ 0.15</b>	<b>3.59 years</b>	<b>\$ 756,990</b>
Granted	300,000	\$ 0.27		
Exercised	(158,250)	\$ 0.13		
Forfeited/expired/cancelled	(97,250)	\$ 0.26		
<b>Outstanding at June 30, 2010</b>	<b>5,631,400</b>	<b>\$ 0.16</b>	<b>3.29 years</b>	<b>\$ 734,925</b>
<b>Exercisable at June 30, 2010</b>	<b>3,064,725</b>	<b>\$ 0.13</b>	<b>2.75 years</b>	<b>\$ 377,924</b>

As of June 30, 2010, there was \$158,000 of net unrecognized compensation cost related to stock options that had not vested, which is expected to be recognized over a weighted average period of approximately 1.33 years. The total fair value of stock options vested during the six-month periods ended June 30, 2010 and 2009, was approximately \$125,000 and \$107,000, respectively.

**(f) Geographic Information:**

U.S. GAAP establishes standards for the manner in which business enterprises report information about operating segments in financial statements and requires that those enterprises report selected information. It also establishes standards for related disclosures about products and services, geographic areas, and major customers.

The Company produces only one group of similar products known collectively as “rapid medical tests”. Management believes that it operates in a single business segment. Net product sales by geographic area are as follows:

	For the three months ended		For the six months ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
<b>Africa</b>	\$ 820,980	\$ 999,048	\$ 1,317,871	\$ 1,458,785
<b>Asia</b>	33,457	72,458	84,511	94,599
<b>Europe</b>	28,178	27,087	60,632	45,772
<b>Middle East</b>	76,192	60,949	103,135	92,996
<b>North America</b>	1,344,134	1,252,338	2,867,771	2,171,365
<b>South America</b>	32,724	639,505	116,642	1,457,284
	<b>\$ 2,335,665</b>	<b>\$ 3,051,385</b>	<b>\$ 4,550,562</b>	<b>\$ 5,320,801</b>

**CHEMBIO DIAGNOSTICS, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2010**  
**(UNAUDITED)**

**(g) Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities consist of:

	June 30, 2010	(Audited) December 31, 2009
Accounts payable – suppliers	\$ 448,125	\$ 662,739
Accrued royalties / license fees	521,335	612,709
Accrued payroll	84,566	114,234
Accrued vacation	144,045	99,057
Accrued bonuses	-	238,600
Accrued expenses – other	112,674	178,824
<b>TOTAL</b>	<b>\$ 1,310,745</b>	<b>\$ 1,906,163</b>

**(h) Recent Accounting Pronouncements Affecting the Company**

*Revenue Arrangements with Multiple Deliverables*

In October 2009, the Financial Accounting Standards Board (“FASB”) issued authoritative guidance (“guidance”) that amends existing guidance for identifying separate deliverables in a revenue-generating transaction where multiple deliverables exist, and provides guidance for allocating and recognizing revenue based on those separate deliverables. The guidance is expected to result in more multiple- deliverable arrangements being separable than under current guidance. This guidance is effective for fiscal years beginning on or after June 15, 2010. The Company is evaluating the impact this guidance may have on its condensed consolidated financial statements.

*Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades*

In April 2010, the FASB issued guidance which clarified that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity’s equity shares trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The Company is evaluating the impact that this guidance will have on its condensed consolidated financial statements, if any.

*Milestone Method of Revenue Recognition*

In April 2010, the FASB issued guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research or development transactions. Consideration that is contingent on achievement of a milestone in its entirety may be recognized as revenue in the period in which the milestone is achieved only if the milestone is judged to meet certain criteria to be considered substantive. Milestones should be considered substantive in their entirety and may not be bifurcated. An arrangement may contain both substantive and nonsubstantive milestones, and each milestone should be evaluated individually to determine if it is substantive. This guidance is effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010, with early adoption permitted. This guidance was adopted by the Company and was effective as of January 1, 2010. The provisions of this guidance have been applied to all research and development agreements prospectively.

**CHEMBIO DIAGNOSTICS, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2010**  
**(UNAUDITED)**

*Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*

In July 2010, the FASB issued guidance that requires more information about the credit quality of financing receivables in the disclosures to financial statements, such as aging information and credit quality indicators. Both new and existing disclosures must be disaggregated by portfolio segment or class. The disaggregation of information is based on how a company develops its allowance for credit losses and how it manages its credit exposure. Financing receivables include loans and trade accounts receivable. However, short-term trade accounts receivable, receivables measured at fair value or lower of cost or fair value, and debt securities are exempt from these disclosure amendments. This guidance is effective for periods ending on or after December 15, 2010. The amendments that require disclosures about activity that occurs during a reporting period are effective for periods beginning on or after December 15, 2010. The Company is evaluating the impact that this guidance will have on its condensed consolidated financial statements, if any.

**NOTE 3—COLLABORATIVE RESEARCH AND DEVELOPMENT ARRANGEMENTS:**

***a. Oswaldo Cruz Foundation/Fiocruz:***

On September 26, 2008, the Company signed an Agreement (“FIOCRUZ Agreement”), with the Bio-Manguinhos unit of the Oswaldo Cruz Foundation of Brazil (“FIOCRUZ”) for the transfer of technology from the Company to FIOCRUZ, for patents applied in Brazil or other Mercosur countries for the term of the patents and the transfer of all technical information related to DPP® HIV 1/2 rapid test (“DPP® technology”) and the process to obtain rapid test for the detection of HIV1/2 by the DPP® technology. This Agreement contemplates the scientific and technological co-operation between the Company and FIOCRUZ for such activities so that FIOCRUZ will be able to manufacture the DPP® technology in Brazil.

Based on the following events, in accordance with guidance, management has concluded the FIOCRUZ event recorded this quarter meets the definition of a milestone event:

- a) The company had a specific outcome through achieving registration of the DPP® technology by ANVISA.
- b) There was substantive uncertainty at the date the arrangement was entered into on September 2008, as there was no guarantee that the product under the FIOCRUZ agreement would receive approval by ANVISA.
- c) This event results in additional payments being due to the Company in the future.

As required in guidance, management evaluated the substantive uncertainty existed as follows:

- a) The consideration is commensurate with the Company’s performance to achieve the milestone (ANVISA approval).
- b) The consideration of \$400,000 relates solely to past performance from the initiation of the agreement through June 30, 2010 (the payment consideration date), as the company provided R&D type activities to enable the product to be approved by ANVISA, already owned the DPP® technology and is non-refundable.
- c) It is reasonable relative to all of the deliverables and payment terms within the arrangement as the bulk of the revenue will be provided through additional future royalties and purchase commitments due to the Company. Under the FIOCRUZ Agreement, after the Product registration by ANVISA, the Company will supply product and FIOCRUZ will do their best efforts to purchase each year for a period of three years from the Company the amount of 833,333 units of product at a product transfer price of \$3.00 per unit for a minimum aggregate purchase obligation equal to \$7.5M. Following the purchase of \$7.5 million, during each of the succeeding two years, FIOCRUZ will purchase test components as specified by FIOCRUZ at an aggregate purchase price of \$1.25 million in each of the fourth and fifth year.

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***b. Bio-Rad:***

On April 16, 2008, the Company announced a development agreement (“Bio-Rad Agreement”) with Bio-Rad Laboratories, N.A. (“Bio-Rad”). The Agreement with Bio-Rad is for the development of a new multiplex product (“product”) that would be developed on DPP® and which would be marketed exclusively by Bio-Rad under an exclusive limited DPP® license from Chembio to Bio-Rad limited to the field of application of this product. The agreement with Bio-Rad contemplated that the Company would enter into a license agreement subject to the satisfaction of certain development and other conditions. On January 19, 2009, Chembio granted, effective December 31, 2008, a limited exclusive license (“License Agreement”) within a defined field of application for Chembio’s DPP® technology to Bio-Rad. The license was granted following development milestones as set forth in the agreement mentioned above.

Based on the following events, in accordance with guidance, management has concluded the Bio-Rad events recorded this quarter meet the definition of a single milestone event:

- a) The company had a specific outcome completing Phase 2 “End of the Development Phase” as listed in the Work Schedule and Flow Chart where Bio-Rad has made the decision to transfer the product to Chembio’s manufacturing process.
- b) There was substantive uncertainty at the date the arrangement was entered into on April 2008, as there was no guarantee that any Phase of the development program would be achieved.
- c) This event results in additional payments being due to the Company in the future.

As required in guidance, management evaluated the substantive uncertainty existed as follows:

- a) The consideration is commensurate with the Company’s performance to achieve the milestone, Phase 2 in accordance with work schedule as provided in the Bio-Rad agreement.
- b) The consideration of \$465,000 relates solely to past performance from the initiation of the agreement through June 29, 2010 (the payment consideration date), as the company provided R&D type activities to enable the product to be available to transfer to manufacturing.
- c) It is reasonable relative to all of the deliverables and payment terms within the arrangement as there are additional royalties and purchase commitments due to the Company to be executed in the future which will result in a larger revenue stream. Under the Bio-Rad Agreement, after the execution of the transfer of manufacturing, the Company will be due an additional \$75,000 upon Bio-Rad’s written decision to validate the Effective Transfer of Manufacturing to Bio-Rad, an additional \$75,000 payable one year after the Bio-Rad’s written decision to validate the Effective Transfer of Manufacturing to Bio-Rad. Under the Bio-Rad Agreement, the Company granted to Bio-Rad a royalty free license when the Company manufactures the product, and when Bio-Rad manufactures the product a seven percent royalty payment on net sales in those countries and other jurisdictions where Chembio has filed the relevant patent.

***c. NIH Grant:***

In June 2009, the Company received a \$3 million, three-year grant from the United States National Institutes of Health to complete development of a test for Leptospirosis. Grants are invoiced after expenses are incurred. In addition, the Company has several development contracts with third parties related to its DPP® technology. These development projects are funded in advance and are presented as deferred revenue until earned.

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***d. Battelle/CDC DPP® Influenza Immunity Test:***

In December 2009, Chembio entered into a development agreement for up to approximately \$900,000 in connection with the development and initial supply of a multiplex, rapid point-of-care ("POC") influenza immunity test. The agreement contemplates a period of approximately nine months in which the development activity is to be completed. Chembio entered this agreement with Battelle Memorial Institute, which has a master contract with the United States Centers for Disease Control and Prevention ("CDC"), to enter into, implement and provide technical oversight of agreements relating to pandemic preparedness on behalf of CDC. As of June 30, 2010, the Company earned \$521,777 in research and development revenues from this agreement.

**NOTE 4—TERM NOTE, REVOLVING DEMAND NOTE, VEHICLE FINANCING AND LICENSE FEE PAYABLE:**

In June 2010, the Company entered into three agreements with HSBC Bank, NA ("HSBC"). The three agreements were: 1) a secured term note ("Term Note") of \$250,000 to be repaid over sixty months; 2) a secured revolving demand note ("Demand Note") up to \$250,000; and 3) a loan and security agreement ("Security Agreement").

The Term Note is payable at \$4,775.29 per month in arrears. The payment was calculated by amortizing the \$250,000 note over 60 months at an interest rate of 5.5% per annum. The term of the Term Note is five years, expiring June, 2015. The Term Note is secured under the terms of the Security Agreement.

The Demand Note allows the Company to draw on the line from time to time an amount up to an aggregate of \$250,000 outstanding at any one time. The accrued interest on the Demand Note is payable monthly at an interest rate equal to one-quarter percent above prime per annum. The Company can repay any or all of the principal balance outstanding at any time. This is a demand note and is subject to annual reviews, as well as a 30-day clean-up, during which there can be no amounts outstanding.

The Security Agreement contains covenants that place annual restrictions on the Company's operations, including covenants relating to mergers, debt restrictions, capital expenditures, tangible net worth, net profit, leverage, fixed charge coverage, employee loan restrictions, distribution restrictions (common stock and preferred stock), dividend restrictions, restrictions on lease payments to affiliates, restrictions on changes in business, asset sale restrictions, restrictions on acquisitions and intercompany transactions, restrictions on fundamental changes. The Security Agreement also requires that the Company maintain a minimum tangible net worth at all times of greater than \$3,000,000 and EBITDA to CMLTD plus interest cannot be less than 1.25 to 1.00 for any fiscal year. (CMLTD is for any one-year period, the current scheduled principal payments required to be paid for the applicable period.). The Company was in compliance with all required financial covenants at June 30, 2010. The Security Agreement requires that the Demand Note has an annual 30-day clean-up, during which there can be no amounts outstanding.

The Company currently maintains its operating, payroll, and primary cash accounts at HSBC. The balance due on the Term Note as of June 30, 2010 was \$250,000 and nothing was drawn down on the Demand Note as of June 30, 2010.

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Future minimum payments under the Term Note, excluding interest, as of June 30, 2010 were as follows:

Year ending June 30,	
2011	\$ 44,668
2012	47,188
2013	49,850
2014	52,662
2015	55,632
	<u>250,000.00</u>
Less: current maturities	(44,668)
	<u>\$ 205,332</u>

In June 2009, the Company purchased a vehicle for use by the CEO and obtained financing in the amount of \$29,228. The financing is for a period of 3 years; is secured by the vehicle, and is guaranteed by the CEO. The financing agreement provides for monthly principal and interest payments of \$849 and carries an interest rate of 2.9% per annum. The balance due on this loan as of June 30, 2010 was \$18,965.

In February 2008, the Company entered into a sublicense agreement (the "Agreement") with Bio-Rad Laboratories, Inc. and Bio-Rad Pasteur (collectively, "Bio-Rad"). Bio-Rad is the exclusive licensee of the HIV-2 patent portfolio held by Institute Pasteur of Paris, France. Pursuant to the terms of the Agreement, Bio-Rad sublicensed to the Company patents related to the manufacture, use or sale of screening assays that detect HIV-2. In exchange for global non-exclusive rights to these patents, the Agreement initially provided that the Company pay Bio-Rad a \$1,000,000 sublicense fee; \$500,000 payable during 2008, of which \$125,000 was paid and \$375,000 was payable by December 31, 2008, with the remaining \$500,000 being payable by December 31, 2009. On January 29, 2009, the Company and Bio-Rad agreed to amend the Agreement so as to defer the remaining \$875,000 of payments due under the Agreement to one payment due in December 2010. The Company will also pay Bio-Rad a royalty on net sales in the United States and Canada, if any, of Licensed Products sold under the Company's brands as defined in the Agreement. The Agreement will continue until the expiration of the last-to-expire of the sublicensed patents, unless otherwise terminated at an earlier date by the Company or Bio-Rad.

**NOTE 5 — RIGHTS AGREEMENT:**

In March 2010, the Company entered into a Rights Agreement dated March 8, 2010 (the "Rights Agreement") between the Company and Action Stock Transfer Corp., as Rights Agent. Pursuant to the Rights Agreement, the Company declared a dividend distribution of one preferred share purchase right (a "Right") for each outstanding share of Common Stock, \$0.01 par value (the "Common Stock"), of the Company. The Board of Directors set the payment date for the distribution of the Rights as March 8, 2010, and the Rights shall be distributed to the Company's shareholders of record on that date. The description and terms of the Rights are set forth in the Rights Agreement.

**Rights Initially Not Exercisable.** The Rights are not exercisable until a Distribution Date. Until a Right is exercised, the holder thereof, as such, will have no rights as a shareholder of the Company, including, without limitation, the right to vote or to receive dividends.

**Separation and Distribution of Rights.** The Rights will be evidenced by the certificates for shares of Common Stock registered in the names of the holders thereof, and not by separate rights certificates until the earlier to occur of (i) the close of business on the tenth business day following a public announcement that an Acquiring Person (as defined in the Rights Agreement) acquired a Combined Ownership (as defined in the Rights Agreement) of 15% or more of the outstanding shares of the Common Stock (the "Shares Acquisition Date") or (ii) the later of (A) the close of business on the tenth business day (or such later date as may be determined by action of the Board of Directors prior to such time as any person or group of affiliated or associated persons becomes an Acquiring Person) after the date that a tender or exchange offer or intention to commence a tender or exchange offer by any person is first published, announced, sent or given within the meaning of Rule 14d-4(A) under the Securities Exchange Act of 1934, as amended, the consummation of which would result in any person having Combined Ownership of 15% or more of the outstanding shares of the Common Stock, or (B) if such a tender or exchange offer has been published, announced, sent or given before the date of the Rights Agreement, then the close of business on the tenth business day after the date the Rights Agreement was entered into (or such later date as may be determined by action of the Board of Directors prior to such time as any person becomes an Acquiring Person); (the earlier of such dates referred to in (i) and (ii), which date may include any such date that is after the date of the Rights Agreement but prior to the issuance of the Rights, being called the "Distribution Date").

For a more complete description of the material terms of the Rights Agreement and the rights to be issued pursuant thereto, please refer to Item 3.03 of the Company's Form 8-K Current Report filed with the SEC on March 11, 2010.

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**NOTE 6 — COMMITMENTS, CONTINGENCIES, AND CONCENTRATIONS:**

**(a) Economic Dependency:**

The following table discloses product sales the Company had to customers in excess of 10% of net product sales for the periods indicated:

	For the three months ended				For the six months ended				Accounts
	June 30, 2010		June 30, 2009		June 30, 2010		June 30, 2009		Receivable
	Sales	% of Sales	Sales	% of Sales	Sales	% of Sales	Sales	% of Sales	As of June 30, 2010
Customer 1	1,288,038	55	1,160,765	38	2,449,965	54	2,004,872	38	-
Customer 2	474,564	20	728,640	24	474,564	10	728,640	14	575,400
Customer 3	*	*	556,600	18	*	*	1,349,800	25	*

In the table above, the asterisk (\*) indicates that sales to the customer did not exceed 10% for the period indicated.

The following table discloses purchases the Company made from a vendor in excess of 10% of total purchases for the periods indicated:

	For the three months ended				For the six months ended				Accounts
	June 30, 2010		June 30, 2009		June 30, 2010		June 30, 2009		Payable
	Purchases	% of Purc.	Purchases	% of Purc.	Purchases	% of Purc.	Purchases	% of Purc.	As of June 30, 2010
Vendor 1	76,400	15	134,526	20	184,063	14	259,588	22	8,160

The Company currently buys materials which are purchased under intellectual property rights agreements and are important components in its products. Management believes that other suppliers could provide similar materials on comparable terms. A change in suppliers, however, could cause a delay in manufacturing and a possible loss of sales, which could adversely affect operating results.

**(b) Governmental Regulation:**

All of the Company's existing and proposed diagnostic products are regulated by the United States Food and Drug Administration, United States Department of Agriculture, certain U.S., state and local agencies, and/or comparable regulatory bodies in other countries. Most aspects of development, production, and marketing, including product testing, authorizations to market, labeling, promotion, manufacturing, and record keeping are subject to review. After marketing approval has been granted, Chembio must continue to comply with governmental regulations. Failure to comply with these regulations can result in significant penalties.

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***(c) Agreement with Alere:***

On June 25, 2009, the Company and Alere North America, Inc. ("Alere", formerly Inverness Medical Innovations, Inc.) entered into a letter agreement whereby certain obligations aggregating approximately \$1,010,000 as of December 31, 2008 were agreed to be paid from future revenues. The obligations include the Company's share under its agreements with Alere for the amount of HIV-2 royalties that Alere paid when Alere entered into an HIV-2 license agreement with Bio-Rad Laboratories, Inc. of approximately \$485,000 and royalties owed by Chembio on lateral flow licenses to Alere of approximately \$525,000 as of December 31, 2008. Under the agreement, Alere will retain an additional 10% of Clearview® HIV 1/2 STAT-PAK® net sales and 5% of Clearview® Complete HIV 1/2 net sales until these obligations are extinguished. As of June 30, 2010, the full amount was extinguished.

***(d) Employment Agreement:***

The Company has employment contracts with two key employees. The contracts call for salaries presently aggregating \$510,000 per year. One contract expires in May 2012 and one contract expires in March 2013. In connection with the contract that expires March 2013, the Company issued 300,000 options to purchase common stock with one-third vesting immediately and one-third vesting on each of the second and third anniversaries of the grant.

***(e) Equipment Purchase Commitment:***

In June and November of 2009, the Company entered into agreements with a tooling manufacturer to design and build a tool for cassettes that house its tests. The estimated cost of \$62,800 is being paid in installments. As of June 30, 2010, an aggregate of \$38,800 has been paid for this tooling and is included in other assets on the Company's balance sheet. In addition, \$14,025 of progress payments on leasehold improvements has been paid and is included in other assets on the Company's balance sheet.



## ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The terms “Chembio”, “Company,” “we”, “us”, and “our” refer to Chembio Diagnostics, Inc. and its subsidiary as a consolidated entity, unless the context suggests otherwise.

### Overview

This discussion and analysis should be read in conjunction with the accompanying Condensed Consolidated Financial Statements and related notes. The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States (“U.S. GAAP”). The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of any contingent liabilities at the financial statement date and reported amounts of revenue and expenses during the reporting period. On an ongoing basis we review our estimates and assumptions. Our estimates were based on our historical experience and other assumptions that we believe to be reasonable under the circumstances. Actual results are likely to differ from those estimates under different assumptions or conditions, but we do not believe such differences will materially affect our financial position or results of operations. Our critical accounting policies, the policies we believe are most important to the presentation of our financial statements and require the most difficult, subjective and complex judgments, are outlined below in “Critical Accounting Policies,” and have not changed significantly from December 31, 2009.

In addition, certain statements made in this report may constitute “forward-looking statements”. These forward-looking statements involve known or unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Specifically, 1) our ability to obtain necessary regulatory approvals for our products; and 2) our ability to increase revenues and operating income is dependent upon our ability to develop and sell our products, general economic conditions, and other factors. You can identify forward-looking statements by terminology such as “may,” “could”, “will,” “should,” “; expects,” “intends,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “potential,” “continues” or the negative of these terms or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements.

Except as may be required by applicable law, we do not undertake or intend to update or revise our forward-looking statements, and we assume no obligation to update any forward-looking statements contained in this report as a result of new information or future events or developments. Thus, you should not assume that our silence over time means that actual events are bearing out as expressed or implied in such forward-looking statements. You should carefully review and consider the various disclosures we make in this report and our other reports filed with the Securities and Exchange Commission that attempt to advise interested parties of the risks, uncertainties and other factors that may affect our business.

The following discussion and analysis relates to the business of the Company, which consists of the development, manufacture and marketing of rapid diagnostic tests that detect infectious diseases. All of the Company’s future products that are currently being developed are based on our patented Dual Path Platform (DPP®), which is a unique diagnostic point-of-care platform that has certain advantages over lateral flow technology. The Company has completed development of five products that employ the DPP® technology, two of which will be marketed under Chembio’s label (DPP® HIV 1/2 Screening Assay and DPP® Syphilis Screen & Confirm) and three that have been developed specifically related to technology transfer, supply and license agreements with The Oswaldo Cruz Foundation (“FIOCRUZ” 221;) for the Brazilian public health market, as explained below. The DPP® HIV Screening Assay will be manufactured as an OEM product only for the Brazilian market pursuant to one of our agreements with FIOCRUZ.

During the first half of 2010, the Company had a total of \$1,592,000 of research and development expenses, which were comprised of \$356,000 of clinical and regulatory expenses and \$1,236,000 of research and development expenses. The research and development expenses include the costs of personnel to assist both in the transfer of newly developed products into the Company’s manufacturing operation and also to provide technical support to the Company’s manufacturing operation. During the first half of 2010, the Company realized revenue in respect of research and development agreements and grants in the amount of \$1,243,000 versus revenue of \$546,000 for the six-month period ended June 30, 2009.

Therefore, while the Company increased its research and development expenses in the first half of 2010 versus the first half of 2009, it has more than offset these increased research and development expenses with income from research and development agreements and grants. The Company has been able to utilize these funded development programs to enhance its proprietary capabilities.

The Company has a number of additional products under development that employ the DPP® technology. These product development activities are further described below.

**Oswaldo Cruz Foundation OEM DPP® Agreements** - During 2008 we signed four agreements with the Oswaldo Cruz Foundation (FIOCRUZ), which is affiliated with the Ministry of Health in Brazil, relating to products based on our DPP® technology for Leptospirosis, Canine Leishmaniasis, screening for HIV 1/2 with oral fluid and blood samples, and a 5-band multiplex point-of-care confirmation test for HIV 1&2. We have completed development of all of these products. During the second quarter we received notification from FIOCRUZ that our DPP® HIV screening test was approved by Brazil's National Health Surveillance Agency (ANVISA). Two of the other three products HIV confirmatory and Canine Leishmaniasis, have already been submitted for regulatory approval. During the second quarter there was additional evaluation materials and documentation that was requested of us by FIOCRUZ related to the HIV confirmatory and leishmaniasis tests, which request we believe has been satisfied. We are in the process of validating the manufacture of the Leptospirosis product so that we can provide evaluation lots and documentation to FIOCRUZ for their regulatory approval submission of this product to ANVISA during the third quarter. Although there can be no assurance, we believe that the three remaining products will receive Brazilian regulatory approval (ANVISA for the HIV Confirmatory and Leptospirosis tests and MAPA for the canine leishmaniasis test) during 2010.

**Bio-Rad Laboratories OEM DPP® Agreement**- On April 6, 2008, we entered a development agreement with Bio-Rad Laboratories N.A., a division of Bio-Rad Laboratories Inc. (NYSE:BIO), a leading in-vitro diagnostic and life science company. The agreement with Bio-Rad is for the development of a six band multiplex product on our DPP®. On June 25, 2010, the Company received a letter from Bio-Rad, confirming the completion of Phase 2 (the Development Phase) of the Agreement. In addition, Bio-Rad exercised its option right for the transfer to Bio-Rad of exclusive manufacturing rights for the Product.

**Battelle/CDC DPP® Influenza Immunity Test** – In December 2009, Chembio entered into a development agreement for up to approximately \$900,000 in connection with the development and initial supply of a multiplex, rapid point-of-care ("POC") influenza immunity test. The agreement contemplates a period of approximately nine months in which the development activity is to be completed. Chembio entered this agreement with Battelle Memorial Institute, an organization that has a master contract with the United States Centers for Disease Control and Prevention ("CDC") to enter into, implement and provide technical oversight of agreements relating to pandemic preparedness on behalf of the CDC. This development program is proceeding on schedule and we plan to send the first prototypes of this product to CDC during the third quarter for their evaluation.

**DPP® Hepatitis C and DPP® Hepatitis C/HIV Oral Fluid Antibody Tests** - Prototypes of these products have been developed and were evaluated in a study that was organized by the National Center for HIV/AIDS, Viral Hepatitis, STD, and TB Prevention (NCHHSTP) at the CDC. We have received some of the results of the study and have been advised that the data and analysis will be available to all manufacturers that participated with products in the study during the third quarter of 2010. The data and analysis should be useful in helping us to ascertain the performance characteristics of our products in comparison to other products that were also in this evaluation.

**DPP® Influenza** –We have developed a prototype multiplex test for FLU A/B Antigen Detection and have started design work in order to consider further modifications and optimization. We are in the process of obtaining samples that we can use in order to accurately assess development progress. This product will be our first commercial antigen detection test on DPP®, and we believe that this has independent value to demonstrate the capabilities of our technology to access large markets beyond serological antibody detection markets. Our current plan is still for development to be completed and for our clinical studies to be initiated during 2010.

**DPP® Leptospirosis** – In June 2010, we completed the first year of the three-year \$3 million Small Business Innovative Research (SBIR) Phase II grant we were awarded in 2009 by the United States National Institutes of Health (NIH) to fully develop, validate, and commercialize a rapid diagnostic test for Leptospirosis for general use worldwide. Our work pursuant to this grant is progressing on schedule. The test will be developed with our DPP® technology and will utilize proprietary reagents developed by Cornell University and the Oswaldo Cruz Foundation at the Brazilian Ministry of Health. Development of the test will be in collaboration with the Division of Infectious Diseases, Weill Medical College, Cornell University in New York and the Oswaldo Cruz Foundation, the largest biomedical research institution in Latin America.

**Other Research & Development Activities** - Chembio continues to work with commercial, governmental and private organizations in order to obtain R&D contracts & grant funding for development projects. These programs have subsidized the Company's development expenses while expanding the applications for and know-how related to DPP®, and have also served in creating important collaborative relationships.

In April 2009, we entered into a Services Agreement with the Infectious Disease Research Institute to develop DPP® products for Leishmaniasis and Leprosy for which we have received \$250,000 and which, subject to attainment of certain results, is expected to provide us with approximately \$75,000 within the next six months. Under this agreement, we would receive an additional \$75,000 during the second year, subject to the attainment of certain results.

In May 2010, we completed work on a Phase I NIH grant for development of a DPP® serological test for the qualitative detection of active pulmonary tuberculosis in humans. In the final Phase I report submitted to NIH we reported that the minimum sensitivity goal of 75-80% had been achieved. Based on this result, we submitted also in May 2010, a request for \$2.7 million in Phase II funding over a three-year period in order for Chembio and its collaborating organizations to optimize the assay, determine diagnostic test performance, and validate test production protocols in preparation for regulatory approval. On July 9, 2010, we were informed that the application was evaluated such that, based on historical grant approval criteria, we believe that there is a substantial likelihood of Phase II funding being awarded beginning in 2011.

In July 2010, we submitted several applications for grants that we believe are eligible Qualifying Therapeutic Discovery Projects, as part of the Patient Protection and Affordable Care Act of 2010 (P.L. 111-148). This program is targeted to projects that show a reasonable potential to (for diagnostic products) prevent or detect chronic or acute diseases and conditions or reduce the long-term growth of health care costs in the United States, and that have the greatest potential to create and sustain high-quality, high-paying U.S. jobs and to advance U.S. competitiveness in life, biological and medical sciences. The grants are only available to companies with no more than 250 employees. The program covers up to 50 percent of a qualified investment made or to be made in 2009 and 2010, limited to a maximum of \$5 million per company.

We also have some smaller research and development agreements and grants in place, and applications for others that are pending.

There can be no assurance that any of these grant applications will result in any funding awards to the Company, nor that any of the existing research and development contracts or grants will continue or that they will meet regulatory or any other technical requirements and specifications, and/or that if continued, will result in completed products, or that such products, if they are successfully completed, can or will be successfully commercialized.

**Platform Enhancements** - In addition to the specific products we plan to commercialize, we also are pursuing enhancements to our DPP® technology platform during 2010 and 2011. These enhancements include enabling a simplified test procedure, lowering the overall manufacturing costs, enabling development of combination antibody and antigen assays, and integrating molecular sample amplification systems with our detection system. We are active in each of these areas subject to available resources, and also are pursuing patent protection where applicable.

During the second quarter, we began validation of certain automated assembly equipment we received delivery of in the first quarter, which we believe, if successfully validated, may result in savings to our lateral flow and DPP® assembly operation. Our plan is to complete this validation during the third quarter of 2010, although there can be no assurance of this.

**Patents** - During the first quarter of 2010, the Company's Dual Path Immuno-Assay device, which was granted a United States patent in 2007, received patent protection in the United Kingdom. During the first quarter of 2010, the Company received broader protection of its DPP technology in the U.S. through the issuance of a U.S. method patent for its DPP technology. The DPP technology has also been afforded patent protection in certain other foreign jurisdictions over the last year (Malaysia, Singapore and Eur-Asia), and patent protection is being actively prosecuted in all major markets globally. We have also filed additional provisional patent applications that we believe will strengthen our intellectual property portfolio.

## **Regulatory Activities**

**CE Mark for FDA approved HIV tests** -Based on the most recent dialog we have had with our Notified Body, we now believe we will be able to meet the CE Marking requirements for our two FDA approved rapid HIV tests, and we have developed an initial budget for this of \$76,000, though we believe additional savings can be achieved to bring this cost down further. We are in contact with certain organizations in Europe regarding our acquiring blood donor repository samples, which is the main component of this cost.

**Regulatory Approvals in Brazil through the Oswaldo Cruz Foundation (FIOCRUZ)** – We received notification from FIOCRUZ that our DPP® HIV screening test was approved by ANVISA for sale by FIOCRUZ in Brazil. We anticipate that FIOCRUZ will receive the required approvals from its regulatory agencies during the third quarter of 2010 for the DPP® Leishmaniasis test and the DPP® HIV Confirmatory test, although there can be no assurance of this.

**FDA Approval for DPP® HIV 1/2 Screening Assay for Oral Fluid** - We have commenced the clinical trials and they have proceeded slowly. We anticipate completing the clinical trials and submitting the PMA application during 2010, and receiving approval of the PMA before the end of 2011, although there can be no assurance of this. The pace of the clinical trials will depend upon operating cash flow or other financing sources we may pursue, the availability of which there can be no assurance.

**DPP® Syphilis Screen & Confirm** - We were preparing to commence clinical trials in connection with our planned 510(k) submission for this product during the third quarter of 2010, however we have had some delays in validating the manufacture of lots we need to produce for use in such clinical trials. This delay is due to inconsistency of one of the components used in the product. We believe we have identified a solution for this. We have also received some evaluation results from the retrospective international study organized by the WHO. These results require further analysis before we commence US clinical trials as the data we received from the WHO suggested some variability of results on low titer non-treponemal samples. We are trying to ascertain the reasons for this variability, and whether this variability was related to different product lots, operator training, and/or other factors. Notwithstanding this, the product was recommended for the prospective phase of the WHO study.

## Recent Events

In June 2010, the Company entered into three agreements with HSBC Bank, NA (“HSBC”). The three agreements were: 1) a secured term note (“Term Note”) of \$250,000 to be repaid over sixty months; 2) a secured revolving demand note (“Demand Note”) up to \$250,000; and 3) a loan and security agreement (“Security Agreement”).

The Term Note is payable at \$4,775.29 per month in arrears. The payment was calculated by amortizing the \$250,000 note over 60 months at an interest rate of 5.5% per annum. The term of the Term Note is five years, expiring June, 2015. The Term Note is secured under the terms of the Security Agreement.

The Demand Note allows the Company to draw on the line from time to time an amount up to an aggregate of \$250,000 outstanding at any one time. The accrued interest on the Demand Note is payable monthly at an interest rate equal to one-quarter percent above prime per annum. The Company can repay any or all of the principal balance outstanding at any time. This is a demand note and is subject to annual reviews, as well as a 30-day clean-up, during which there can be no amounts outstanding.

The Security Agreement contains covenants that place annual restrictions on the Company’s operations, including covenants relating to mergers, debt restrictions, capital expenditures, tangible net worth, net profit, leverage, fixed charge coverage, employee loan restrictions, distribution restrictions (common stock and preferred stock), dividend restrictions, restrictions on lease payments to affiliates, restrictions on changes in business, asset sale restrictions, restrictions on acquisitions and intercompany transactions, and restrictions on fundamental changes. The Security Agreement also requires that the Company maintain a minimum tangible net worth at all times of greater than \$3,000,000 and EBITDA to CMLTD plus interest cannot be less than 1.25 to 1.00 for any fiscal year. (CMLTD is for any one-year period, the current scheduled principal payments required to be paid for the applicable period.). The Company was in compliance with all required financial covenants at June 30, 2010. The Security Agreement requires that the Demand Note has an annual 30-day clean-up, during which there can be no amounts outstanding.

The Company currently maintains its operating, payroll, and primary cash accounts at HSBC. The balance due on the Term Note as of June 30, 2010 was \$250,000 and nothing was drawn down on the Demand Note as of June 30, 2010.

On June 25, 2010, the Company received a letter from Bio-Rad, confirming the completion of Phase 2 (the Development Phase) of the Agreement. In addition, Bio-Rad exercised its option right for the transfer to Bio-Rad of exclusive manufacturing rights for the Product.

As a result of the Company’s receipt of confirmation of completion of Phase 2 the Company recorded revenue of \$465,000 which included a milestone fee payment of \$340,000, received in January of 2009 pursuant to the License Agreement, and an additional \$125,000 earned in June 2010 as a result of the completion of the milestone.

The exercise of the option to manufacture has triggered potential aggregate maximum payments to the Company of \$275,000. The first payment of \$125,000 is due 30 days from the date the option is exercised, the second payment, in the amount of \$75,000, is due upon Bio-Rad's making the test available for clinical evaluations, and the final payment, in the amount of \$75,000, is due one year after Bio-Rad has made the test available for clinical evaluations.

Also in accordance with the License Agreement, upon commercialization of the Product, Chembio will receive a royalty in the amount of 7% of net product sales in those countries and other jurisdictions where Chembio has filed the relevant patent.

On June 28, 2010, Bio-Manguinhos, a division of FIOCRUZ, notified the Company that it had received regulatory approval from Brazil's National Health Surveillance Agency (ANVISA) to market Chembio's DPP® HIV 1/2 rapid test. The approval triggers \$400,000 in milestone revenues, which were received by Chembio in July 2010, less withholdings of 15% from the Brazilian government for taxes, which is reflected as an expense in the quarter ended June 30, 2010.

Under the agreement with FIOCRUZ for the DPP® HIV test, Chembio is expected to transfer to FIOCRUZ the technology related to this product over a five-year period. Thereafter, assuming the technology transfer process is completed, a five-year royalty phase will begin, with royalties equal to 4% of Net Sales, as defined in the applicable agreement.

In July 2010, the Company received a purchase order from the Pharmaceuticals Fund and Supply Agency of the government of Ethiopia in the amount of \$2,056,320 for its HIV 1/2 STAT PAK® rapid HIV test. This product is a designated test in the national testing algorithm of Ethiopia. The purchase order is secured by a letter of credit containing terms acceptable to the Company. Deliveries are anticipated to be made pursuant to this purchase order during the third and fourth quarters of 2010.

### **Critical Accounting Policies and Estimates**

We believe that there are several accounting policies that are critical to understanding our historical and future performance, as these policies affect the reported amounts of revenue and the more significant areas involving management's judgments and estimates. These significant accounting policies relate to revenue recognition, research and development costs, valuation of inventory, valuation of long-lived assets, accounting for complex financial instruments and income taxes. For a summary of our significant accounting policies, which have not changed from December 31, 2009, see our annual report on Form 10-K for the twelve months ended December 31, 2009, which was filed with the SEC on March 5, 2010.

**RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2010 AS COMPARED WITH THE THREE MONTHS ENDED JUNE 30, 2009**

**Revenues:**

**Selected Product Categories:**

	For the three months ended		\$ Change	% Change
	June 30, 2010	June 30, 2009		
<b>HIV</b>	\$ 2,135,711	\$ 2,799,644	\$ (663,933)	-23.71%
<b>DPP</b>	5,601	35	5,566	15902.86%
<b>Other</b>	194,353	251,706	(57,353)	-22.79%
<b>Net Product Sales</b>	<b>2,335,665</b>	<b>3,051,385</b>	<b>(715,720)</b>	<b>-23.46%</b>
<b>License and royalty income</b>	717,472	52,322	665,150	1271.26%
<b>R&amp;D contracts and grants</b>	696,305	269,817	426,488	158.07%
<b>Total Revenues</b>	<b>\$ 3,749,442</b>	<b>\$ 3,373,524</b>	<b>\$ 375,918</b>	<b>11.14%</b>

Revenues for our HIV tests and related components during the three months ended June 30, 2010 decreased by approximately \$664,000 over the same period in 2009. This was primarily attributable to decreased sales to Brazil of \$557,000 and Ethiopia of \$254,000, partially offset by increased sales in North America, primarily from sales to Alere of our HIV products, which increased by \$127,000 to \$1,288,000. The increase in R&D contracts and grants was due to revenue generated from grants and development contracts that are related to potential new products utilizing our patented DPP® technology and in addition \$125,000 earned in June 2010 as a result of the completion of the milestone in our Bio-Rad agreement. This included funds from our recent grants from NIH for Leptospirosis, which was effective as of June 1, 2009 and from Battelle for an influenza immunity test. License and royalty income includes milestone fee payments of \$340,000 from Bio-Rad pursuant to the License Agreement we signed in January 2009 and \$400,000 in a milestone fee payment from FIOCRUZ on the approval of the Company's DPP® HIV 1/2 rapid test, and for royalties from Brazil under our 2004 technology transfer and license agreement.

**Gross Margin:**

**Gross Margin related to  
Net Product Sales:**

	For the three months ended		\$ Change	% Change
	June 30, 2010	June 30, 2009		
<b>Gross Margin per Statement of Operations</b>	\$ 2,094,966	\$ 1,361,945	\$ 733,021	53.82%
<b>Less: R&amp;D contracts and grants, license and royalties</b>	1,413,777	322,139	1,091,638	338.87%
<b>Gross Margin from Net Product Sales</b>	<b>\$ 681,189</b>	<b>\$ 1,039,806</b>	<b>\$ (358,617)</b>	<b>-34.49%</b>
<b>Gross Margin %</b>	<b>29.16%</b>	<b>34.08%</b>		

The increase in our gross margin was primarily due to the increase in non-product revenues (see revenues above). The decrease in our product gross margin resulted primarily from \$92,000 worth of kits that were scrapped when they failed acceptance testing, lower production in the second quarter of 2010 compared to the second quarter of 2009 consumed less of our fixed overheads and decreased sales to Brazil, which were at higher average unit prices.

**Research and Development:**

Research and development expenses include costs incurred for regulatory approvals, product evaluations and registrations.

**Selected expense lines:**

Selected expense lines:	For the three months ended		\$ Change	% Change
	June 30, 2010	June 30, 2009		
<b><u>Clinical and Regulatory Affairs:</u></b>				
Wages and related costs	\$ 88,580	\$ 65,480	\$ 23,100	35.28%
Share-based compensation	2,970	3,582	(612)	-17.09%
Clinical trials	77,018	15,000	62,018	413.45%
Other	20,419	2,195	18,224	830.25%
<b>Total Regulatory</b>	<b>188,987</b>	<b>86,257</b>	<b>102,730</b>	<b>119.10%</b>
<b><u>R&amp;D Other than Regulatory:</u></b>				
Wages and related costs	404,098	344,005	60,093	17.47%
Consulting	5,156	32,538	(27,382)	-84.15%
Share-based compensation	13,496	30,554	(17,058)	-55.83%
Materials and supplies	127,279	143,710	(16,431)	-11.43%
Other	52,580	65,922	(13,342)	-20.24%
<b>Total other than Regulatory</b>	<b>602,609</b>	<b>616,729</b>	<b>(14,120)</b>	<b>-2.29%</b>
<b>Total Research and Development</b>	<b>\$ 791,596</b>	<b>\$ 702,986</b>	<b>\$ 88,610</b>	<b>12.60%</b>

Expenses for Clinical & Regulatory Affairs for the three months ended June 30, 2010 increased by \$103,000 as compared to the same period in 2009. This was primarily due to expenses we incurred in 2010 for clinical trials conducted for our DPP HIV Screen Assay. In addition, increases in wages and related costs also contributed to the increase.

R&D expenses other than Clinical & Regulatory Affairs decreased by \$14,000 in the three months ended June 30, 2010 as compared with the same period in 2009 and were primarily related to decreases in all categories, except for an increase in personnel required to perform the work related to the funded research and development contracts and grants all related to our patented DPP® technology.

Research and development expenses net of revenues from R&D contracts and grants (see sub-heading *Revenues* above) was \$95,000 for the three months ended June 30, 2010 (\$791,000 less \$696,000) compared to \$433,000 (\$703,000 less \$270,000) for the same period in 2009.

**Selling, General and Administrative Expenses:****Selected expense lines:**

	For the three months ended		\$ Change	% Change
	June 30, 2010	June 30, 2009		
Wages and related costs	\$ 238,658	\$ 200,171	\$ 38,487	19.23%
Consulting	41,745	46,129	(4,384)	-9.50%
Commissions	16,020	82,333	(66,313)	-80.54%
Share-based compensation	17,015	36,563	(19,548)	-53.46%
Marketing materials	8,422	3,505	4,917	140.29%
Investor relations	61,949	4,276	57,673	1348.76%
Legal, accounting and SOX 404 compliance	96,893	61,658	35,235	57.15%
Travel, entertainment and trade shows	14,804	7,808	6,996	89.60%
Other	184,508	100,006	84,502	84.50%
<b>Total S, G &amp;A</b>	<b>\$ 680,014</b>	<b>\$ 542,449</b>	<b>\$ 137,565</b>	<b>25.36%</b>

Selling, general and administrative expenses for the three months ended June 30, 2010 increased by 25% as compared with the same period in 2009. This was primarily due to the recording of \$60,000 in Brazilian tax withholdings on the milestone payment, an increase in investor relations, an increase in wages and related expenses and an increase in legal, accounting and SOX 404 compliance expenses, partially offset by a decrease in commissions as a result of lower sales in Brazil.

**Other Income and (Expense):**

	For the three months ended		\$ Change	% Change
	June 30, 2010	June 30, 2009		
<b>Other income</b>	\$ -	\$ (6,696)	\$ 6,696	-100.00%
<b>Interest income</b>	618	1,531	(913)	-59.63%
<b>Interest expense</b>	(2,057)	(1,406)	(651)	46.30%
<b>Total Other Income and (Expense)</b>	<b>\$ (1,439)</b>	<b>\$ (6,571)</b>	<b>\$ 5,132</b>	<b>-78.10%</b>

Other income and (expense) for the three months ended June 30, 2010 decreased approximately \$5,000 as compared with the same period in 2009, primarily as a result of a loss on the sale of an asset in 2009 wasn't repeated and was partially offset by an increase in interest expense and a decrease in interest income due to a decrease in interest rates in interest-bearing accounts.

**RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2010 AS COMPARED WITH THE SIX MONTHS ENDED JUNE 30, 2009****Revenues:****Selected Product Categories:**

	For the six months ended		\$ Change	% Change
	June 30, 2010	June 30, 2009		
<b>HIV</b>	\$ 4,143,044	\$ 4,396,439	\$ (253,395)	-5.76%
<b>DPP</b>	5,601	619,530	(613,929)	-99.10%
<b>Other</b>	401,917	304,832	97,085	31.85%
<b>Net Product Sales</b>	<b>4,550,562</b>	<b>5,320,801</b>	<b>(770,239)</b>	<b>-14.48%</b>
<b>License and royalty income</b>	738,968	52,322	686,646	1312.35%
<b>R&amp;D contracts and grants</b>	1,243,328	545,999	697,329	127.72%
<b>Total Revenues</b>	<b>\$ 6,532,858</b>	<b>\$ 5,919,122</b>	<b>\$ 613,736</b>	<b>10.37%</b>

Revenues for our HIV tests and related components during the six months ended June 30, 2010 decreased by approximately \$253,000 over the same period in 2009. This was primarily attributable to decreased sales to Brazil of \$815,000 and Ethiopia of \$254,000, partially offset by increased sales in North America, primarily from sales to Alere of our HIV products, which increased by \$445,000 to \$2,450,000 as well as sales to Mexico of \$275,000. The increase in R&D contracts and grants was due to revenue generated from grants and development contracts that are related to potential new products utilizing our patented DPP® technology and in addition \$125,000 earned in June 2010 as a result of the completion of the milestone in our Bio-Rad agreement. This included funds from our recent grants from NIH for Leptospirosis, which was effective as of June 1, 2009, and from Battelle for an influenza immunity test. License and royalty income includes milestone fee payments of \$340,000 from Bio-Rad pursuant to the License Agreement we signed with them in January 2009 and \$400,000 in a milestone payment from FIOCRUZ on the approval of the Company's DPP® HIV 1/2 rapid test and for royalties from Brazil under our 2004 technology transfer and license agreement.

**Gross Margin:****Gross Margin related to  
Net Product Sales:**

	For the six months ended		\$ Change	% Change
	June 30, 2010	June 30, 2009		
<b>Gross Margin per Statement of Operations</b>	\$ 3,401,340	\$ 2,360,634	\$ 1,040,706	44.09%
<b>Less: R&amp;D contracts and grants, license and royalties</b>	1,982,296	598,321	1,383,975	231.31%
<b>Gross Margin from Net Product Sales</b>	<b>\$ 1,419,044</b>	<b>\$ 1,762,313</b>	<b>\$ (343,269)</b>	<b>-19.48%</b>
<b>Gross Margin %</b>	<b>31.18%</b>	<b>33.12%</b>		

The increase in our gross margin was primarily due to the increase in non-product revenues (see revenues above). The decrease in our product gross margin resulted primarily from \$92,000 worth of product that were scrapped when they failed acceptance testing, lower production in the six months of 2010 compared to the six months of 2009 consumed less of our fixed overheads and decreased sales to Brazil, which were at higher average unit prices.



**Research and Development:**

Research and development expenses include costs incurred for regulatory approvals, product evaluations and registrations.

**Selected expense lines:**

Selected expense lines:	For the six months ended		\$ Change	% Change
	June 30, 2010	June 30, 2009		
<b>Clinical and Regulatory Affairs:</b>				
Wages and related costs	\$ 170,051	\$ 131,029	\$ 39,022	29.78%
Consulting	14,805	15,181	(376)	-2.48%
Share-based compensation	7,638	3,582	4,056	113.23%
Clinical trials	133,768	16,780	116,988	697.19%
Other	29,693	9,455	20,238	214.05%
Total Regulatory	<u>\$ 355,955</u>	<u>\$ 176,027</u>	<u>\$ 179,928</u>	<u>102.22%</u>
<b>R&amp;D Other than Regulatory:</b>				
Wages and related costs	\$ 828,691	\$ 698,720	\$ 129,971	18.60%
Consulting	15,139	49,970	(34,831)	-69.70%
Share-based compensation	51,756	37,736	14,020	37.15%
Materials and supplies	234,538	254,492	(19,954)	-7.84%
Other	106,275	133,413	(27,138)	-20.34%
Total other than Regulatory	<u>\$ 1,236,399</u>	<u>\$ 1,174,331</u>	<u>\$ 62,068</u>	<u>5.29%</u>
Total Research and Development	<u>\$ 1,592,354</u>	<u>\$ 1,350,358</u>	<u>\$ 241,996</u>	<u>17.92%</u>

Expenses for Clinical & Regulatory Affairs for the six months ended June 30, 2010 increased by \$180,000 as compared to the same period in 2009. This was primarily due to expenses we incurred in 2010 for clinical trials conducted for our DPP HIV Screen Assay. In addition, increases in wages and related costs also contributed to the increase.

R&D expenses other than Clinical & Regulatory Affairs increased by \$62,000 in the six months ended June 30, 2010 as compared with the same period in 2009 and were primarily related to an increase in personnel required to perform the work related to the funded research and development contracts and grants all related to our patented DPP® technology and an increase in the cost of share-based compensation related to the value of employee stock options issued and amortized. These increases were partially offset by a decrease in consulting and other costs.

Research and development expenses net of revenues from R&D contracts and grants (see sub-heading *Revenues* above) was \$349,000 for the six months ended June 30, 2010 (\$1,592,000 less \$1,243,000) compared to \$804,000 (\$1,350,000 less \$546,000) for the same period in 2009.

**Selling, General and Administrative Expenses:****Selected expense lines:**

	For the six months ended		\$ Change	% Change
	June 30, 2010	June 30, 2009		
<b>Wages and related costs</b>	<b>\$ 479,113</b>	<b>\$ 437,253</b>	<b>\$ 41,860</b>	<b>9.57%</b>
<b>Consulting</b>	<b>97,621</b>	<b>107,871</b>	<b>(10,250)</b>	<b>-9.50%</b>
<b>Commissions</b>	<b>33,569</b>	<b>166,296</b>	<b>(132,727)</b>	<b>-79.81%</b>
<b>Share-based compensation</b>	<b>41,338</b>	<b>46,564</b>	<b>(5,226)</b>	<b>-11.22%</b>
<b>Marketing materials</b>	<b>9,768</b>	<b>9,938</b>	<b>(170)</b>	<b>-1.71%</b>
<b>Investor relations</b>	<b>99,352</b>	<b>7,315</b>	<b>92,037</b>	<b>1258.20%</b>
<b>Legal, accounting and SOX 404 compliance</b>	<b>272,521</b>	<b>222,018</b>	<b>50,503</b>	<b>22.75%</b>
<b>Travel, entertainment and trade shows</b>	<b>30,291</b>	<b>24,756</b>	<b>5,535</b>	<b>22.36%</b>
<b>Other</b>	<b>278,289</b>	<b>196,251</b>	<b>82,038</b>	<b>41.80%</b>
<b>Total S, G &amp; A</b>	<b>\$ 1,341,862</b>	<b>\$ 1,218,262</b>	<b>\$ 123,600</b>	<b>10.15%</b>

Selling, general and administrative expenses for the six months ended June 30, 2010 increased by 10% as compared with the same period in 2009. This was primarily due to the recording of \$60,000 in Brazilian tax withholdings on the milestone payment, an increase in investor relations, an increase in wages and related expenses and an increase in legal, accounting and SOX 404 compliance expenses, partially offset by a decrease in commissions as a result of lower sales in Brazil.

**Other Income and (Expense):**

	For the six months ended		\$ Change	% Change
	June 30, 2010	June 30, 2009		
<b>Other income (expense)</b>	\$ -	\$ (6,696)	\$ 6,696	-100.00%
<b>Interest income</b>	1,729	4,915	(3,186)	-64.82%
<b>Interest expense</b>	(4,262)	(5,527)	1,265	-22.89%
<b>Total Other Income and (Expense)</b>	<u>\$ (2,533)</u>	<u>\$ (7,308)</u>	<u>\$ 4,775</u>	<u>-65.34%</u>

Other income and (expense) for the three months ended June 30, 2010 improved by approximately \$5,000 as compared with the same period in 2009, primarily as a result of a loss on the sale of an asset in 2009 wasn't repeated and partially because of a decrease in interest expense, both of which were partially offset by a decrease in interest income due to a decrease in interest rates in interest-bearing accounts.

**LIQUIDITY AND CAPITAL RESOURCES**

	For the six months ended		\$ Change	% Change
	June 30, 2010	June 30, 2009		
<b>Net cash (used in) provided by operating activities</b>	\$ (431,648)	\$ 847,768	\$ (1,279,416)	-150.92%
<b>Net cash used in investing activities</b>	(144,345)	(221,080)	76,735	-34.71%
<b>Net cash provided by financing activities</b>	254,606	20,159	234,447	1162.99%
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>\$ (321,387)</u>	<u>\$ 646,847</u>	<u>\$ (968,234)</u>	<u>-149.69%</u>

The Company had a decrease in cash for the six months ended June 30, 2010 as compared to an increase in cash for the same period in 2009. The decrease during the 2010 period is primarily attributable to cash used in operations. The increase in the 2009 period is primarily attributable to the cash provided by operations, including cash received of \$340,000 as deferred revenue. The decreased cash from operations in 2010 was primarily attributable to the increase in inventories of \$294,000, a decrease in deferred revenue of \$246,000 and a decrease in accounts payable of \$635,000. The increase in inventories was in response to an anticipated order resulting from anticipated approval in Brazil for one of our products, while the approval has not yet been received it is expected during the third quarter of 2010 and will result in the shipment of this inventory. The decrease in deferred revenue was due to the achievement of a milestone for which payment was received in January 2009 and for which there was no counterpart in 2010. The Company's non-cash expenses totaled \$416,000, which consisted of \$148,000 from depreciation expense, \$114,000 in share based compensation expense and \$154,000 in the amortization of licenses.

## RECENT DEVELOPMENTS AND CHEMBIO'S PLAN OF OPERATIONS FOR THE NEXT TWELVE MONTHS

The milestones Chembio achieved during the second quarter of 2010 provided strong validation of our DPP® technology as further progress was made toward commercializing this patented technology in a variety of point-of-care applications. These milestones included the completion of the product development phase of our six band multiplex product pursuant to our April 2008 agreement with Bio-Rad Laboratories, Inc. and the approval granted to our Brazilian customer FIOCRUZ by its regulatory body ANVISA to sell our DPP® HIV screening assay for use with oral fluid or blood samples. Additionally, in July 2010, the CDC Mozambique study results were published showing that Chembio's DPP® HIV 1/2 oral fluid screening assay yielded superior results in comparison to the other oral fluid test, as well as the two blood tests that are in the Mozambique national algorithm.

Based on the ANVISA product approval in Brazil, we anticipate that we will receive during the third quarter of 2010 an initial order from FIOCRUZ for this product, although there can be no assurance of this. Under the agreement, a technology transfer to FIOCRUZ for this product is anticipated to occur over a five-year period, with anticipated aggregate minimum sales by Chembio to FIOCRUZ of this product and related components of \$10 million over the period. Thereafter, it is anticipated that the technology transfer process will be complete and a five-year royalty phase will occur, with royalties of 4% of Net Sales as defined in the applicable agreement. In 2004, Chembio and FIOCRUZ entered a similar agreement for Chembio's HIV 1/2 STAT-PAK and components from which Chembio has realized approximately \$7.8 million of revenues from 2004- 2009. Since 2009 royalty payments have averaged approximately \$24,000 per quarter for that product.

Although there can be no assurance, we are optimistic that additional approvals will be forthcoming from Brazil for the other two products that have been pending regulatory approval. We have been thoroughly briefed on the status of these submissions and believe we will receive approval, although there can be no assurance of this.

We believe the completion of the product development phase in our development contract with Bio-Rad demonstrates our capability of developing highly accurate multiplex (in this case 6 parameters) diagnostic devices, including tests that could be used for confirmation or differentiation of disease status. In fact the development project we have with Battelle/CDC for the influenza immunity test also is capitalizing on this capability, and we have other potential projects that would also leverage this unique capability of DPP® .

Bio-Rad has exercised its right to manufacture this product, triggering fees due to Chembio associated with such transfer. Thereafter, we anticipate Bio-Rad will prepare regulatory submissions for the product globally. Under Bio-Rad's limited exclusive DPP® license for this field of products, Chembio will be due royalties in the amount of 7% of Bio-Rad's Net Sales (as defined in the applicable agreement) from all jurisdictions where the DPP® patent is issued or being pursued.

The 1,266% increase in license revenue and 158% increase in R&D and grant revenue during the second quarter of 2010 as compared with the same period in 2009 more than offset the 23.7% decrease in net product sales during the second quarter of 2010. The increase is attributable to the combined occurrence of several R&D contracts and grants as described above.

The 23.7% decrease in product sales was almost entirely attributable to the fact that in the second quarter of 2009 we realized the final sales to FIOCRUZ related to our 2004 agreement, which agreement is now in the royalty phase. We believe that the new product approval in Brazil described above will replace the business we enjoyed from 2004 through 2009.

Based on the current forecast from Alere, we believe our sales to Alere for the balance of the year will be level with the amount achieved during the first half, and decreased from the level of the second half of 2009. This is based on higher inventory levels from product shipped during the fourth quarter of 2009 that have been utilized this year. We believe that the longer term outlook for the U.S. rapid HIV test market remains strong based on increased adoption of CDC routine HIV testing recommendations in some jurisdictions, the new national HIV strategy announced by the Obama administration in July, new marketing initiatives by Alere, continued strong customer satisfaction with our rapid HIV tests in the U. S. market, and possible state budgetary constraints that may be making the use of our competitors' tests less justifiable, particularly where use of finger-stick whole blood is sufficiently convenient.

During June 2010, we received two significant orders from customers in Africa which we believe will result in our substantially increasing our sales to this region in 2010 as compared with 2009. In 2009, we realized net sales to this region of \$3,351,000. Based on our current backlog we anticipate that we will realize at least a 25% increase in sales to Africa in 2010, or at least approximately \$900,000 to \$4,250,000. This is the case notwithstanding the 9.6% decrease we have experienced during the first six months of 2010.

Our operating results during the second quarter of 2010 include approximately \$100,000 of finished product written off due to cosmetic defects attributable to inconsistencies in a supplier's component which we did not adequately pre-screen prior to introduction into our manufacturing process. We have since developed a pre-qualification regime for this component that we believe will prevent this from recurring, though there can be no assurance of this. As a result, our gross margin was negatively impacted by approximately 4%.

Our business plan in general is to manage our expenditures related to our development, regulatory approval, and commercialization of our new DPP® products based on our current operating cash flow from our base business, and as supplemented by fees and contract development income we receive from our OEM, contract development agreements and grants. For the remainder of 2010, we anticipate additional approvals in Brazil and initial products sales there, continued strong R&D contract and grant revenues as compared to 2009, modest growth in sales to Alere, and increased sales to the Africa region based upon confirmed orders we have received. The extent to which these objectives, among others, are achieved will determine to what extent 2010 is a successful year.

We believe that our cash flow from these sources will enable us to move our development programs forward, as it did during the first half of the year, although there can be no assurance of this.

Our ability to fully fund the commercialization of our new HIV, Syphilis and Influenza products, which will cost approximately \$3 million, will depend on our generating positive cash flow from our business or if deemed to be in the Company's interest, other financing sources. We have considered the issuance of common stock as one alternative way toward supplementing and/or insuring our ability to fully fund our business plan. The Company is considering other financing alternatives, such as the bank financing that we closed during the second quarter, although there can be no assurance that any of these possibilities will occur or result in an outcome that is more or less favorable to the Company and/or its stockholders.

#### **Equipment Purchase Commitment:**

In June and November of 2009, the Company entered into agreements with a tooling manufacturer to design and build a tool for cassettes that house its tests. The estimated cost of \$62,800 is being paid in installments. As of June 30, 2010, an aggregate of \$38,800 has been paid for this tooling and is included in other assets on the Company's balance sheet. In addition \$14,025 of progress payments on leasehold improvements has been paid and is included in other assets on the Company's balance sheet.

#### ITEM 4. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures. Under the supervision and with the participation of our senior management, consisting of our chief executive officer and our chief financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as of the end of the period covered by this report (the “Evaluation Date”). Based on that evaluation, the Company’s management, including our chief executive officer and chief financial officer, concluded that as of the Evaluation Date our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. Our disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in our Exchange Act reports is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in Internal Control over Financial Reporting. There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or Rule 15d-15 under the Exchange Act that occurred during the Company’s second 2010 fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### EXHIBITS INDEX

Number	Description
3.1	Articles of Incorporation, as amended.
3.2	Amended and Restated Bylaws. (1)
10.13	Secured Term Note, dated as of June 14, 2010, by and among the Registrant, Chembio Diagnostics Systems, Inc. and HSBC Bank, NA
10.14	Secured Revolving Demand Note, dated as of June 14, 2010, by and among the Registrant, Chembio Diagnostics Systems, Inc. and HSBC Bank, NA
10.15	Loan and Security Agreement, dated as of June 14, 2010, by and among the Registrant, Chembio Diagnostics Systems, Inc. and HSBC Bank, NA
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
1	Incorporated by reference to the Registrant's registration statement on Form SB-2 (File No. 333-85787) filed with the Commission on August 23, 1999 and the Registrant's Forms 8-K filed on May 14, 2004, December 20, 2007 and April 18, 2008.

## SIGNATURES

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

Chembio Diagnostics, Inc.

Date: July 28, 2010

By: /s/ Lawrence A. Siebert  
Lawrence A. Siebert  
Chief Executive Officer  
(Principal Executive Officer)

Date: July 28, 2010

By: /s / Richard J. Larkin  
Richard J. Larkin  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

**Articles of Incorporation**  
**of**

**TRADING SOLUTIONS.COM. INC.**

**FIRST.**

The name of the corporation is:

**TRADING SOLUTIONS.COM, INC.**

**SECOND.**

Its principle office in the State of Nevada is located at 251 Jeanell Dr. Suite 3, Carson City, NV 89703, although this Corporation may maintain an office, or offices, in such other place within or without the state of Nevada as may from time to time be designated by the Board of Directors, or by the by-laws of said Corporation, and that this Corporation may conduct all Corporation business of every kind and nature, including the holding of all meetings of Directors and Stockholders, outside the State of Nevada as well as within the State of Nevada.

**THIRD.**

The objects for which this Corporation is formed are: To engage in any lawful activity, including, but not limited to the following:

- (A) Shall have such rights, privileges and powers as may be conferred upon corporations by any existing law.
- (B) may at any time exercise such rights, privileges and powers, when not inconsistent with the purposes and objects for which this corporation is organized.
- (C) Shall have power to have succession by its corporate name for the period limited in its certificate or articles of incorporation, and when no period is limited, perpetually, or until dissolved and its affairs wound up according to law.
- (D) Shall have power to sue and be sued in any court of law or equity.
- (E) Shall have power to make contracts.
- (F) Shall have power to hold, purchase and convey real and personal estate and to mortgage or lease any such real and personal estate with its franchises. The power to hold real and personal estate shall include the power to take the same devise or bequest in the State of Nevada, or any other state, territory or country.
- (G) Shall have power to appoint such officers and agents as the affairs of the corporation shall require, and to allow them suitable compensation.
- (H) Shall have power to make by-laws not inconsistent with the constitution of the United States, or of the State of Nevada, for the management, regulation and government of its affairs and property, the transfer of its stock, the transaction of its business, and the calling and holding of meetings of its stockholders.
- (I) Shall have power to wind up and dissolve itself, or be wound up or dissolved.
- (J) Shall have power to adopt and use a common seal or stamp by the corporation on any corporate documents is not necessary. The corporation may use a seal or stamp, if it desires, but such non-use shall not in any way affect the legality of the document.
- (K) Shall have power to borrow money and contract debts when necessary for the transaction of its business, or for the exercise of its corporate rights, privileges or franchises, or for any other lawful purpose of its incorporation; to issue bonds, promissory notes, bills of exchange, debentures, and other obligations and evidences of indebtedness, payable upon the happening of a specified event or events, whether secured by mortgage, pledge, or otherwise, or unsecured, for money borrowed, or in payment for property purchased, or acquired, or for any other lawful object.
- (L) Shall have power to guarantee, purchase, hold, sell, assign, transfer, mortgage, pledge or otherwise dispose of the shares of the capital stock, or any bonds, securities or evidences of the indebtedness created by, any other corporation or corporations of the State of Nevada, or any other state or government, and while owners of such stock, bonds, securities or evidences of indebtedness, to exercise all the rights, powers and privileges of ownership, including the right to vote, if any.
- (M) Shall have power to purchase, hold, sell and transfer shares of its own capital stock, and use therefor its capital, capital surplus, surplus, or other property or fund.
- (N) Shall have power to conduct business, have one or more offices, and hold, purchase, mortgage and convey real and personal property in the State of Nevada, and in any of the states, territories, possessions and dependencies of the United States, the District of Columbia, and any foreign countries.
- (O) Shall have power to do all and everything necessary and proper for the accomplishment of the objects enumerated in its certificate or articles of incorporation, or any amendment thereof, or necessary or incidental to the protection and benefit of the corporation, and, in general, to carry on any lawful business necessary or incidental to the attainment of the objects of the corporation, or any amendment thereof.
- (P) Shall have the power to make donations for the public welfare or for charitable, scientific or educational purposes.
- (Q) Shall have the power to enter into partnerships, general or limited, or joint ventures, in connection with any lawful activities.

**FOURTH.**

That the voting common stock authorized may be issued by the corporation is TWENTY MILLION (20,000,000) shares of stock with a nominal or par value of .01 and no other class of stock shall be authorized. Said shares with a nominal or par value may be issued by the corporation from time to time for such considerations as may be fixed from time to time by the Board of Directors.

**FIFTH.**

The governing body of the corporation shall be known as directors, and the number of directors may from time to time be increased or decreased in such manner as shall be provided by the By-Laws of this Corporation, providing that the number of directors shall be reduced to no less than one (1). The name and post office address of the first board of Directors shall be one (1) in number and listed as follows:

**NAME**

Michael D. Taylor  
Carson City, NV 89703

**POST OFFICE ADDRESS**

251 Jeanell Dr. Suite 3

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**SIXTH.** The capital stock, after the amount of the subscription price, or par value, has been paid in, shall not be subject to assessment to pay the debts of the corporation.

**SEVENTH.** The name and post office address of the incorporator(s) signing the Articles of Incorporation is as follows:

NAME	POST OFFICE ADDRESS
Michael D. Taylor Carson City, NV 89703	251 Jeanell Dr. Suite 3

**EIGHTH.** The resident agent for this corporation shall be:

CORPORATE ADVISORY SERVICE, INC.

The address of said agent, and, the principle or statutory address of this corporation in the State of Nevada is.

251 Jeanell Dr. Suite 3,  
Carson City, Nevada 89703

**NINTH.** The corporation is to have perpetual existence.

**TENTH.** In furtherance and not in limitation of the powers conferred by statute, the Board of Directors is expressly authorized: Subject to the By-Laws, if any, adopted by the stockholders, to make, alter or amend the By-Laws of the Corporation. To fix the amount to be reserved as working capital over and above its capital stock paid in; to authorize and cause to be executed, mortgages and liens upon the real and personal property of this corporation. By resolution passed by a majority of the whole Board, to consist of one (1) or more committees, each committee to consist of one or more directors of the corporation, which, to the extent provided in the resolution, or in the By-Laws of the Corporation, shall have and may exercise the powers of the Board of Directors in the management of the business and affairs of the Corporation. Such committee, or committees, shall have such name, or names, as may be stated in the By-Laws of the Corporation, or as may be determined from time to time by resolution adopted by the Board of Directors. When and as authorized by the affirmative vote of the Stockholders holding stock entitling them to exercise at least a majority of the voting power given at a Stockholders meeting called for the purpose, or when authorized by written consent of the holders of at least a majority of the voting stock issued and outstanding, the Board of Directors shall have power and authority at any meeting to sell, lease or exchange all of the property and assets of the Corporation, including its good will and its corporate franchises, upon such terms and conditions as its Board of Directors deems expedient and for the best interests of the Corporation.

**ELEVENTH.** No shareholder shall be entitled as a matter of right to subscribe for, or receive additional shares of any class of stock of the Corporation, whether now or hereafter authorized, or any bonds, debentures or securities convertible into stock may be issued or disposed of by the Board of Directors to such persons and on such terms as is in its discretion it shall deem advisable.

**TWELFTH.** No director or officer of the Corporation shall be personally liable to the Corporation or any of its stockholders for damages for breach of fiduciary duty as a director or officer involving any act of omission of any such director or officer; provided, however, that the foregoing provision shall not eliminate or limit the liability of a director or officer (i) for acts or omissions which involve intentional misconduct, fraud or a knowing violation of the law, or (ii) the payment of dividends in violation of Section 78.300 of the Nevada Revised Statutes. Any repeal or modification of this Article by the stockholders of the Corporation shall be prospective only, and shall not adversely affect any limitation on the personal liability of a director or officer of the Corporation for acts or omissions prior to such repeal or modification.

**THIRTEENTH.** This Corporation reserves the right to amend, alter, change, in any manner now or hereafter prescribed by statute, or by the Articles of Incorporation, and all rights conferred upon Stockholders herein are granted subject to this reservation.

**I, THE UNDERSIGNED,** being the Incorporator Herein before named for the purpose of forming a Corporation pursuant to the General Corporation Law of the State of Nevada, do make and file these Articles of Incorporation, hereby declaring and certifying that the facts herein are true, and accordingly have hereunto set my hand this 10th day of May, 1999.

/s/ Michael D. Taylor  
Michael D. Taylor

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**CERTIFICATE OF AMENDMENT OF  
ARTICLES OF INCORPORATION**  
(Before Payment of Capital or Issuance of Stock)

**Michael D. Taylor**

Name of Incorporator

certify that:

1. He constitutes two-thirds of the original incorporators of **TRADING SOLUTIONS.COM, INC.**, a Nevada Corporation.
2. The original Articles were filed in the Office of the Secretary of State on **MAY 14, 1999**.
3. As of the date of this certificate, no stock of the corporation has been issued.
4. They hereby adopt the following amendments to the Articles of Incorporation of the corporation:

Article **FOURTH**, is amended to read as follows:

**FOURTH.** That the voting common stock authorized that may be issued by the corporation is TWENTY MILLION (20,000,000) shares of stock with a nominal or par value of .001 and no other class of stock shall be authorized. Said shares with a nominal or par value may be issued by the corporation from time to time for such considerations as may be fixed from time to time by the Board of Directors.

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Certificate of Amendment to Articles of Incorporation  
For Profit Nevada Corporations  
(Pursuant to NRS 78.385 and 78.390 – After Issuance of Stock)

The Articles have been amended as follows:

**ARTICLE NUMBER 1, AS AMENDED:**

FIRST: That the name of the corporation is

**SPRINGLAND INTERNATIONAL, INC.**

**ARTICLE NUMBER 4, AS AMENDED:**

FOURTH: The total authorized capital common stock of the corporation shall be increased from twenty million (20,000,000) shares to one hundred million (100,000,000) shares and the par value of said shares shall remain at \$0.01 per share. Further, the corporation authorizes the creation of fifty million (50,000,000) shares of preferred stock to be referred to as Series A Preferred Stock of the corporation having no voting rights and a par value of \$0.001 per share. In addition, the corporation authorizes the creation of fifty million (50,000,000) shares of preferred stock to be referred to as Series B Preferred Stock of the corporation having no voting rights and a par value of \$0.001 per share.

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**Certificate of Amendment to Articles of Incorporation  
For Profit Nevada Corporation  
(Pursuant to NRS 78.385 and 78.390 – After Issuance of Stock)**

The Articles been amended as follows:

ARTICLE NUMBER 1, AS AMENDED

FIRST: That the name of the corporation is

TRADING SOLUTIONS.COM, INC.

ARTICLE NUMBER 4, AS AMENDED:

FOURTH: The total authorized capital common stock of the corporation shall be decreased from one hundred million (100,000,000) shares to twenty million (20,000,000) shares and the par value of said shares shall remain at \$0.01 per share. Further, the corporation eliminates and abolishes all Series A and Series B Preferred Stock.

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CERTIFICATE OF AMENDMENT  
TO ARTICLES OF INCORPORATION  
(After Issuance of Stock)  
OF  
TRADING SOLUTIONS.COM, INC.

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**FIRST:** The name of the Corporation is: Chembio Diagnostics, Inc.

**FOURTH:** The aggregate number of shares of stock which the Corporation shall have the authority to issue is 50,000,000 shares of the par value of \$0.01 per share designated as Common Stock and 10,000,000 shares of the par value of \$0.01 per share designated as Preferred Stock. The Board of Directors is expressly authorized, prior to issuance, to prescribe the classes, series and the number of each class or series of stock and the voting powers, designations, preferences, limitations, restrictions and relative rights of each class or series of stock, as follows:

- a. The Preferred Stock may be issued from time to time by the Board of Directors, as provided in NRS Sections 78.195, 78.195.5 and 78.196, as shares of one or more series of Preferred Stock, and the Board of Directors is expressly authorized, prior to issuance, to prescribe the following in the resolution or resolutions providing for the issuance of shares of each particular series:
    - (i) The distinctive serial designation of such series which shall distinguish it from other series;
    - (ii) The number of shares included in such series, which number may be increased or decreased from time to time unless otherwise provided by the Board of Directors in creating the series;
    - (iii) The annual dividend rate (or method of determining such rate) for shares of such series and the date or dates upon which such dividends shall be payable;
    - (iv) Whether dividends on the shares of such series shall be cumulative, and, in the case of shares of any series having cumulative dividend rights, the date or dates or method of determining the date or dates from which dividends on the shares of such series shall be cumulative;
    - (v) The amount or amounts which shall be paid out of the assets of the Corporation to the holders of the shares of such series upon voluntary or involuntary liquidation, dissolution or winding up of the Corporation;
    - (vi) The price or prices at which, the period or periods within which, and the terms and conditions upon which the shares of such series may be redeemed, in whole or in part, at the option of the Corporation;
    - (vii) The obligation, if any, of the Corporation to purchase or redeem shares of such series pursuant to a sinking fund or otherwise and the price or prices at which, the period or periods within which, and the terms and conditions upon which the shares of such series shall be redeemed, in whole or in part, pursuant to such obligation;
    - (viii) The period or periods within which and the terms and conditions, if any, including the price or prices or the rate or rates of conversion and their terms and conditions of any adjustments thereof, upon which the shares of such series shall be convertible at the option of the holder into shares of any class of stock or into shares of any other series of Preferred Stock or other securities;
    - (ix) The voting rights, if any, of the shares of such series in addition to those required by law, including the number of votes per share and any requirement for the approval by the holders of a certain percentage of all Preferred Stock or of the shares of one or more series, or of both, as a condition to specified corporate action or amendments to the articles of incorporation;
    - (x) The ranking of the shares of the series as compared with shares of other series of the Preferred Stock in respect of the right to receive dividends; and
    - (xi) Any other voting powers, designations, preferences, limitations, restrictions, and relative rights of each class or series of stock not inconsistent herewith or with applicable law.
  - b. All shares of Preferred Stock shall rank senior to the Common Shares in respect of the right to receive dividends and the right to receive payments out of the assets of the Corporation upon voluntary or involuntary liquidation, dissolution or winding up of the Corporation. Shares of any class or series may be issued as a share dividend in respect of shares of another class or series. The Corporation may issue uncertificated shares of some or all of the shares of any or all of its classes or series. All shares of Preferred Stock redeemed, purchased or otherwise acquired by the Corporation (including shares surrendered for conversion) shall be canceled and thereupon restored to the status of authorized but unissued shares of Preferred Stock undesignated as to series.
  - c. Except as otherwise provided by the Board of Directors in accordance with paragraph a. above in respect of any series of the Preferred Stock, all voting rights of the Corporation shall be vested in the holders of the Common and Preferred Stock who shall be entitled to one vote per share.
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**CHEMBIO DIAGNOSTICS, INC.**

**ARTICLES OF AMENDMENT TO THE**

**ARTICLES OF INCORPORATION**

Pursuant to the provisions of NRS 78.385 and 78.390, the undersigned corporation adopts the following amendment to its Articles of Incorporation, which amendment was unanimously approved by the corporation's board of directors:

FIRST: The name of the corporation is Chembio Diagnostics, Inc. (the "Corporation").

SECOND: The following amendment to the Articles of Incorporation of the Corporation (the "Articles") was duly adopted in accordance with Sections 78.385 and 78.390 of the General Corporation Law of Nevada:

Paragraph one of Article FOURTH of the Articles is amended to read in its entirety as follows:

"FOURTH: The aggregate number of shares of stock which the Corporation shall have authority to issue is One Hundred Million (100,000,000) of the par value of \$0.01 per share designated as Common Stock and 10,000,000 shares of the par value of \$0.01 per share designated as Preferred Stock. The Board of Directors is expressly authorized, prior to issuance, to prescribe the classes, series and the number of each class or series of stock and the voting powers, designations, preferences, limitations, restrictions and relative rights of each class or series of stock, as follows:"

THIRD: The number of votes cast by the stockholders voting by classes or series and entitled to vote on the amendment was sufficient for approval.

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## TERM NOTE

\_\_\_\_\_, 2010

**\$250,000.00**

For value received, the undersigned **Chembio Diagnostic Systems Inc., a Delaware corporation**, with an address of **3661 Horseblock Rd, Medford, New York 11763** (the "Borrower"), promises to pay to the order of HSBC Bank USA, National Association, a bank organized under the laws of the United States of America with an address of One HSBC Center, 18th Floor, Buffalo, New York 14203 (together with its successors and assigns, the "Bank"), the principal amount of **Two Hundred Fifty Thousand Dollars and Zero Cent s (\$250,000.00)** on or before 60 months from the date of this Note (the "Maturity Date"), as set forth below, together with interest from the date hereof on the unpaid principal balance from time to time outstanding until paid in full. The Borrower shall pay consecutive monthly installments of principal and interest, as follows: **\$4,775.29** commencing on the day which is one month from the date of this Note or if such day does not exist on the last day of such month, and the same amount (except the last installment which shall be the unpaid balance) on the same day of the month as the date of this Note or if such day does not exist on the last day of each such month thereafter. The aggregate principal balance outstanding shall bear interest thereon at a per annum rate equal to **Five and One-Half Percent (5.50%)**.

Notwithstanding anything to the contrary in this Note, the outstanding principal balance shall bear interest at the rate otherwise set forth in this Note plus an additional One-Quarter Percent (0.25%) per annum in the event the undersigned does not maintain a demand deposit account with the HSBC Bank USA, National Association from which the amounts due under this Note are automatically deducted.

Principal and interest shall be payable at the Bank's main office or at such other place as the Bank may designate in writing in immediately available funds in lawful money of the United States of America without set-off, deduction or counterclaim. Interest shall be calculated monthly on the basis of a 360-day year based on twelve (12) thirty (30) day months except that interest due and payable for a period of less than a full month shall be calculated by multiplying the actual number of days elapsed in such period by a daily rate based on said 360-day year.

This Note may be prepaid in whole or in part upon thirty (30) days prior written notice to the Bank. In the event of such prepayment, the Borrower shall pay a "fixed rate prepayment charge" equal to the excess, if any, of (i) the aggregate amount of interest which otherwise would have accrued upon the principal amount so prepaid from the date of such prepayment to the date upon which such principal would have been paid in the normal course of amortization over (ii) the amount of interest the Bank would have earned if such prepaid principal amount were reinvested for the same period at the prevailing market rate on United States Treasury obligations of the same duration.

At the option of the Bank (but automatically in the case of an Insolvency Default (as hereinafter defined)), this Note shall become immediately due and payable without notice or demand upon the occurrence at any time of any of the following events of default (each, an "Event of Default"): (1) default of any liability, obligation, covenant or undertaking of the Borrower, any endorser or any guarantor hereof to the Bank, hereunder or otherwise, including, without limitation, failure to pay in full and when due any installment of principal or interest or default of the Borrower, any endorser or any guarantor hereof under any other loan document delivered by the Borrower, any endorser or any guarantor, or in connection with the loan evidenced by this Note or any other agreement by the Borrower, any endorser or any guarantor with the Bank continuing for 15 days with respect to any default (other than with respect to the payment of money for which there is no grace period); (2) failure of the Borrower, any endorser or any guarantor hereof to maintain aggregate collateral security value satisfactory to the Bank continuing for 15 days; (3) default of any liability, obligation or undertaking of the Borrower, any endorser or any guarantor hereof to any other party continuing for 15 days; (4) if any statement, representation or warranty heretofore, now or hereafter made by the Borrower, any endorser or any guarantor hereof in connection with the loan evidenced by this Note or in any supporting financial statement of the Borrower, any endorser or any guarantor hereof shall be determined by the Bank to have been false or misleading in any material respect when made; (5) if the Borrower, any endorser or any guarantor hereof is a corporation, trust, partnership or limited liability company, the liquidation, termination or dissolution of any such organization, or the merger or consolidation of such organization into another entity, or its ceasing to carry on actively its present business or the appointment of a receiver for its property; (6) the death of the Borrower, any endorser or any guarantor hereof and, if the Borrower, any endorser or any guarantor hereof is a partnership or limited liability company, the death or judicial declaration of incompetence of any partner or member; (7) the institution by or against the Borrower, any endorser or any guarantor hereof of any proceedings under the Bankruptcy Code 11 USC §101 *et seq.* or any other law in which the Borrower, any endorser or any guarantor hereof is alleged to be insolvent or unable to pay its debts as they mature, or the making by the Borrower, any endorser or any guarantor hereof of an assignment for the benefit of creditors or the granting by the Borrower, any endorser or any guarantor hereof of a trust mortgage for the benefit of creditors (each of the foregoing in this subclause, an "Insolvency Default"); (8) the service upon the Bank of a writ in which the Bank is named as trustee of the Borrower, any endorser or any guarantor hereof; (9) a judgment or judgments for the payment of money shall be rendered against the Borrower, any endorser or any guarantor hereof, and any such judgment shall remain unsatisfied and in effect for any period of thirty (30) consecutive days without a stay of execution; (10) any levy, lien (including mechanics lien) except as permitted under any of the other loan documents between the Bank and the Borrower, seizure, attachment, execution or similar process shall be issued or levied on any of the property of the Borrower, any endorser or any guarantor hereof; (11) the termination or revocation of any guaranty hereof; or (12) the occurrence of such a change in the condition or affairs (financial or otherwise) of the Borrower, any endorser or any guarantor hereof, or the occurrence of any other event or circumstance, such that the Bank, in its sole discretion, deems that it is insecure or that the prospects for timely or full payment or performance of any obligation of the Borrower, any endorser or any guarantor hereof to the Bank has been or may be impaired.

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Any payments received by the Bank on account of this Note shall, at the Bank's option, be applied first, to accrued and unpaid interest; second, to the unpaid principal balance hereof; third to any costs, expenses or charges then owed to the Bank by the Borrower; and the balance to escrows, if any. Notwithstanding the foregoing, any payments received after demand for payment shall be applied in such manner as the Bank may determine. The Borrower hereby authorizes the Bank to charge any deposit account which the Borrower may maintain with the Bank for any payment required hereunder without prior notice to the Borrower.

If pursuant to the terms of this Note, the Borrower is at any time obligated to pay interest on the principal balance at a rate in excess of the maximum interest rate permitted by applicable law for the loan evidenced by this Note, the applicable interest rate shall be immediately reduced to such maximum rate and all previous payments in excess of the maximum rate shall be deemed to have been payments in reduction of principal and not on account of the interest due hereunder.

The Borrower represents to the Bank that the proceeds of this Note will not be used for personal, family or household purposes or for the purpose of purchasing or carrying margin stock or margin securities within the meaning of Regulations U and X of the Board of Governors of the Federal Reserve System, 12 C.F.R. Parts 221 and 224.

The Borrower and each endorser and guarantor hereof grant to the Bank a continuing lien on and security interest in any and all deposits or other sums at any time credited by or due from the Bank or any Bank Affiliate (as hereinafter defined) to the Borrower and/or each endorser or guarantor hereof and any cash, securities, instruments or other property of the Borrower and each endorser and guarantor hereof in the possession of the Bank or any Bank Affiliate, whether for safekeeping or otherwise, or in transit to or from the Bank or any Bank Affiliate (regardless of the reason the Bank or Bank Affiliate had received the same or whether the Bank or Bank Affiliate has conditionally released the same) as security for the full and punctual payment and performance of all of the liabilities and obligations of the Borrower and/or any endorser or guarantor hereof to the Bank or any Bank Affiliate and such deposits and other sums may be applied or set off against such liabilities and obligations of the Borrower or any endorser or guarantor hereof to the Bank or any Bank Affiliate at any time, whether or not such are then due, whether or not demand has been made and whether or not other collateral is then available to the Bank or any Bank Affiliate.

No delay or omission on the part of the Bank in exercising any right hereunder shall operate as a waiver of such right or of any other right of the Bank, nor shall any delay, omission or waiver on any one occasion be deemed a bar to or waiver of the same or any other right on any future occasion. The Borrower and every endorser or guarantor of this Note, regardless of the time, order or place of signing, waives presentment, demand, protest, notice of intent to accelerate, notice of acceleration and all other notices of every kind in connection with the delivery, acceptance, performance or enforcement of this Note and assents to any extension or postponement of the time of payment or any other indulgence, to any substitution, exchange or release of collateral, and to the addition or release of any other party or person primarily or secondarily liable and waives all recourse to suretyship and guarantor defenses generally, including any defense based on impairment of collateral. To the maximum extent permitted by law, the Borrower and each endorser and guarantor of this Note waive and terminate any homestead rights and/or exemptions respecting any premises under the provisions of any applicable homestead laws, including without limitation, Section 5206 of the Civil Practice Law and Rules of New York.

The Borrower and each endorser and guarantor of this Note shall indemnify, defend and hold the Bank and the Bank Affiliates and their directors, officers, employees, agents and attorneys (each an "Indemnatee") harmless against any claim brought or threatened against any Indemnatee by the Borrower, by any endorser or guarantor, or by any other person (as well as from attorneys' reasonable fees and expenses in connection therewith) on account of the Bank's relationship with the Borrower or any endorser or guarantor hereof (each of which may be defended, compromised, settled or pursued by the Bank with counsel of the Bank's selection, but at the expense of the Borrower and any endorser and/or guarantor), except for any claim arising out of the gross negligence or willful misconduct of the Bank.

The Borrower and each endorser and guarantor of this Note agree to pay, upon demand, costs of collection of all amounts under this Note including, without limitation, principal and interest, or in connection with the enforcement of, or realization on, any security for this Note, including, without limitation, to the extent permitted by applicable law, reasonable attorneys' fees and expenses. Upon the occurrence and during the continuance of an Event of Default, interest shall accrue at a rate per annum equal to the aggregate of 3.0% plus the rate provided for herein. If any payment due under this Note is unpaid for 10 days or more, the Borrower shall pay, in addition to any other sums due under this Note (and without limiting the Bank's other remedies on account thereof), a late charge equal to the greater of \$15 or 5.0% of such unpaid amount (which amount shall be subject to and limited so as to not be in violation of the provisions of Section 254-b of New York Real Property Law, if applicable).

This Note shall be binding upon the Borrower and each endorser and guarantor hereof and upon their respective heirs, successors, assigns and legal representatives, and shall inure to the benefit of the Bank and its successors, endorsees and assigns.

The liabilities of the Borrower and any endorser or guarantor of this Note are joint and several; provided, however, the release by the Bank of the Borrower or any one or more endorsers or guarantors shall not release any other person obligated on account of this Note. Any and all present and future debts of the Borrower to any endorser or guarantor of this Note are subordinated to the full payment and performance of all present and future debts and obligations of the Borrower to the Bank. Each reference in this Note to the Borrower, any endorser, and any guarantor, is to such person individually and also to all such persons jointly. No person obligated on account of this Note may seek contribution from any other person also obligated, unless and until all liabilities, obligations and indebtedness to the Bank of the person from whom contribution is sought have been irrevocably satisfied in full. The release or compromise by the Bank of any collateral shall not release any person obligated on account of this Note.

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The Borrower and each endorser and guarantor hereof each authorizes the Bank to complete this Note if delivered incomplete in any respect. A photographic or other reproduction of this Note may be made by the Bank, and any such reproduction shall be admissible in evidence with the same effect as the original itself in any judicial or administrative proceeding, whether or not the original is in existence.

The Borrower will from time to time execute and deliver to the Bank such documents, and take or cause to be taken, all such other further action, as the Bank may request in order to effect and confirm or vest more securely in the Bank all rights contemplated by this Note or any other loan documents related thereto (including, without limitation, to correct clerical errors) or to vest more fully in or assure to the Bank the security interest in any collateral securing this Note or to comply with applicable statute or law.

This Note is delivered to the Bank at one of its offices and shall be governed by the laws of the State of New York without giving effect to the conflicts of laws principles thereof.

Any notices under or pursuant to this Note shall be deemed duly received and effective if delivered in hand to any officer or agent of the Borrower or Bank, or if mailed by registered or certified mail, return receipt requested, addressed to the Borrower or Bank at the address set forth in this Note or as any party may from time to time designate by written notice to the other party.

The term "Bank Affiliate" as used in this Note shall mean any "Affiliate" of the Bank or any lender acting as a participant under any loan arrangement between the Bank and the Borrower(s). The term "Affiliate" shall mean with respect to any person, (a) any person which, directly or indirectly through one or more intermediaries controls, or is controlled by, or is under common control with, such person, or (b) any person who is a director or officer (i) of such person, (ii) of any subsidiary of such person, or (iii) any person described in clause (a) above. For purposes of this definition, control of a person shall mean the power, direct or indirect, (x) to vote 5% or more of the Capital Stock having ordinary voting power for the election of directors (or comparable equivalent) of such person, or (y) to direct or cause the direction of the management and policies of such person whether by contract or otherwise. Control may be by ownership, contract, or otherwise.

No change in any provision of this Note may be made except by a writing signed by authorized signers of both parties to this Note, except that the Bank is authorized to fill in any blank spaces and to otherwise complete this Note and correct any patent errors herein.

All of the Bank's rights and remedies not only under the provisions of this Note but also under any other agreement or transaction shall be cumulative and not alternative or exclusive, and may be exercised by the Bank at such time or times and in such order of preference as the Bank in its sole discretion may determine.

**IN ANY ACTION, SUIT OR PROCEEDING IN RESPECT OF OR ARISING OUT OF THIS NOTE, BORROWER AND EACH INDORSER WAIVE (i) THE RIGHT TO INTERPOSE ANY SET-OFF OR COUNTERCLAIM OF ANY NATURE OR DESCRIPTION, (ii) ANY OBJECTION BASED ON FORUM NON CONVENIENS OR VENUE AND (iii) ANY CLAIM FOR CONSEQUENTIAL, PUNITIVE OR SPECIAL DAMAGES.**

The Borrower and each endorser and guarantor of this Note each irrevocably submits to the nonexclusive jurisdiction of any Federal or state court sitting in New York, over any suit, action or proceeding arising out of or relating to this Note. Each of the Borrower and each endorser and guarantor irrevocably waives, to the fullest extent it may effectively do so under applicable law, any objection it may now or hereafter have to the laying of the venue of any such suit, action or proceeding brought in any such court and any claim that the same has been brought in an inconvenient forum. Each of the Borrower and each endorser and guarantor hereby consents to any and all process which may be served in any such suit, action or proceeding, (i) by mailing a copy thereof by registered and certified mail, postage prepaid, return receipt requested, to the Borrower's, endorser's or guarantor's address shown below or as notified to the Bank and (ii) by serving the same upon the Borrower(s), endorser(s) or guarantor(s) in any other manner otherwise permitted by law, and agrees that such service shall in every respect be deemed effective service upon the Borrower or such endorser or guarantor.

**THE BORROWER, EACH ENDORSER AND GUARANTOR AND THE BANK EACH HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY, AND AFTER AN OPPORTUNITY TO CONSULT WITH LEGAL COUNSEL, (A) WAIVES ANY AND ALL RIGHTS TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING IN CONNECTION WITH THIS NOTE, ANY OF THE OBLIGATIONS OF THE BORROWER, EACH ENDORSER AND GUARANTOR TO THE BANK, AND ALL MATTERS CONTEMPLATED HEREBY AND DOCUMENTS EXECUTED IN CONNECTION HERewith AND (B) AGREES NOT TO SEEK TO CONSOLIDATE ANY SUCH ACTION WITH ANY OTHER ACTION IN WHICH A JURY TRIAL CAN NOT BE, OR HAS NOT BEEN, WAIVED. THE BORROWER, EACH ENDORSER AND GUARANTOR AND THE BANK EACH CERTIFIES THAT NEITHER THE BANK NOR ANY OF ITS REPRESENTATIVES, AGENTS OR COUNSEL HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT THE BANK WOULD NOT IN THE EVENT OF ANY SUCH PROCEEDING SEEK TO ENFORCE THIS WAIVER OF RIGHT TO TRIAL BY JURY.**

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Executed as of \_\_\_\_\_, **2010**.

Borrower:

Chembio Diagnostic Systems Inc.

By: \_\_\_\_\_

Name:

Title:

3661 Horseblock Rd  
Medford, New York  
11763

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## REVOLVING DEMAND NOTE

\_\_\_\_\_, 2010

**\$250,000.00**

For value received, the undersigned **Chembio Diagnostic Systems Inc., a Delaware corporation**, with an address of **3661 Horseblock Rd, Medford, New York 11763** (the "Borrower"), promises to pay to the order of HSBC Bank USA, National Association, a bank organized under the laws of the United States of America with an address of One HSBC Center, 18th Floor, Buffalo, New York 14203 (together with its successors and assigns, the "Bank"), **ON DEMAND**, the principal amount of **Two Hundred Fifty Thousand Dollars and Zero Cents (\$250,000.00)** or, if less, such amount as may be the aggregate unpaid principal amount of all loans or advances made by the Bank to the Borrower pursuant hereto, together with interest from the date hereof on the unpaid principal balance from time to time outstanding until paid in full. The aggregate principal balance outstanding shall bear interest thereon at a per annum rate equal to **One-Quarter Percent (.25%)** above the Prime Rate (as hereinafter defined). All accrued and unpaid interest shall be payable monthly in arrears on the same day of the month as the date of this Note or if such day does not exist on the last day of each such month, commencing on the day which is one month from the date of this Note or if such day does not exist on the last day of such month.

Prime Rate means the rate per annum from time to time established by the Bank as the Prime Rate and made available by the Bank at its main office or, in the discretion of the Bank, the base, reference or other rate then designated by the Bank for general commercial loan reference purposes, it being understood that such rate is a reference rate, not necessarily the lowest, established from time to time, which serves as the basis upon which effective interest rates are calculated for loans making reference thereto.

The effective interest rate applicable to the Borrower's loans evidenced hereby shall change on the date of each change in the Prime Rate.

Notwithstanding anything to the contrary in this Note, the outstanding principal balance shall bear interest at the rate otherwise set forth in this Note plus an additional One-Quarter Percent (0.25%) per annum in the event the undersigned does not maintain a demand deposit account with the HSBC Bank USA, National Association from which the amounts due under this Note are automatically deducted.

Principal and interest shall be payable at the Bank's main office or at such other place as the Bank may designate in writing in immediately available funds in lawful money of the United States of America without set-off, deduction or counterclaim. Interest shall be calculated monthly on the basis of a 360-day year based on twelve (12) thirty (30) day months except that interest due and payable for a period of less than a full month shall be calculated by multiplying the actual number of days elapsed in such period by a daily rate based on said 360-day year.

This Note is a revolving note and, subject to the foregoing and in accordance with the provisions hereof and of any and all other agreements between the Borrower and the Bank related hereto, the Borrower may, at its option, borrow, pay, prepay and reborrow hereunder at any time prior to demand for payment hereunder or such earlier date as the obligations of the Borrower to the Bank under this Note, and any other agreements between the Bank and the Borrower related hereto, shall become due and payable; provided, however, that in any event the principal balance outstanding hereunder shall at no time exceed the face amount of this Note. This Note shall continue in full force and effect until all obligations and liabilities evidenced by this Note are paid in full, even if, from time to time, there are no amounts outstanding respecting this Note. Notwithstanding that this Note shall be due and payable **ON DEMAND**, the Bank's agreement to advance funds respecting this Note shall be subject to annual review; and there shall be no further advances respecting this Note unless the Bank, in its sole discretion, determines that it shall continue to make advances after any such annual review; provided, that notwithstanding such annual review as provided in this paragraph, this Note shall be due and payable **ON DEMAND**. Nothing contained in this Note or otherwise is intended, nor shall constitute, an obligation of the Bank to make any loan or advance.

Any payments received by the Bank on account of this Note shall, at the Bank's option, be applied first, to accrued and unpaid interest; second, to the unpaid principal balance hereof; third to any costs, expenses or charges then owed to the Bank by the Borrower; and the balance to escrows, if any. Notwithstanding the foregoing, any payments received after demand for payment shall be applied in such manner as the Bank may determine. The Borrower hereby authorizes the Bank to charge any deposit account which the Borrower may maintain with the Bank for any payment required hereunder without prior notice to the Borrower.

If pursuant to the terms of this Note, the Borrower is at any time obligated to pay interest on the principal balance at a rate in excess of the maximum interest rate permitted by applicable law for the loan evidenced by this Note, the applicable interest rate shall be immediately reduced to such maximum rate and all previous payments in excess of the maximum rate shall be deemed to have been payments in reduction of principal and not on account of the interest due hereunder.

The Borrower represents to the Bank that the proceeds of this Note will not be used for personal, family or household purposes or for the purpose of purchasing or carrying margin stock or margin securities within the meaning of Regulations U and X of the Board of Governors of the Federal Reserve System, 12 C.F.R. Parts 221 and 224.

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The Borrower and each endorser and guarantor hereof grant to the Bank a continuing lien on and security interest in any and all deposits or other sums at any time credited by or due from the Bank or any Bank Affiliate (as hereinafter defined) to the Borrower and/or each endorser or guarantor hereof and any cash, securities, instruments or other property of the Borrower and each endorser and guarantor hereof in the possession of the Bank or any Bank Affiliate, whether for safekeeping or otherwise, or in transit to or from the Bank or any Bank Affiliate (regardless of the reason the Bank or Bank Affiliate had received the same or whether the Bank or Bank Affiliate has conditionally released the same) as security for the full and punctual payment and performance of all of the liabilities and obligations of the Borrower and/or any endorser or guarantor hereof to the Bank or any Bank Affiliate and such deposits and other sums may be applied or set off against such liabilities and obligations of the Borrower or any endorser or guarantor hereof to the Bank or any Bank Affiliate at any time, whether or not such are then due, whether or not demand has been made and whether or not other collateral is then available to the Bank or any Bank Affiliate.

No delay or omission on the part of the Bank in exercising any right hereunder shall operate as a waiver of such right or of any other right of the Bank, nor shall any delay, omission or waiver on any one occasion be deemed a bar to or waiver of the same or any other right on any future occasion. The Borrower and every endorser or guarantor of this Note, regardless of the time, order or place of signing, waives presentment, demand, protest, notice of intent to accelerate, notice of acceleration and all other notices of every kind in connection with the delivery, acceptance, performance or enforcement of this Note and assents to any extension or postponement of the time of payment or any other indulgence, to any substitution, exchange or release of collateral, and to the addition or release of any other party or person primarily or secondarily liable and waives all recourse to suretyship and guarantor defenses generally, including any defense based on impairment of collateral. To the maximum extent permitted by law, the Borrower and each endorser and guarantor of this Note waive and terminate any homestead rights and/or exemptions respecting any premises under the provisions of any applicable homestead laws, including without limitation, Section 5206 of the Civil Practice Law and Rules of New York.

The Borrower and each endorser and guarantor of this Note shall indemnify, defend and hold the Bank and the Bank Affiliates and their directors, officers, employees, agents and attorneys (each an "Indemnitee") harmless against any claim brought or threatened against any Indemnitee by the Borrower, by any endorser or guarantor, or by any other person (as well as from attorneys' reasonable fees and expenses in connection therewith) on account of the Bank's relationship with the Borrower or any endorser or guarantor hereof (each of which may be defended, compromised, settled or pursued by the Bank with counsel of the Bank's selection, but at the expense of the Borrower and any endorser and/or guarantor), except for any claim arising out of the gross negligence or willful misconduct of the Bank.

The Borrower and each endorser and guarantor of this Note agree to pay, upon demand, costs of collection of all amounts under this Note including, without limitation, principal and interest, or in connection with the enforcement of, or realization on, any security for this Note, including, without limitation, to the extent permitted by applicable law, reasonable attorneys' fees and expenses. Upon demand for payment of any amounts hereunder, and, at the election of the Bank, upon the occurrence of an Event of Default under Borrower's Loan and Security Agreement with the Bank, interest shall accrue at a rate per annum equal to the aggregate of 3.0% plus the rate provided for herein. If any payment due under this Note is unpaid for 10 days or more, the Borrower shall pay, in addition to any other sums due under this Note (and without limiting the Bank's other remedies on account thereof), a late charge equal to the greater of \$15 or 5.0% of such unpaid amount (which amount shall be subject to and limited so as to not be in violation of the provisions of Section 254-b of New York Real Property Law, if applicable).

This Note shall be binding upon the Borrower and each endorser and guarantor hereof and upon their respective heirs, successors, assigns and legal representatives, and shall inure to the benefit of the Bank and its successors, endorsees and assigns.

The liabilities of the Borrower and any endorser or guarantor of this Note are joint and several; provided, however, the release by the Bank of the Borrower or any one or more endorsers or guarantors shall not release any other person obligated on account of this Note. Any and all present and future debts of the Borrower to any endorser or guarantor of this Note are subordinated to the full payment and performance of all present and future debts and obligations of the Borrower to the Bank. Each reference in this Note to the Borrower, any endorser, and any guarantor, is to such person individually and also to all such persons jointly. No person obligated on account of this Note may seek contribution from any other person also obligated, unless and until all liabilities, obligations and indebtedness to the Bank of the person from whom contribution is sought have been irrevocably satisfied in full. The release or compromise by the Bank of any collateral shall not release any person obligated on account of this Note.

The Borrower and each endorser and guarantor hereof each authorizes the Bank to complete this Note if delivered incomplete in any respect. A photographic or other reproduction of this Note may be made by the Bank, and any such reproduction shall be admissible in evidence with the same effect as the original itself in any judicial or administrative proceeding, whether or not the original is in existence.

The Borrower will from time to time execute and deliver to the Bank such documents, and take or cause to be taken, all such other further action, as the Bank may request in order to effect and confirm or vest more securely in the Bank all rights contemplated by this Note or any other loan documents related thereto (including, without limitation, to correct clerical errors) or to vest more fully in or assure to the Bank the security interest in any collateral securing this Note or to comply with applicable statute or law.

This Note is delivered to the Bank at one of its offices and shall be governed by the laws of the State of New York without giving effect to the conflicts of laws principles thereof.

Any notices under or pursuant to this Note shall be deemed duly received and effective if delivered in hand to any officer or agent of the Borrower or Bank, or if mailed by registered or certified mail, return receipt requested, addressed to the Borrower or Bank at the address set forth in this Note or as any party may from time to time designate by written notice to the other party.

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The term "Bank Affiliate" as used in this Note shall mean any "Affiliate" of the Bank or any lender acting as a participant under any loan arrangement between the Bank and the Borrower(s). The term "Affiliate" shall mean with respect to any person, (a) any person which, directly or indirectly through one or more intermediaries controls, or is controlled by, or is under common control with, such person, or (b) any person who is a director or officer (i) of such person, (ii) of any subsidiary of such person, or (iii) any person described in clause (a) above. For purposes of this definition, control of a person shall mean the power, direct or indirect, (x) to vote 5% or more of the Capital Stock having ordinary voting power for the election of directors (or comparable equivalent) of such person, or (y) to direct or cause the direction of the management and policies of such person whether by contract or otherwise. Control may be by ownership, contract, or otherwise.

No change in any provision of this Note may be made except by a writing signed by authorized signers of both parties to this Note, except that the Bank is authorized to fill in any blank spaces and to otherwise complete this Note and correct any patent errors herein.

All of the Bank's rights and remedies not only under the provisions of this Note but also under any other agreement or transaction shall be cumulative and not alternative or exclusive, and may be exercised by the Bank at such time or times and in such order of preference as the Bank in its sole discretion may determine.

**IN ANY ACTION, SUIT OR PROCEEDING IN RESPECT OF OR ARISING OUT OF THIS NOTE, BORROWER AND EACH INDORSER WAIVE (i) THE RIGHT TO INTERPOSE ANY SET-OFF OR COUNTERCLAIM OF ANY NATURE OR DESCRIPTION, (ii) ANY OBJECTION BASED ON FORUM NON CONVENIENS OR VENUE AND (iii) ANY CLAIM FOR CONSEQUENTIAL, PUNITIVE OR SPECIAL DAMAGES.**

The Borrower and each endorser and guarantor of this Note each irrevocably submits to the nonexclusive jurisdiction of any Federal or state court sitting in New York, over any suit, action or proceeding arising out of or relating to this Note. Each of the Borrower and each endorser and guarantor irrevocably waives, to the fullest extent it may effectively do so under applicable law, any objection it may now or hereafter have to the laying of the venue of any such suit, action or proceeding brought in any such court and any claim that the same has been brought in an inconvenient forum. Each of the Borrower and each endorser and guarantor hereby consents to any and all process which may be served in any such suit, action or proceeding, (i) by mailing a copy thereof by registered and certified mail, postage prepaid, return receipt requested, to the Borrower's, endorser's or guarantor's address shown below or as notified to the Bank and (ii) by serving the same upon the Borrower(s), endorser(s) or guarantor(s) in any other manner otherwise permitted by law, and agrees that such service shall in every respect be deemed effective service upon the Borrower or such endorser or guarantor.

**THE BORROWER AND EACH ENDORSER AND GUARANTOR ACKNOWLEDGE THAT THIS NOTE IS A DEMAND NOTE AND THE RIGHT OF THE BANK TO DEMAND PAYMENT OF THIS NOTE IN WHOLE OR IN PART AT ANY TIME SHALL BE ABSOLUTE, UNCONDITIONAL AND IN THE SOLE DISCRETION OF THE BANK. THE INCLUSION OF EVENTS OF DEFAULT AND COVENANTS IN ANY LOAN DOCUMENTS BETWEEN THE BANK AND THE BORROWER OR ANY ENDORSER OR GUARANTOR OR OTHER PARTY DELIVERED IN CONNECTION WITH THIS NOTE OR OTHERWISE SHALL NOT IN ANY WAY LIMIT THE DEMAND NATURE OF THIS NOTE AND THE BANK MAY MAKE DEMAND FOR PAYMENT AT ANY TIME FOR ANY OR NO REASON, WHETHER OR NOT AN EVENT OF DEFAULT HAS OCCURRED UNDER ANY SUCH LOAN DOCUMENTS.**

**THE BORROWER, EACH ENDORSER AND GUARANTOR AND THE BANK EACH HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY, AND AFTER AN OPPORTUNITY TO CONSULT WITH LEGAL COUNSEL, (A) WAIVES ANY AND ALL RIGHTS TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING IN CONNECTION WITH THIS NOTE, ANY OF THE OBLIGATIONS OF THE BORROWER, EACH ENDORSER AND GUARANTOR TO THE BANK, AND ALL MATTERS CONTEMPLATED HEREBY AND DOCUMENTS EXECUTED IN CONNECTION HERewith AND (B) AGREES NOT TO SEEK TO CONSOLIDATE ANY SUCH ACTION WITH ANY OTHER ACTION IN WHICH A JURY TRIAL CAN NOT BE, OR HAS NOT BEEN, WAIVED. THE BORROWER, EACH ENDORSER AND GUARANTOR AND THE BANK EACH CERTIFIES THAT NEITHER THE BANK NOR ANY OF ITS REPRESENTATIVES, AGENTS OR COUNSEL HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT THE BANK WOULD NOT IN THE EVENT OF ANY SUCH PROCEEDING SEEK TO ENFORCE THIS WAIVER OF RIGHT TO TRIAL BY JURY.**

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Executed as of \_\_\_\_\_, **2010**.

Borrower:

Chembio Diagnostic Systems Inc.

By: \_\_\_\_\_

Name:

Title:

3661 Horseblock Rd  
Medford, New York  
11763

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## LOAN AND SECURITY AGREEMENT

This LOAN AND SECURITY AGREEMENT (this "Agreement") is entered into as of \_\_\_\_\_, 2010, between **Chembio Diagnostic Systems Inc., a Delaware corporation**, with its chief executive office located at **3661 Horseblock Rd, Medford, New York 11763** (the "Borrower") and HSBC Bank USA, National Association, a bank organized under the laws of the United States of America, with an address of One HSBC Center, 18th Floor, Buffalo, New York 14203 (the "Bank").

FOR VALUE RECEIVED, and in consideration of the granting by the Bank of financial accommodations to or for the benefit of the Borrower, including without limitation respecting the Obligations (as hereinafter defined), the Borrower represents and agrees with the Bank, as of the date hereof and as of the date of each loan, credit and/or other financial accommodation, as follows:

### 1. THE LOAN

1.1 Loan(s). Bank agrees, from time to time, in its sole discretion, to make loans (collectively, the "Loans") to or for the account of Borrower, upon Borrower's request therefor, in such amounts as shall be mutually agreed upon, subject to the terms and conditions set forth herein. Loans shall be evidenced by one or more notes issued by the Borrower in favor of the Bank (collectively, and each a "Note"). This Agreement, each Note any security agreements or guaranties and any and all other documents, amendments or renewals executed and delivered to the Bank are collectively hereinafter referred to as the "Loan Documents".

1.2 Revolving Loans. Bank agrees, in its sole discretion, to make revolving loans (the "Revolving Loans") to or for the account of Borrower, upon Borrower's request therefor, in such amounts as may from time to time be established by Bank, provided there is no continuing uncured Event of Default (as hereinafter defined) and subject to the terms and conditions set forth herein.

1.3 Revolving Loan Account. An account shall be opened on the books of Bank in which account a record will be kept of all Revolving Loans, and all payments thereon and other appropriate debits and credits as provided by this Agreement. No failure by the Bank to make and no error by the Bank in making, any entry in such books will affect the Borrower's obligation to repay the full principal amount advanced by the Bank to or for the account of the Borrower, or the Borrower's obligation to pay interest thereon at the agreed upon rate.

1.4 Interest. Interest respecting the Revolving Loans will be charged to Borrower on the principal amount from time to time outstanding at the interest rate specified in the Revolving Note in accordance with the terms of the Revolving Note. If not specified in the Revolving Note, interest will be charged at the highest rate per annum charged by Bank to Borrower on any other Obligation and calculated on the basis of actual number of days elapsed and a 360-day year with 30 day months.

1.5 Demand and Annual Review. All loans and advances made respecting the Revolving Loans shall be payable to Bank on DEMAND, notwithstanding the inclusion of events of default in this Agreement or in any other Loan Document and whether or not any event of default has occurred under this Agreement or any of the Loan Documents. Notwithstanding that all loans and advances made by Bank to Borrower under or pursuant to this Agreement respecting the Revolving Loans shall be due and payable ON DEMAND, the Bank's agreement to advance funds respecting the Revolving Loans shall be subject to annual review; and there shall be no further advances respecting the Revolving Loans unless the Bank, in its sole discretion, determines that it shall continue to make advances after any such annual review; provided, that notwithstanding such annual review as provided in this paragraph, all loans and advances made shall be due and payable ON DEMAND.

1.6 Clean-Up. The Borrower shall fully repay to the Bank all amounts outstanding respecting the Revolving Loans for a period of **30** consecutive days in each year.

1.7 Overadvances. Any Revolving Loans that may be made, at the Bank's sole discretion, in excess of the Revolving Loan Amount shall not limit the obligations of Borrower or any of the Bank's rights or remedies hereunder or under the Loan Documents or otherwise; all such Revolving Loans shall be secured by the Collateral, as hereinafter defined, and shall be due and payable to the Bank in accordance with the terms of the Revolving Note, and shall bear interest at the rate set forth in the Revolving Note. All checks or other items paid by Bank which cause an overdraft in any deposit account maintained by Borrower with Bank shall, at the option of the Bank, constitute an advance to Borrower pursuant to this Agreement respecting the Revolving Loans, repayable on demand, and shall be secured by all Collateral.

1.8 Authorized Persons; Advances. Any person duly authorized by a general borrowing resolution of the Borrower, or in the absence of such a resolution, the President, Treasurer or any Vice President of the Borrower, or any person otherwise authorized in this paragraph, may request discretionary loans hereunder, either orally or otherwise, but the Bank at its option may require that all requests for loans hereunder shall be in writing. The Bank shall incur no liability to Borrower in acting upon any request referred to herein which the Bank believes in good faith to have been made by an authorized person or persons. Each loan hereunder may be credited by Bank to any deposit account of Borrower with Bank or with any other Bank with which Borrower maintains a deposit account, or may be paid to Borrower (or as Borrower instructs) or may be applied to any Obligations, as Bank may in each instance elect.

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1.9 **Monthly Statement.** At the option of the Bank, after the end of each month, Bank will render to Borrower a statement of the Revolving Loan account, showing all applicable credits and debits. Each statement shall be considered correct and to have been accepted by Borrower and shall be conclusively binding upon Borrower in respect of all charges, debits and credits of whatsoever nature contained therein respecting the Revolving Loans, and the closing balance shown therein, unless Borrower notifies Bank in writing of any discrepancy within twenty (20) days from the mailing by Bank to Borrower of any such monthly statement.

## 2. GRANT OF SECURITY INTEREST

2.1 **Grant of Security Interest.** In consideration of the Bank's extending credit and other financial accommodations to or for the benefit of the Borrower, the Borrower hereby grants to the Bank a security interest in, a lien on and pledge and assignment of the Collateral (as hereinafter defined). The security interest granted by this Agreement is given to and shall be held by the Bank as security for the payment and performance of all Obligations, including, without limitation, all amounts outstanding pursuant to the Loan Documents.

2.2 **Definitions.** The following definitions shall apply:

- (a) "Bank Affiliate" shall mean any "Affiliate" of the Bank or any lender acting as a participant under any loan arrangement between the Bank and the Borrower(s). The term "Affiliate" shall mean with respect to any person, (a) any person which, directly or indirectly through one or more intermediaries controls, or is controlled by, or is under common control with, such person, or (b) any person who is a director or officer (i) of such person, (ii) of any subsidiary of such person, or (iii) any person described in clause (a) above. For purposes of this definition, control of a person shall mean the power, direct or indirect, (x) to vote 5% or more of the Capital Stock having ordinary voting power for the election of directors (or comparable equivalent) of such person, or (y) to direct or cause the direction of the management and policies of such person whether by contract or otherwise. ☐ 0; Control may be by ownership, contract, or otherwise.
  - (b) "Code" shall mean the New York Uniform Commercial Code as amended from time to time.
  - (c) "Collateral" shall mean all of the Borrower's present and future right, title and interest in and to any and all of the personal property of the Borrower whether such property is now existing or hereafter created, acquired or arising and wherever located from time to time, including without limitation:
    - (i) accounts;
    - (ii) chattel paper;
    - (iii) goods;
    - (iv) inventory;
    - (v) equipment; To include DPP Semi Auto Rotary Assembly Machine with all attachments and accessories.
    - (vi) fixtures
    - (vii) farm products;
    - (viii) instruments;
    - (ix) investment property;
    - (x) documents;
    - (xi) commercial tort claims;
    - (xii) deposit accounts;
    - (xiii) letter-of-credit rights;
    - (xiv) general intangibles;
    - (xv) supporting obligations; and
    - (xvi) records of, accession to and proceeds and products of the foregoing.
  - (d) "Debtors" shall mean the Borrower's customers who are indebted to the Borrower.
  - (e) "Obligation(s)" shall mean, without limitation, all loans, advances, indebtedness, notes, liabilities, rate swap transactions, basis swaps, forward rate transactions, commodity swaps, commodity options, equity or equity index swaps, equity or equity index options, bond options, interest rate options, foreign exchange transactions, cap transactions, floor transactions, collar transactions, forward transactions, currency swap transactions, cross-currency rate swap transactions, currency options and amounts, liquidated or unliquidated, owing by the Borrower to the Bank or any Bank Affiliate at any time, of each and every kind, nature and description, whether arising under this Agreement or otherwise, and whether secured or unsecured, direct or indirect (that is, whether the same are due directly by the Borrower to the Bank or any Bank Affiliate; or are due indirectly by the Borrower to the Bank or any Bank Affiliate as endorser, guarantor or other surety, or as borrower of obligations due third persons which have been endorsed or assigned to the Bank or any Bank Affiliate, or otherwise), absolute or contingent, due or to become due, now existing or hereafter arising or contracted, including, without limitation, payment when due of all amounts outstanding respecting any of the Loan Documents. Said term shall also include all interest and other charges chargeable to the Borrower or due from the Borrower to the Bank or any Bank Affiliate from time to time and all costs and expenses referred to in this Agreement.
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(f) "Person" or "party" shall mean individuals, partnerships, corporations, limited liability companies and all other entities.

All words and terms used in this Agreement other than those specifically defined herein shall have the meanings accorded to them in the Code.

2.3 Ordinary Course of Business. The Bank hereby authorizes and permits the Borrower to hold, process, sell, use or consume in the manufacture or processing of finished goods, or otherwise dispose of inventory for fair consideration, all in the ordinary course of the Borrower's business, excluding, without limitation, sales to creditors or in bulk or sales or other dispositions occurring under circumstances which would or could create any lien or interest adverse to the Bank's security interest or other right hereunder in the proceeds resulting therefrom. The Bank also hereby authorizes and permits the Borrower to receive from the Debtors all amounts due as proceeds of the Collateral at the Borrower's own cost and expense, and also liability, if any, subject to the direction and control of the Bank at all times; and the Bank may at any time, without cause or notice, and whether or not an Event of Default has occurred or demand has been made, terminate all or any part of the authority and permission herein or elsewhere in this Agreement granted to the Borrower with reference to the Collateral, and notify Debtors to make all payments due as proceeds of the Collateral to the Bank. Until Bank shall otherwise notify Borrower, all proceeds of and collections of Collateral shall be retained by Borrower and used solely for the ordinary and usual operation of Borrower's business. From and after notice by Bank to Borrower, all proceeds of and collections of the Collateral shall be held in trust by Borrower for Bank and shall not be commingled with Borrower's other funds or deposited in any Bank account of Borrower; and Borrower agrees to deliver to Bank on the dates of receipt thereof by Borrower, duly endorsed to Bank or to bearer, or assigned to Bank, as may be appropriate, all proceeds of the Collateral in the identical form received by Borrower.

2.4 Allowances. Absent an Event of Default the Borrower may grant such allowances or other adjustments to Debtors (exclusive of extending the time for payment of any item which shall not be done without first obtaining the Bank's written consent in each instance) as the Borrower may reasonably deem to accord with sound business practice, including, without limiting the generality of the foregoing, accepting the return of all or any part of the inventory (subject to the provisions set forth in this Agreement with reference to returned inventory).

2.5 Records. The Borrower shall hold its books and records relating to the Collateral segregated from all the Borrower's other books and records in a manner satisfactory to the Bank; and shall deliver to the Bank from time to time promptly at its request all invoices, original documents of title, contracts, chattel paper, instruments and any other writings relating thereto, and other evidence of performance of contracts, or evidence of shipment or delivery of the merchandise or of the rendering of services; and the Borrower will deliver to the Bank promptly at the Bank's request from time to time additional copies of any or all of such papers or writings, and such other information with respect to any of the Collateral and such schedules of inventory, schedules of accounts and such other writings as the Bank may in its sole discretion deem to be necessary or effectual to evidence any loan hereunder or the Bank's security interest in the Collateral.

2.6 Legends. The Borrower shall promptly make, stamp or record such entries or legends on the Borrower's books and records or on any of the Collateral (including, without limitation, chattel paper) as Bank shall request from time to time, to indicate and disclose that Bank has a security interest in such Collateral.

2.7 Inspection. The Bank, or its representatives, at any time and from time to time, shall have the right at the sole cost and expense of Borrower, and the Borrower will permit the Bank and/or its representatives: (a) to examine, check, make copies of or extracts from any of the Borrower's books, records and files (including, without limitation, orders and original correspondence); (b) to perform field exams or otherwise inspect and examine the Collateral and to check, test or appraise the same as to quality, quantity, value and condition; and (c) to verify the Collateral or any portion or portions thereof or the Borrower's compliance with the provisions of this Agreement.

2.8 Purchase Money Security Interests. To the extent the Borrower uses proceeds of any loans to purchase Collateral, the repayment of such loans shall be on a "first-in-first-out" basis so that the portion of the loan used to purchase a particular item of Collateral shall be repaid in the order in which Borrower purchased such item of Collateral.

2.9 Search Reports. Bank shall receive prior to the date of this Agreement UCC search results under all names used by the Borrower during the prior five (5) years, from each jurisdiction where any Collateral is located, from the State, if any, where the Borrower is organized and registered (as such terms are used in the Code), and the State where the Borrower's chief executive office is located. The search results shall confirm that the security interest in the Collateral granted Bank hereunder is prior to all other security interests in favor of any other person.

### **3. REPRESENTATIONS AND WARRANTIES**

3.1 Organization and Qualification. Borrower is a duly organized and validly existing corporation under the laws of the State of its incorporation with the exact legal name set forth in the first paragraph of this Agreement. Borrower is in good standing under the laws of said State, has the power to own its property and conduct its business as now conducted and as currently proposed to be conducted, and is duly qualified to do business under the laws of each state where the nature of the business done or property owned requires such qualification.

3.2 Subsidiaries. Borrower has no subsidiaries other than as previously specifically consented to in writing by the Bank, if any, and the Borrower has never consolidated, merged or acquired substantially all of the assets of any other entity or person other than as previously specifically consented to in writing by the Bank, if any.

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3.3 Corporate Records. Borrower's corporate charter, articles or certificate of organization or incorporation and all amendments thereto have been duly filed and are in proper order. All outstanding capital stock issued by the Borrower was and is properly issued and all books and records of the Borrower, including but not limited to its minute books, bylaws and books of account, are accurate and up to date and will be so maintained.

3.4 Title to Properties; Absence of Liens. Borrower has good and clear record and marketable title to all of its properties and assets, and all of its properties and assets including the Collateral are free and clear of all mortgages, liens, pledges, charges, encumbrances and setoffs, other than the security interest therein granted to the Bank and those mortgages, deeds of trust, leases of personal property and security interests previously specifically consented to in writing by the Bank.

3.5 Places of Business. Borrower's chief executive office is correctly stated in the preamble to this Agreement, and Borrower shall, during the term of this Agreement, keep the Bank currently and accurately informed in writing of each of its other places of business, and shall not change the location of such chief executive office or open or close, move or change any existing or new place of business without giving the Bank at least thirty (30) days prior written notice thereof.

3.6 Valid Obligations. The execution, delivery and performance of the Loan Documents have been duly authorized by all necessary corporate action and each represents a legal, valid and binding obligation of Borrower and is fully enforceable according to its terms, except as limited by laws relating to the enforcement of creditors' rights.

3.7 Conflicts. There is no provision in Borrower's organizational or charter documents, if any, or in any indenture, contract or agreement to which Borrower is a party which prohibits, limits or restricts the execution, delivery or performance of the Loan Documents.

3.8 Governmental Approvals. The execution, delivery and performance of the Loan Documents does not require any approval of or filing with any governmental agency or authority.

3.9 Litigation, etc. There are no actions, claims or proceedings pending or to the knowledge of Borrower threatened against Borrower which might materially adversely affect the ability of Borrower to conduct its business or to pay or perform the Obligations.

3.10 Accounts and Contract Rights. All accounts arise out of legally enforceable and existing contracts, and represent unconditional and undisputed bona fide indebtedness by a Debtor, and are not and will not be subject to any discount (except such cash or trade discount as may be shown on any invoice, contract or other writing delivered to the Bank). No contract right, account, general intangible or chattel paper is or will be represented by any note or other instrument, and no contract right, account or general intangible is, or will be represented by any conditional or installment sales obligation or other chattel paper, except such instruments or chattel paper as have been or immediately upon receipt by the Borrower will be delivered to the Bank (duly endorsed or assigned), such delivery, in the case of chattel paper, to include all executed copies except those in the possession of the installment buyer and any security for or guaranty of any of the Collateral shall be delivered to the Bank immediately upon receipt thereof by the Borrower, with such assignments and endorsements thereof as the Bank may request.

3.11 Title to Collateral. At the date hereof the Borrower is (and as to Collateral that the Borrower may acquire after the date hereof, will be) the lawful owner of the Collateral, and the Collateral and each item thereof is, will be and shall continue to be free of all restrictions, liens, encumbrances or other rights, title or interests (other than the security interest therein granted to the Bank), credits, defenses, recoupments, set-offs or counterclaims whatsoever. The Borrower has and will have full power and authority to grant to the Bank a security interest in the Collateral and the Borrower has not transferred, assigned, sold, pledged, encumbered, subjected to lien or granted any security interest in, and will not transfer, assign, sell (except sales or other dispositions in the ordinary course of business in respect to inventory as expressly permitted in this Agreement), pledge, encumber, subject to lien or grant any security interest in any of the Collateral (or any of the Borrower's right, title or interest therein), to any person other than the Bank. The Collateral is and will be valid and genuine in all respects. The Borrower will warrant and defend the Bank's right to and interest in the Collateral against all claims and demands of all persons whatsoever.

3.12 Location of Collateral. Except for sale, processing, use, consumption or other disposition in the ordinary course of business, the Borrower will keep all inventory and equipment only at locations specified in this Agreement or specified to the Bank in writing. The Borrower shall, during the term of this Agreement, keep the Bank currently and accurately informed in writing of each location where the Borrower's records relating to its accounts and contract rights, respectively, are kept, and shall not remove such records or any of them to another location without giving the Bank at least thirty (30) days prior written notice thereof.

3.13 Third Parties. The Bank shall not be deemed to have assumed any liability or responsibility to the Borrower or any third person for the correctness, validity or genuineness of any instruments or documents that may be released or endorsed to the Borrower by the Bank (which shall automatically be deemed to be without recourse to the Bank in any event) or for the existence, character, quantity, quality, condition, value or delivery of any goods purporting to be represented by any such documents; and the Bank, by accepting such security interest in the Collateral, or by releasing any Collateral to the Borrower, shall not be deemed to have assumed any obligation or liability to any supplier or Debtor or to any other third party, and the Borrower agrees to indemnify and defend the Bank and hold it harmless in respect to any claim or proceeding arising out of any matter referred to in this paragraph.

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3.14 Payment of Accounts. Each account or other item of Collateral, other than inventory and equipment, will be paid in full on or before the date shown as its due date in the schedule of Collateral, in the copy of the invoice(s) relating to the account or other Collateral or in contracts relating thereto. Upon any suspension of business, assignment or trust mortgage for the benefit of creditors, dissolution, petition in receivership or under any chapter of the Bankruptcy Code as amended from time to time by or against any Debtor, any Debtor becoming insolvent or unable to pay its debts as they mature or any other act of the same or different nature amounting to a business failure, the Borrower will immediately notify the Bank thereof.

3.15 Taxes. The Borrower has filed all Federal, state and other tax returns required to be filed (except for such returns for which current and valid extensions have been filed), and all taxes, assessments and other governmental charges due from the Borrower have been fully paid. The Borrower has established on its books reserves adequate for the payment of all Federal, state and other tax liabilities (if any).

3.16 Use of Proceeds. No portion of any loan is to be used for (i) the purpose of purchasing or carrying any "margin security" or "margin stock" as such terms are used in Regulations U and X of the Board of Governors of the Federal Reserve System, 12 C.F.R. 221 and 224 or (ii) primarily personal, family or household purposes. The Collateral is not used or acquired primarily for personal, family or household purposes.

3.17 Environmental. As of the date hereof neither the Borrower nor any of Borrower's agents, employees or independent contractors (1) have caused or are aware of a release or threat of release of Hazardous Materials (as defined herein) on any of the premises or personal property owned or controlled by Borrower ("Controlled Property") or any property abutting Controlled Property ("Abutting Property"), which could give rise to liability under any Environmental Law (as defined herein) or any other Federal, state or local law, rule or regulation; (2) have arranged for the transport of or transported any Hazardous Materials in a manner as to violate, or result in potential liabilities under, any Environmental Law; (3) have received any notice, order or demand from the Environmental Protection Agency or any other Federal, state or local agency under any Environmental Law; (4) have incurred any liability under any Environmental Law in connection with the mismanagement, improper disposal or release of Hazardous Materials; or (5) are aware of any inspection or investigation of any Controlled Property or Abutting Property by any Federal, state or local agency for possible violations of any Environmental Law.

To the best of Borrower's knowledge, neither Borrower, nor any prior owner, operator or tenant of any Controlled Property, committed or omitted any act which caused the release of Hazardous Materials on such Controlled Property which could give rise to a lien thereon by any Federal, state or local government. No notice or statement of claim or lien affecting any Controlled Property has been recorded or filed in any public records by any Federal, state or local government for costs, penalties, fines or other charges as to such property. All notices, permits, licenses or similar authorizations, if any, required to be obtained or filed in connection with the ownership, operation, or use of the Controlled Property, including without limitation, the past or present generation, treatment, storage, disposal or release of any Hazardous Materials into the environment, have been duly obtained or filed.

Borrower agrees to indemnify and hold the Bank and any Bank Affiliate harmless from all liability, loss, cost, damage and expense, including attorney fees and costs of litigation, arising from any and all of its violations of any Environmental Law (including those arising from any lien by any Federal, state or local government arising from the presence of Hazardous Materials) or from the presence of Hazardous Materials located on or emanating from any Controlled Property or Abutting Property whether existing or not existing and whether known or unknown at the time of the execution hereof and regardless of whether or not caused by, or within the control of Borrower. Borrower further agrees to reimburse Bank upon demand for any costs incurred by Bank in connection with the foregoing. Borrower agrees that its obligations hereunder shall be continuous and shall survive the repayment of all debts to Bank and shall continue so long as a valid claim may be lawfully asserted against the Bank.

The term "Hazardous Materials" includes but is not limited to any and all substances (whether solid, liquid or gas) defined, listed, or otherwise classified as pollutants, hazardous wastes, Hazardous Materials, hazardous materials, extremely hazardous wastes, or words of similar meaning or regulatory effect under any present or future Environmental Law or that may have a negative impact on human health or the environment, including but not limited to petroleum and petroleum products, asbestos and asbestos-containing materials, polychlorinated biphenyls, lead, radon, radioactive materials, flammables and explosives.

The term "Environmental Law" means any present and future Federal, state and local laws, statutes, ordinances, rules, regulations and the like, as well as common law, relating to protection of human health or the environment, relating to Hazardous Materials, relating to liability for or costs of remediation or prevention of releases of Hazardous Materials or relating to liability for or costs of other actual or threatened danger to human health or the environment. The term "Environmental Law" includes, but is not limited to, the following statutes, as amended, any successor thereto, and any regulations promulgated pursuant thereto, and any state or local statutes, ordinances, rules, regulations and the like addressing similar issues: the Comprehensive Environmental Response, Compensation and Liability Act; the Emergency Planning and Community Right-to-Know Act; the Hazardous Materials Transportation Act; the Resource Conservation and Recovery Act (including but not limited to Subtitle I relating to underground storage tanks); the Solid Waste Disposal Act; the Clean Water Act; the Clean Air Act; the Toxic Substances Control Act; the Safe Drinking Water Act; the Occupational Safety and Health Act; the Federal Water Pollution Control Act; the Federal Insecticide, Fungicide and Rodenticide Act; the Endangered Species Act; the National Environmental Policy Act; the River and Harbors Appropriation Act; and the New York Environmental Conservation Law, Chapter 43-B of the New York Consolidated Laws.

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#### 4. AFFIRMATIVE COVENANTS

4.1 Payments and Performance. Borrower will duly and punctually pay all Obligations becoming due to the Bank and will duly and punctually perform all Obligations on its part to be done or performed under this Agreement.

4.2 Books and Records; Inspection. Borrower will at all times keep proper books of account in which full, true and correct entries will be made of its transactions in accordance with generally accepted accounting principles, consistently applied and which are, in the opinion of a Certified Public Accountant acceptable to Bank, adequate to determine fairly the financial condition and the results of operations of Borrower. Borrower will at all reasonable times make its books and records available in its offices for inspection, examination and duplication by the Bank and the Bank's representatives and will permit inspection of the Collateral and all of its properties by the Bank and the Bank's representatives. Borrower will from time to time furnish the Bank with such information and statements as the Bank may request in its sole discretion with respect to the Obligations or the Bank's security interest in the Collateral. Borrower shall, during the term of this Agreement, keep the Bank currently and accurately informed in writing of each location where Borrower's records relating to its accounts and contract rights are kept, and shall not remove such records to another location without giving the Bank at least thirty (30) days prior written notice thereof.

4.3 Financial Statements. Borrower will furnish to Bank:

- (a) Borrower's filed Federal tax returns, including all schedules thereto, for the prior year within 120 days of the end of Borrower's Fiscal Year each such year or by such other date approved by the Bank;
- (b) from time to time, such financial data and information about Borrower as Bank may reasonably request; and
- (c) any financial data and information about any guarantors of the Obligations as Bank may reasonably request.

4.4 Conduct of Business. The Borrower will maintain its existence in good standing and comply with all laws and regulations of the United States and of any state or states thereof and of any political subdivision thereof, and of any governmental authority which may be applicable to it or to its business; provided that this covenant shall not apply to any tax, assessment or charge which is being contested in good faith and with respect to which reserves have been established and are being maintained.

4.5 Notice to Account Debtors. The Borrower agrees, at the request of the Bank, to notify all or any of the Debtors in writing of the Bank's security interest in the Collateral in whatever manner the Bank requests and, hereby authorizes the Bank to notify all or any of the Debtors of the Bank's security interest in the Borrower's accounts at the Borrower's expense.

4.6 Contact with Accountant. The Borrower hereby authorizes the Bank to directly contact and communicate with any accountant employed by Borrower in connection with the review and/or maintenance of Borrower's books and records or preparation of any financial reports delivered by or at the request of Borrower to Bank.

4.7 Operating and Deposit Accounts. The Borrower shall maintain with the Bank its primary operating and deposit accounts. At the option of the Bank, all loan payments and fees will automatically be debited from the Borrower's primary operating account and all advances will automatically be credited to the Borrower's primary operating account.

4.8 Taxes. Borrower will promptly pay all real and personal property taxes, assessments and charges and all franchise, income, unemployment, retirement benefits, withholding, sales and other taxes assessed against it or payable by it before delinquent; provided that this covenant shall not apply to any tax assessment or charge which is being contested in good faith and with respect to which reserves have been established and are being maintained. The Bank may, at its option, from time to time, discharge any taxes, liens or encumbrances of any of the Collateral, and the Borrower will pay to the Bank on demand or the Bank in its sole discretion may charge to the Borrower all amounts so paid or incurred by it.

4.9 Maintenance. Borrower will keep and maintain the Collateral and its other properties, if any, in good repair, working order and condition. Borrower will immediately notify the Bank of any loss or damage to or any occurrence which would adversely affect the value of any Collateral. The Bank may, at its option, from time to time, take any other action that the Bank may deem proper to repair, maintain or preserve any of the Collateral, and the Borrower will pay to the Bank on demand or the Bank in its sole discretion may charge to the Borrower all amounts so paid or incurred by it.

4.10 Insurance. Borrower will maintain in force property and casualty insurance on all Collateral and any other property of the Borrower, if any, against risks customarily insured against by companies engaged in businesses similar to that of the Borrower containing such terms and written by such companies as may be satisfactory to the Bank, such insurance to be payable to the Bank as its interest may appear in the event of loss and to name the Bank as insured pursuant to a standard loss payee clause; no loss shall be adjusted thereunder without the Bank's approval; and all such policies shall provide that they may not be canceled without first giving at least Thirty (30) days written notice of cancellation to the Bank. In the event that the Borrower fails to provide evidence of such insurance, the Bank may, at its option, secure such insurance and charge the cost thereof to the Borrower. At the option of the Bank, all insurance proceeds received from any loss or damage to any of the Collateral shall be applied either to the replacement or repair thereof or as a payment on account of the Obligations. From and after the occurrence of an Event of Default, the Bank is authorized to cancel any insurance maintained hereunder and apply any returned or unearned premiums, all of which are hereby assigned to the Bank, as a payment on account of the Obligations.

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4.11 Notification of Default. Immediately upon becoming aware of the existence of any condition or event which constitutes an Event of Default, or any condition or event which would upon notice or lapse of time, or both, constitute an Event of Default, Borrower shall give Bank written notice thereof specifying the nature and duration thereof and the action being or proposed to be taken with respect thereto.

4.12 Notification of Material Litigation. Borrower will immediately notify the Bank in writing of any litigation or of any investigative proceedings of a governmental agency or authority commenced or threatened against it which would or might be materially adverse to the financial condition of Borrower or any guarantor of the Obligations.

4.13 Pension Plans. With respect to any pension or benefit plan maintained by Borrower, or to which Borrower contributes ("Plan"), the benefits under which are guaranteed, in whole or in part, by the Pension Benefit Guaranty Corporation created by the Employee Retirement Income Security Act of 1974, P.L. 93-406, as amended ("ERISA") or any governmental authority succeeding to any or all of the functions of the Pension Benefit Guaranty Corporation ("Pension Benefit Guaranty Corporation"), Borrower will (a) fund each Plan as required by the provisions of Section 412 of the Internal Revenue Code of 1986, as amended; (b) cause each Plan to pay all benefits when due; (c) furnish Bank (i) promptly with a copy of any notice of each Plan's termination sent to the Pension Benefit Guaranty Corporation (ii) no later than the date of submission to the Department of Labor or to the Internal Revenue Service, as the case may be, a copy of any request for waiver from the funding standards or extension of the amortization periods required by Section 412 of the Internal Revenue Code of 1986, as amended and (iii) notice of any Reportable Event as such term is defined in ERISA; and (d) subscribe to any contingent liability insurance provided by the Pension Benefit Guaranty Corporation to protect against employer liability upon termination of a guaranteed pension plan, if available to Borrower.

4.14 Lien Law. If any account or general intangible included in the Collateral represents money owing pursuant to any contract for the improvement of real property or for a public improvement for purposes of the Lien Law of the State of New York (the "Lien Law"), Borrower shall (i) give Bank notice of such fact; (ii) receive and hold any money advanced by Bank with respect to such account or general intangible as a trust fund to be first applied to the payment of trust claims as such term is defined in the Lien Law (Section 71 or otherwise); and (iii) until such trust claim is paid, not use or permit the use of any such money for any purpose other than the payment of such trust claims.

## 5. NEGATIVE COVENANTS

5.1 Financial Covenants. The Borrower will not at any time or during any fiscal period (as applicable) fail to be in compliance with any of the financial covenants in this section.

(a) Definitions. The following definitions shall apply to this Section:

(i) "CMLTD" shall mean, for any one (1) year period, the current scheduled principal, capital lease or sinking fund payments required to be paid during the applicable period.

(ii) "Distributions" shall mean all cash dividends to shareholders, and all cash distributions to shareholders of Subchapter S corporations, to partners of partnerships, to members of limited liability companies or to beneficiaries of trusts.

(iii) "Earnings" shall mean earnings as defined under GAAP.

(iv) "EBITDA" shall mean, for any period, Earnings from continuing operations before payment of federal, state and local income taxes, plus Interest Expense, depreciation and amortization, in each case for such period, computed and calculated in accordance with GAAP.

(v) "GAAP" shall mean generally accepted accounting principles in effect from time to time in the United States.

(vi) "Intangible Assets" shall mean, as of the date of determination thereof, assets that in accordance with GAAP are properly classifiable as intangible assets, including, but not limited to, goodwill, franchises, licenses, patents, trademarks, trade names and copyrights.

(vii) "Interest Expense" shall mean, for any period, ordinary, regular, recurring and continuing expenses for interest on all borrowed money.

(viii) "Tangible Net Worth" shall mean, as of the date of determination thereof, total assets (excluding all Intangible Assets, and accounts receivable and/or indebtedness owing from any employee or any parent, subsidiary or other affiliate) less total liabilities plus subordinated debt.

(b) Tangible Net Worth. The Borrower shall not permit its Tangible Net Worth to be less than **\$3,000,000** at any time.

(c) EBITDA (after Distributions) to CMLTD plus Interest Expense. The Borrower shall not permit the ratio of its EBITDA after Distributions to CMLTD plus Interest Expense to be less than **1.25** to 1.0 for any fiscal year.

5.2 Limitations on Indebtedness. Borrower shall not issue any evidence of indebtedness or create, assume, guarantee, become contingently liable for, or suffer to exist indebtedness in addition to indebtedness to the Bank, except indebtedness or liabilities of Borrower, other than for money borrowed, incurred or arising in the ordinary course of business.

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5.3 Sale of Interest. There shall not be any sale or transfer of ownership of any interest in the Borrower without the Bank's prior written consent unless such transfer shall not result in change in control of Borrower.

5.4 Loans or Advances. Borrower shall not make any loans or advances to any individual, partnership, corporation, limited liability company, trust, or other organization or person, including without limitation its officers and employees; provided, however, that Borrower may make advances to its employees, including its officers, with respect to expenses incurred or to be incurred by such employees in the ordinary course of business which expenses are reimbursable by Borrower; and provided further, however, that Borrower may extend credit in the ordinary course of business in accordance with customary trade practices.

5.5 Dividends and Distributions. Borrower shall not, without prior written consent of the Bank, pay any dividends on or make any distribution on account of any class of Borrower's capital stock in cash or in property (other than additional shares of such stock), or redeem, purchase or otherwise acquire, directly or indirectly, any of such stock, except, so long as Borrower is not in default hereunder, if Borrower is a Subchapter S corporation, under the regulations of the Internal Revenue Service of the United States, distributions to the Shareholders of Borrower in such amounts as are necessary to pay the tax liability of such Shareholders due as a result of such Shareholders' interest in the Borrower.

5.6 Investments. The Borrower shall not make investments in, or advances to, any individual, partnership, corporation, limited liability company, trust or other organization or person other than as previously specifically consented to in writing by the Bank. The Borrower will not purchase or otherwise invest in or hold securities, nonoperating real estate or other nonoperating assets or purchase all or substantially all the assets of any entity other than as previously specifically consented to in writing by the Bank.

5.7 Merger. Borrower will not merge or consolidate or be merged or consolidated with or into any other entity.

5.8 Capital Expenditures. The Borrower shall not, directly or indirectly, make or commit to make capital expenditures by lease, purchase, or otherwise, except in the ordinary and usual course of business for the purpose of replacing machinery, equipment or other personal property which, as a consequence of wear, duplication or obsolescence, is no longer used or necessary in the Borrower's business.

5.9 Sale of Assets. Borrower shall not sell, lease or otherwise dispose of any of its assets, except in the ordinary and usual course of business and except for the purpose of replacing machinery, equipment or other personal property which, as a consequence of wear, duplication or obsolescence, is no longer used or necessary in the Borrower's business, provided that fair consideration is received therefor; provided, however, in no event shall the Borrower sell, lease or otherwise dispose of any equipment purchased with the proceeds of any loans made by the Bank.

5.10 Restriction on Liens. Borrower shall not grant any security interest in, or mortgage of, any of its properties or assets including the Collateral. Borrower shall not enter into any agreement with any person other than the Bank that prohibits the Borrower from granting any security interest in, or mortgage of, any of its properties or assets including the Collateral.

5.11 Other Business. Borrower shall not engage in any business other than the business in which it is currently engaged or a business reasonably allied thereto.

5.12 Change of Name, etc. Borrower shall not change its legal name or the State or the type of its organization, without giving the Bank at least 30 days prior written notice thereof.

## **6. DEFAULT**

6.1 Default. "Event of Default" shall mean the occurrence of one or more of any of the following events:

- (a) default of any liability, obligation, covenant or undertaking of the Borrower or any guarantor of the Obligations to the Bank, hereunder or otherwise, including, without limitation, failure to pay in full and when due any installment of principal or interest or default of the Borrower or any guarantor of the Obligations under any other Loan Document or any other agreement with the Bank continuing for 15 days with respect to any default (other than with respect to the payment of money for which there is no grace period);
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- (b) failure of the Borrower or any guarantor of the Obligations to maintain aggregate collateral security value satisfactory to the Bank continuing for 15 days;
- (c) default of any liability, obligation or undertaking of the Borrower or any guarantor of the Obligations to any other party continuing for 15 days;
- (d) if any statement, representation or warranty heretofore, now or hereafter made by the Borrower or any guarantor of the Obligations in connection with this Agreement or in any supporting financial statement of the Borrower or any guarantor of the Obligations shall be determined by the Bank to have been false or misleading in any material respect when made;
- (e) if the Borrower or any guarantor of the Obligations is a corporation, trust, partnership or limited liability company, the liquidation, termination or dissolution of any such organization, or the merger or consolidation of such organization into another entity, or its ceasing to carry on actively its present business or the appointment of a receiver for its property;
- (f) the death or judicial declaration of incompetence of the Borrower or any guarantor of the Obligations and, if the Borrower or any guarantor of the Obligations is a partnership or limited liability company, the death or judicial declaration of incompetence of any partner or member;
- (g) the institution by or against the Borrower or any guarantor of the Obligations of any proceedings under the Bankruptcy Code 11 USC §101 *et seq.* or any other law in which the Borrower or any guarantor of the Obligations is alleged to be insolvent or unable to pay its debts as they mature, or the making by the Borrower or any guarantor of the Obligations of an assignment for the benefit of creditors or the granting by the Borrower or any guarantor of the Obligations of a trust mortgage for the benefit of creditors (each of the foregoing in this subclause, an "Insolvency Default");
- (h) the service upon the Bank of a writ in which the Bank is named as trustee of the Borrower or any guarantor of the Obligations;
- (i) a judgment or judgments for the payment of money shall be rendered against the Borrower or any guarantor of the Obligations, and any such judgment shall remain unsatisfied and in effect for any period of thirty (30) consecutive days without a stay of execution;
- (j) any levy, lien (including mechanics lien), seizure, attachment, execution or similar process shall be issued or levied on any of the property of the Borrower or any guarantor of the Obligations;
- (k) the termination or revocation of any guaranty of the Obligations; or
- (l) the occurrence of such a change in the condition or affairs (financial or otherwise) of the Borrower or any guarantor of the Obligations, or the occurrence of any other event or circumstance, such that the Bank, in its sole discretion, deems that it is insecure or that the prospects for timely or full payment or performance of any obligation of the Borrower or any guarantor of the Obligations to the Bank has been or may be impaired.

6.2 Acceleration. If an Event of Default shall occur, at the election of the Bank (but automatically in the case of an Insolvency Default), all Obligations shall become immediately due and payable without notice or demand, except with respect to Obligations payable on DEMAND, which shall be due and payable on DEMAND, whether or not an Event of Default has occurred.

The Bank is hereby authorized, at its election, after an Event of Default or after Demand, without any further demand or notice except to such extent as notice may be required by applicable law, to take possession and/or sell or otherwise dispose of all or any of the Collateral at public or private sale; and the Bank may also exercise any and all other rights and remedies of a secured party under the Code or which are otherwise accorded to it in equity or at law, all as Bank may determine, and such exercise of rights in compliance with the requirements of law will not be considered adversely to affect the commercial reasonableness of any sale or other disposition of the Collateral. If notice of a sale or other action by the Bank is required by applicable law, unless the Collateral is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market, the Borrower agrees that ten (10) days written notice to the Borrower, or the shortest period of written notice permitted by such law, whichever is smaller, shall be sufficient notice; and that to the extent permitted by law, the Bank, its officers, attorneys and agents may bid and become purchasers at any such sale, if public, and may purchase at any private sale any of the Collateral that is of a type customarily sold on a recognized market or which is the subject of widely distributed standard price quotations. Any sale (public or private) shall be without warranty and free from any right of redemption, which the Borrower shall waive and release after default upon the Bank's request therefor, and may be free of any warranties as to the Collateral if Bank shall so decide. No purchaser at any sale (public or private) shall be responsible for the application of the purchase money. Any balance of the net proceeds of sale remaining after paying all Obligations of the Borrower to the Bank shall be returned to such other party as may be legally entitled thereto; and if there is a deficiency, the Borrower shall be responsible for repayment of the same, with interest. Upon demand by the Bank, the Borrower shall assemble the Collateral and make it available to the Bank at a place designated by the Bank which is reasonably convenient to the Bank and the Borrower. The Borrower hereby acknowledges that the Bank has extended credit and other financial accommodations to the Borrower upon reliance of the Borrower's granting the Bank the rights and remedies contained in this Agreement including without limitation the right to take immediate possession of the Collateral upon the occurrence of an Event of Default or after DEMAND with respect to Obligations payable on DEMAND and the Borrower hereby acknowledges that the Bank is entitled to equitable and injunctive relief to enforce any of its rights and remedies hereunder or under the Code and the Borrower hereby waives any defense to such equitable or injunctive relief based upon any allegation of the absence of irreparable harm to the Bank.

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The Bank shall have the unrestricted right from time to time to apply (or to change any application already made of) the proceeds of any of the Collateral to any of the Obligations, as the Bank in its sole discretion may determine.

The Bank shall not be required to marshal any present or future security for (including but not limited to this Agreement and the Collateral subject to the security interest created hereby), or guarantees of, the Obligations or any of them, or to resort to such security or guarantees in any particular order; and all of its rights hereunder and in respect of such securities and guaranties shall be cumulative and in addition to all other rights, however existing or arising. To the extent that it lawfully may do so, the Borrower hereby agrees that it will not invoke and irrevocably waives the benefits of any law relating to the marshaling of collateral which might cause delay in or impede the enforcement of the Bank's rights under this Agreement or under any other instrument evidencing any of the Obligations or under which any of the Obligations is outstanding or by which any of the Obligations is secured or guaranteed. Except as required by applicable law, the Bank shall have no duty as to the collection or protection of the Collateral or any income thereon, nor as to the preservation of rights against prior parties, nor as to the preservation of any rights pertaining thereto beyond the safe custody thereof.

6.3 Power of Attorney. The Borrower hereby irrevocably constitutes and appoints the Bank as the Borrower's true and lawful attorney, with full power of substitution, at the sole cost and expense of the Borrower but for the sole benefit of the Bank, upon the occurrence of an Event of Default or after DEMAND with respect to Obligations payable on DEMAND, to convert the Collateral into cash, including, without limitation, completing the manufacture or processing of work in process, and the sale (either public or private) of all or any portion or portions of the inventory and other Collateral; to enforce collection of the Collateral, either in its own name or in the name of the Borrower, including, without limitation, executing releases or waivers, compromising or settling with any Debtors and prosecuting, defending, compromising or releasing any action relating to the Collateral; to receive, open and dispose of all mail addressed to the Borrower and to take therefrom any remittances or proceeds of Collateral in which the Bank has a security interest; to notify Post Office authorities to change the address for delivery of mail addressed to the Borrower to such address as the Bank shall designate; to endorse the name of the Borrower in favor of the Bank upon any and all checks, drafts, money orders, notes, acceptances or other instruments of the same or different nature; to sign and endorse the name of the Borrower on and to receive as secured party any of the Collateral, any invoices, freight or express receipts, or bills of lading, storage receipts, warehouse receipts, or other documents of title of the same or different nature relating to the Collateral; to sign the name of the Borrower on any notice of the Debtors or on verification of the Collateral; and to sign, if necessary, and file or record on behalf of the Borrower any financing or other statement in order to perfect or protect the Bank's security interest. The Bank shall not be obliged to do any of the acts or exercise any of the powers hereinabove authorized, but if the Bank elects to do any such act or exercise any such power, it shall not be accountable for more than it actually receives as a result of such exercise of power, and it shall not be responsible to the Borrower except for its own gross negligence or willful misconduct. All powers conferred upon the Bank by this Agreement, being coupled with an interest, shall be irrevocable so long as any Obligation of the Borrower or any guarantor or surety to the Bank shall remain unpaid or the Bank is obligated under this Agreement to extend any credit to the Borrower.

6.4 Nonexclusive Remedies. All of the Bank's rights and remedies not only under the provisions of this Agreement but also under any other agreement or transaction shall be cumulative and not alternative or exclusive, and may be exercised by the Bank at such time or times and in such order of preference as the Bank in its sole discretion may determine.

6.5 Reassignment to Borrower. Whenever the Bank deems it desirable that any legal action be instituted with respect to any Collateral or that any other action be taken in any attempt to effectuate collection of any Collateral, the Bank may reassign the item in question to the Borrower (and if the Bank shall execute any such reassignment, it shall automatically be deemed to be without recourse to the Bank in any event) and require the Borrower to proceed with such legal or other action at the Borrower's sole liability, cost and expense, in which event all amounts collected by the Borrower on such item shall nevertheless be subject to the Bank's security interest.

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## 7. MISCELLANEOUS

7.1 Waivers. The Borrower waives notice of intent to accelerate, notice of acceleration, notice of nonpayment, demand, presentment, protest or notice of protest of the Obligations, and all other notices, consents to any renewals or extensions of time of payment thereof, and generally waives any and all suretyship defenses and defenses in the nature thereof.

7.2 Waiver of Homestead. To the maximum extent permitted under applicable law, the Borrower hereby waives and terminates any homestead rights and/or exemptions respecting any of its property under the provisions of any applicable homestead laws, including without limitation, Section 5206 of the Civil Practice Law and Rules of New York.

7.3 Severability. If any provision of this Agreement or portion of such provision or the application thereof to any person or circumstance shall to any extent be held invalid or unenforceable, the remainder of this Agreement (or the remainder of such provision) and the application thereof to other persons or circumstances shall not be affected thereby.

7.4 Deposit Collateral. The Borrower hereby grants to the Bank a continuing lien and security interest in any and all deposits or other sums at any time credited by or due from the Bank or any Bank Affiliate to the Borrower and any cash, securities, instruments or other property of the Borrower in the possession of the Bank or any Bank Affiliate, whether for safekeeping or otherwise, or in transit to or from the Bank or any Bank Affiliate (regardless of the reason the Bank or Bank Affiliate had received the same or whether the Bank or Bank Affiliate has conditionally released the same) as security for the full and punctual payment and performance of all of the liabilities and obligations of the Borrower to the Bank or any Bank Affiliate and such deposits and other sums may be applied or set off against such liabilities and obligations of the Borrower to the Bank or any Bank Affiliate at any time, whether or not such are then due, whether or not demand has been made and whether or not other collateral is then available to the Bank or any Bank Affiliate.

7.5 Indemnification. The Borrower shall indemnify, defend and hold the Bank and any Bank Affiliate and their directors, officers, employees, agents and attorneys (each an "Indemnitee") harmless of and from any claim brought or threatened against any Indemnitee by the Borrower, any guarantor or endorser of the Obligations, or any other person (as well as from reasonable attorneys' fees and expenses in connection therewith) on account of the Bank's relationship with the Borrower, or any guarantor or endorser of the Obligations (each of which may be defended, compromised, settled or pursued by the Bank with counsel of the Bank's election, but at the expense of the Borrower), except for any claim arising out of the gross negligence or willful misconduct of the Bank. The within indemnification shall survive payment of the Obligations, and/or any termination, release or discharge executed by the Bank in favor of the Borrower.

7.6 Costs and Expenses. The Borrower shall pay to the Bank on demand any and all costs and expenses (including, without limitation, reasonable attorneys' fees and disbursements, court costs, litigation and other expenses) incurred or paid by the Bank in establishing, maintaining, protecting or enforcing any of the Bank's rights or the Obligations, including, without limitation, any and all such costs and expenses incurred or paid by the Bank in defending the Bank's security interest in, title or right to the Collateral or in collecting or attempting to collect or enforcing or attempting to enforce payment of the Obligations.

7.7 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be an original, but all of which shall constitute but one agreement.

7.8 Complete Agreement. This Agreement and the other Loan Documents constitute the entire agreement and understanding between and among the parties hereto relating to the subject matter hereof, and supersedes all prior proposals, negotiations, agreements and understandings among the parties hereto with respect to such subject matter.

7.9 Binding Effect of Agreement. This Agreement shall be binding upon and inure to the benefit of the respective heirs, executors, administrators, legal representatives, successors and assigns of the parties hereto, and shall remain in full force and effect (and the Bank shall be entitled to rely thereon) until released in writing by the Bank. The Bank may transfer and assign this Agreement and deliver the Collateral to the assignee, who shall thereupon have all of the rights of the Bank; and the Bank shall then be relieved and discharged of any responsibility or liability with respect to this Agreement and the Collateral. The Borrower may not assign or transfer any of its rights or obligations under this Agreement. Except as expressly provided herein or in the other Loan Documents, nothing, expressed or implied, is intended to confer upon any party, other than the parties hereto, any rights, remedies, obligations or liabilities under or by reason of this Agreement or the other Loan Documents.

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7.10 Further Assurances. Borrower will from time to time execute and deliver to Bank such documents, and take or cause to be taken, all such other or further action, as Bank may request in order to effect and confirm or vest more securely in Bank all rights contemplated by this Agreement and the other Loan Documents (including, without limitation, to correct clerical errors) or to vest more fully in or assure to the Bank the security interest in the Collateral granted to the Bank by this Agreement or to comply with applicable statute or law and to facilitate the collection of the Collateral (including, without limitation, the execution of stock transfer orders and stock powers, endorsement of promissory notes and instruments and notifications to obligors on the Collateral). To the extent permitted by applicable law, Borrower authorizes the Bank to file financing statements, continuation statements or amendments, and any such financing statements, continuation statements or amendments may be filed at any time in any jurisdiction. Bank may at any time and from time to time file financing statements, continuation statements and amendments thereto which contain any information required by the Code for the sufficiency or filing office acceptance of any financing statement, continuation statement or amendment, including whether Borrower is an organization, the type of organization and any organization identification number issued to Borrower. Borrower agrees to furnish any such information to Bank promptly upon request. In addition, Borrower shall at any time and from time to time take such steps as Bank may reasonably request for Bank (i) to obtain an acknowledgment, in form and substance satisfactory to Bank, of any bailee having possession of any of the Collateral that the bailee holds such Collateral for Bank, (ii) to obtain "control" (as defined in the Code) of any Collateral comprised of deposit accounts, electronic chattel paper, letter of credit rights or investment property, with any agreements establishing control to be in form and substance satisfactory to Bank, and (iii) otherwise to insure the continued perfection and priority of Bank's security interest in any of the Collateral and the preservation of its rights therein. Borrower hereby constitutes Bank its attorney-in-fact to execute, if necessary, and file all filings required or so requested for the foregoing purposes, all acts of such attorney being hereby ratified and confirmed; and such power, being coupled with an interest, shall be irrevocable until this Agreement terminates in accordance with its terms, all Obligations are irrevocably paid in full and the Collateral is released.

7.11 Amendments and Waivers. This Agreement may be amended and Borrower may take any action herein prohibited, or omit to perform any act herein required to be performed by it, if Borrower shall obtain the Bank's prior written consent to each such amendment, action or omission to act. No course of dealing and no delay or omission on the part of Bank in exercising any right hereunder shall operate as a waiver of such right or any other right and waiver on any one or more occasions shall not be construed as a bar to or waiver of any right or remedy of Bank on any future occasion.

7.12 Terms of Agreement. This Agreement shall continue in full force and effect so long as any Obligations or obligation of Borrower to Bank shall be outstanding, or the Bank shall have any obligation to extend any financial accommodation hereunder, and is supplementary to each and every other agreement between Borrower and Bank and shall not be so construed as to limit or otherwise derogate from any of the rights or remedies of Bank or any of the liabilities, obligations or undertakings of Borrower under any such agreement, nor shall any contemporaneous or subsequent agreement between Borrower and the Bank be construed to limit or otherwise derogate from any of the rights or remedies of Bank or any of the liabilities, obligations or undertakings of Borrower hereunder, unless such other agreement specifically refers to this Agreement and expressly so provides.

7.13 Notices. Any notice under or pursuant to this Agreement shall be a signed writing or other authenticated record (within the meaning of Article 9 of the Code). Any notices under or pursuant to this Agreement shall be deemed duly received and effective if delivered in hand to any officer or agent of the Borrower or Bank, or if mailed by registered or certified mail, return receipt requested, addressed to the Borrower or Bank at the address set forth in this Agreement or as any party may from time to time designate by written notice to the other party.

7.14 Governing Law. This Agreement has been executed or completed and/or is to be performed in New York, and it and all transactions thereunder or pursuant thereto shall be governed as to interpretation, validity, effect, rights, duties and remedies of the parties thereunder and in all other respects by the laws of New York without giving effect to the conflicts of laws principles thereof.

7.15 Reproductions. This Agreement and all documents which have been or may be hereinafter furnished by Borrower to the Bank may be reproduced by the Bank by any photographic, photostatic, microfilm, xerographic or similar process, and any such reproduction shall be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not such reproduction was made in the regular course of business).

7.16 Joint and Several. If more than one Borrower signs this Agreement, then the responsibilities hereunder are joint and several.

7.17 Completing and Correcting this Agreement. The Borrower authorizes the Bank to fill in any blank spaces and to otherwise complete this Agreement and to correct any patent errors herein.

7.18 **ADDITIONAL WAIVERS.** IN ANY ACTION, SUIT OR PROCEEDING IN RESPECT OF OR ARISING OUT OF THIS AGREEMENT, BORROWER WAIVES (i) THE RIGHT TO INTERPOSE ANY SET-OFF OR COUNTERCLAIM OF ANY NATURE OR DESCRIPTION, (ii) ANY OBJECTION BASED ON FORUM NON CONVENIENS OR VENUE AND (iii) ANY CLAIM FOR CONSEQUENTIAL, PUNITIVE OR SPECIAL DAMAGES.

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7.19 Increased Costs. If any law, regulation or guideline or any change therein or interpretation or application thereof by any regulatory body, court, administrative or governmental authority charged with the interpretation or administration thereof, or compliance with any request, directive, ruling, decree, judgment or recommendation of any regulatory body, court administrative or governmental authority now existing or hereafter adopted (whether or not having the force of law) imposes, modifies or deems applicable, any capital adequacy, increased capital adequacy or similar requirement and the result is to increase the cost of, or reduce the rate of return on, the Bank's (or Bank affiliate's or participant's) capital as a consequence of its obligations hereunder, the Bank shall notify the Borrower of such fact. The Borrower and the Bank shall thereafter in good faith negotiate an adjustment to the fees payable hereunder which, in the reasonable judgment of the Borrower and the Bank, will adequately compensate the Bank (or Bank affiliate or participant) in light of these circumstances. In the event that the Borrower and the Bank are unable to agree on such adjustment within 30 days after the date on which the Bank sends such notice to the Borrower, the Borrower shall on the later of such 30th day after notice or the date such increased cost or reduced return takes effect, unless otherwise agreed to by the Bank (or Bank affiliate or participant), prepay all loans on the 30th day.

7.20 USA Patriot Act. The Bank is subject to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the "Patriot Act") and hereby notifies Borrower that pursuant to the requirements of the Patriot Act, it is required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow such Bank to identify the Borrower in accordance with the Patriot Act.

7.21 Sharing of Borrower Financial Information. The Borrower authorizes the Bank to share Borrower's financial information to facilitate an appraisal in connection with any Real Property securing the Obligation(s).

7.22 Jurisdiction and Venue. Borrower irrevocably submits to the nonexclusive jurisdiction of any Federal or state court sitting in New York, over any suit, action or proceeding arising out of or relating to this Agreement. Borrower irrevocably waives, to the fullest extent it may effectively do so under applicable law, any objection it may now or hereafter have to the laying of the venue of any such suit, action or proceeding brought in any such court and any claim that the same has been brought in an inconvenient forum. Borrower hereby consents to any and all process which may be served in any such suit, action or proceeding, (i) by maili ng a copy thereof by registered and certified mail, postage prepaid, return receipt requested, to the Borrower's address shown in this Agreement or as notified to the Bank and (ii) by serving the same upon the Borrower in any other manner otherwise permitted by law, and agrees that such service shall in every respect be deemed effective service upon Borrower.

7.23 **JURY WAIVER. THE BORROWER AND BANK EACH HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY, AND AFTER AN OPPORTUNITY TO CONSULT WITH LEGAL COUNSEL, (A) WAIVE ANY AND ALL RIGHTS TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING IN CONNECTION WITH THIS AGREEMENT, THE OBLIGATIONS, ALL MATTERS CONTEMPLATED HEREBY AND DOCUMENTS EXECUTED IN CONNECTION HERewith AND (B) AGREE NOT TO SEEK TO CONSOLIDATE ANY SUCH ACTION WITH ANY OTHER ACTION IN WHICH A JURY TRIAL CANNOT BE, OR HAS NOT BEEN, WAIVED. THE BORROWER CERTIFIES THAT NEITHER THE BANK NOR ANY OF ITS REPRESENTATIVES, AGENTS OR COUNSEL HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT THE BANK WOULD NOT IN THE EVENT OF ANY SUCH PROCEEDING SEEK TO ENFORCE THIS WAIVER OF RIGHT TO TRIAL BY JURY.**

Executed as of \_\_\_\_\_, 2010.

Borrower:

ChemBio Diagnostic Systems Inc.

By: \_\_\_\_\_

Name:

Title:

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**CERTIFICATION**

I, Lawrence A. Siebert, certify that:

1. I have reviewed this Form 10-Q of Chembio Diagnostics, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 28, 2010

/s/ Lawrence A. Siebert

Lawrence A. Siebert, Chief Executive Officer

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**CERTIFICATION**

I, Richard J. Larkin, certify that:

1. I have reviewed this Form 10-Q of Chembio Diagnostics, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 28, 2010  
Richard J. Larkin, Chief Financial Officer

/s/ Richard J. Larkin

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**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q (the "Report") of Chembio Diagnostics, Inc. (the "Company") for the quarter ended June 30, 2010, each of the undersigned Lawrence A. Siebert, the Chief Executive Officer of the Company, and Richard J. Larkin, the Chief Financial Officer of the Company, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of the undersigneds' knowledge and belief:

(1) This Form 10-Q for the quarter ended June 30, 2010 fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in this Form 10-q for the quarter ended June 30, 2010 fairly presents, in all material respects, the financial condition and results of operations of Chembio Diagnostics, Inc. for the periods presented therein.

Dated: July 28, 2010

/s/ Lawrence A. Siebert  
Lawrence A. Siebert  
Chief Executive Officer

Dated: July 28, 2010

/s/ Richard J. Larkin  
Richard J. Larkin  
Chief Financial Officer

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