

UNITED STATES  
Securities and Exchange Commission  
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2019

or

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File No. 0-30379

**CHEMBIO DIAGNOSTICS, INC.**

(Exact name of registrant as specified in its charter)

Nevada

88-0425691

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

555 Wireless Boulevard, Hauppauge, NY

11788

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code (631) 924-1135

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, \$0.01 par value	CEMI	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 every Interactive Data File required to be submitted 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 such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

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 the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of voting and non-voting common equity held by non-affiliates was \$106,974,102.

As of March 4, 2020, the registrant had 17,733,617 shares of common stock outstanding.

### **Documents Incorporated By Reference**

Portions of the registrant's proxy statement for its 2020 annual meeting of stockholders are incorporated by reference in Part III of this report.

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Unless the context requires otherwise, the words “our,” “our company,” “us,” “we” and similar terms refer to Chembio Diagnostics, Inc. and its consolidated subsidiaries.

DPP, SAMPLETAINER, STAT-PAK, STAT-VIEW and SURE CHECK are our registered trademarks. For convenience, these trademarks appear in this prospectus supplement without ® symbols, but that practice does not mean that we will not assert, to the fullest extent under applicable law, our rights to the trademarks. This report also includes trademarks and service marks owned by other organizations.

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## FORWARD-LOOKING STATEMENTS AND STATISTICAL ESTIMATES

*This report contains statements reflecting our views about our future performance that constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are generally identified through the inclusion of words such as “anticipate,” “believe,” “contemplate,” “could,” “estimate,” “expect,” “forecast,” “intend,” “may,” “objective,” “outlook,” “plan,” “potential,” “project,” “seek,” “should,” “strategy,” “target,” “will,” “would” or variations of such words or similar expressions. All statements addressing our future operating performance, and statements addressing events and developments that we expect or anticipate will occur in the future, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based upon currently available information, operating plans, and projections about future events and trends.*

*This report contains estimates, projections and other data concerning our industry, our business, and the markets for our products. Where expressly stated, we obtained this industry, business, market and other data from reports, research surveys, studies and similar data prepared by World Health Organization, or WHO. We also include data that we have compiled, obtained, identified or otherwise derived from reports, research surveys, studies and similar data prepared by market research firms and other third parties, industry, medical and general publications, government data and similar sources. Other than WHO, we do not expressly refer to the sources from which this data is derived.*

*Forward-looking statements and statistical estimates inherently involve risks and uncertainties that could cause actual results to differ materially from those predicted or expressed in this report. These risks and uncertainties include those described below in “Item 1A. Risk Factors.” Investors are cautioned not to place undue reliance on any forward-looking statements or statistical estimates, which speak only as of the date they are made. We undertake no obligation to update any forward-looking statement or statistical estimate, whether as a result of new information, future events or otherwise.*

## PART I

### ITEM 1. BUSINESS

#### Overview

We are a leading provider of point-of-care diagnostic products for the detection and diagnosis of infectious diseases. We have been expanding our product portfolio based upon our proprietary Dual Path Platform, which we refer to as DPP, which uses a small drop of blood from the fingertip to provide high-quality, cost-effective diagnostic results in approximately 15 minutes. We seek to build additional revenue streams by entering into technology collaborations with leading global healthcare companies to leverage the DPP technology platform.

Compared with traditional lateral flow technology, the DPP technology platform provides enhanced sensitivity and specificity, advanced multiplexing capabilities, and, when used with the DPP Micro Reader, quantitative results. Our DPP test for human immunodeficiency virus, or HIV, provides sensitivity of 99.8% and specificity of 100%, and has been approved by the U.S. Food and Drug Administration, or FDA, and cleared as a waived test under the Clinical Laboratory Improvement Amendments of 1988, or CLIA.

On November 6, 2018, we completed our acquisition of opTricon GmbH, a Berlin-based developer and manufacturer of handheld analyzers for rapid diagnostic tests, which we believe will enable us to promote DPP tests and DPP Micro Readers more actively across global markets. On November 25, 2019, we completed our acquisition of Orangelife Comercio e Industria Ltda., a Brazilian manufacturer of lateral flow tests for infectious diseases to diversify our market channel penetration in Brazil and support Bio-Manguinos, a major customer.

We are pursuing three corporate priorities, the key building blocks to drive growth and operating efficiency: (1) expand our commercialization; (2) advance our research and development pipeline; and (3) prepare for future growth.

#### Industry

The DPP technology platform addresses the lateral flow test market, which includes infectious diseases, cardiac markers, cholesterol and lipids, pregnancy and fertility, and drugs of abuse. Based on our review of third-party reports and other information, we estimate that the market for lateral flow tests will increase from \$5.5 billion in 2017 to \$8.2 billion in 2022, representing a compound annual growth rate of 8.2%.

Infectious disease tests constitute the largest and fastest growing, segment of the lateral flow test market. We currently are targeting lateral flow test solutions for infectious diseases: sexually transmitted disease and mosquito-borne disease. The market for lateral flow infectious disease tests is being driven by the high prevalence of infectious diseases globally, an increase in the geriatric population, growing demand for rapid test results, and advancements in multiplexing. Based on our review of third-party reports and other information, we estimate that the market for lateral flow infectious disease tests will increase from \$1.4 billion in 2017 to \$2.3 billion in 2022, representing a compound annual growth rate of 10.7%.

## Products

Our point-of-care infectious disease portfolio is comprised of multiple commercial products, each serving unique customer requirements. The key advantages of our products, which are performed with a tiny drop of blood from the fingertip and provide results in approximately 15 minutes, include:

- enhanced sensitivity and specificity;
- advanced multiplexing; and
- quantitative results, when used with DPP Micro Reader.

We have obtained FDA approvals and, directly or through our partners, international regulatory approvals for infectious disease tests as follows:

<b>Product (Assay)</b>	<b>U.S.</b>	<b>International</b>
DPP HIV 1/2	✓	✓
DPP HIV-Syphilis		✓
DPP Syphilis Screen & Confirm		✓
DPP Zika	✓	✓
DPP Leishmaniasis		✓
STAT-PAK HIV 1/2	✓	✓
STAT-PAK Chagas		✓
SURE CHECK HIV 1/2	✓	✓
SURE CHECK HIV 1/2 Self Test		✓

Organic growth in our core infectious disease business is being driven by:

- growth in the overall market for lateral flow infectious disease tests, which we estimate will increase at a compound annual growth rate of 10.7% through 2022 (see “–Industry” above);
- our increased market penetration in existing markets and channels, including in the United States, Latin America, Africa and Europe;
- our registration of existing and new products in unchartered countries and regions, such as selected countries in Latin America and Southeast Asia;
- our entry into new market segments, such as international HIV Self-Testing; and
- advances in our product pipeline in infectious disease with key products including a multiplex test for HIV and syphilis in the U.S. market and tests for dengue, zika and chikungunya.

We market and sell both stand-alone and multiplex tests for sexually transmitted infectious diseases, such as HIV and syphilis. HIV and syphilis continue to be major global public health issues. According to WHO estimates:

- HIV has claimed more than 35 million lives, including 770,000 in 2018. Approximately 37.9 million people were living with HIV at the end of 2018, and 1.7 million were newly infected during 2018.
- There were 18.0 million prevalent cases of syphilis as of 2012, and 5.6 million new infections were estimated to occur annually.
- Elimination of mother-to-child transmission, or MTCT, of both HIV and syphilis is a global health priority. In 2013, 1.9 million pregnant women were infected with syphilis worldwide. Congenital syphilis contributes significantly to infant mortality, accounting for 305,000 annual perinatal deaths worldwide in 2013. Globally, more than 1.4 million pregnant women were infected with HIV as of 2015, and MTCT of HIV is estimated to have resulted in over 150,000 infant cases in 2015.

We are seeking to address the global concerns related to HIV and syphilis co-infection through the development of a novel, multiplex test for both HIV and syphilis. We have developed a DPP HIV-Syphilis multiplex test and received regulatory approvals covering a number of international markets, including Brazil, Europe, Malaysia and Mexico. In the United States we completed a DPP HIV-Syphilis clinical trial but in February 2020 received a “not approvable” letter from the FDA with respect to our Premarket Approval, or PMA, application on our DPP HIV-Syphilis multiplex test for commercial use in the United States. The FDA has confirmed that, of the items that had been open for review in the PMA application, the syphilis arm of the study was acceptable, as were the results as they relate to the inclusion of pregnant women. The only remaining item requested of us was to repeat the reproducibility study, as one of the sites in the trial reported greater variability compared to the other sites. We have initiated the reproducibility study required by the FDA and, in parallel, accelerated the studies for a CLIA waiver, which can be submitted upon FDA approval of the PMA application. We believe we continue to be well-positioned to be the first company to introduce a multiplex rapid test for HIV and syphilis in the United States.

We also market and sell tests for selected fever and tropical diseases such as Chagas, ebola, leishmaniasis and Zika. The market for lateral flow mosquito-borne diseases includes established markets for disease such as dengue and malaria, which WHO estimates together account for more than 600 million annual infections worldwide. There are also a number of emerging markets for lateral flow tests for infectious diseases such as burkholderia, chikungunya, lassa, leptospirosis, Marburg, rickettsia and Zika. We are developing tests, using the DPP platform, to detect all of the aforementioned fever and tropical diseases, as stand-alone or multiplex tests.

Since 2015 we have received over \$12.2 million of funding from some of the world’s leading health organizations, which has helped us accelerate the expansion of our pipeline of infectious disease tests. Our collaborators have included Bill & Melinda Gates Foundation, The Paul G. Allen Family Foundation, The Oswaldo Cruz Foundation or FIOCRUZ, and the Foundation for Innovative New Diagnostics, or FIND, as well as U.S. government agencies such as Centers for Disease Control and Prevention, or CDC, the Biomedical Advanced Research and Development Authority of the U.S. Department of Health and Human Services, or BARDA, and the U.S. Department of Agriculture, or USDA.

Several tests in our infectious disease pipeline are approaching commercialization, and several have received initial regulatory approvals:

Product	Collaborator	Phase I Feasibility	Phase II Development	Phase III Verification & Validation	Phase IV Clinical & Regulatory	Phase V Commercial Launch
DPP HIV-Syphilis (US)	Self-funded	✓	✓	✓	✓	PMA/510K pending
DPP Dengue IgM/IgG (International)	Self-funded	✓	✓	✓	✓	CE and ANVISA <sup>1</sup>
DPP Dengue NS1 Antigen (International)	Self-funded	✓	✓	✓	✓	CE and ANVISA pending
DPP Zika IgM/IgG (International)	Self-funded	✓	✓	✓	✓	CE and ANVISA
DPP Chikungunya IgM/IgG (International)	Self-funded	✓	✓	✓	✓	CE and ANVISA
DPP ZCD IgM/IgG(International)	Self-funded	✓	✓	✓	✓	CE and ANVISA
DPP Zika IgM (US)	BARDA	✓	✓	✓	✓	FDA-EUA <sup>2</sup> FDA
DPP Ebola	CDC	✓	✓	✓	✓	FDA-EUA
DPP Fever Assay Asia	FIND	✓	✓	✓	✓	Field studies ongoing
DPP Fever Assay Africa	Paul Allen Foundation	✓	✓	✓		

<sup>1</sup> Agência Nacional de Vigilância Sanitária (Brazil)

<sup>2</sup> Emergency Use Authorization

## Collaborations

We are building additional revenue streams by leveraging our patented DPP technology and scientific expertise through collaborations. Leading global healthcare organizations have chosen to collaborate with us based on our deep scientific expertise with our proven DPP technology platform and capabilities, our successful record of developing DPP tests with a diverse set of collaborators including global commercial companies, governments and non-governmental organizations, and our extensive experience in obtaining regulatory approvals in the United States (FDA), Brazil (ANVISA), the European Union (CE mark) and Mexico (Comisión Federal para la Protección contra Riesgos Sanitarios, or COFEPRIS) as well as from WHO (Prequalification, or PQ).

Product	Collaborator	Phase I Feasibility	Phase II Development	Phase III Verification & Validation	Phase IV Clinical/ Regulatory	Phase V Commercial Launch
DPP Rare Disease (undisclosed biomarker)	Takeda	✓	✓			
Infectious Disease Portfolio	Lumira DX	✓	✓			
DPP Biomarker Development Project (undisclosed biomarker)	AstraZeneca	✓	✓	✓		CE Mark <sup>3</sup>
DPP TBI	Perseus	✓	✓			

<sup>3</sup> For use in pharmaceutical research

By leveraging our DPP technology platform, we are creating opportunities to expand into new markets such as cancer diagnostics, concussion and traumatic brain injury, and veterinary and we are broadening the application of our technology from point-of-care diagnostics to include companion diagnostics. Research and development costs related to the collaborations are fully funded by our collaborators.

## Sales Channels

Our products are sold globally, both directly and through distributors, to hospitals and clinics, physician offices, clinical laboratories, public health organizations, government agencies and consumers. Historically we marketed and sold our products only into a handful of countries and regions. In recent years we have hired sales executives to begin building our own channels in key markets such as the United States, Europe, Latin America, Africa and Southeast Asia. With sales growth as an underlying objective, we are focused on increasing sales in existing geographies, expanding sales into new geographies, and broadening sales coverage in key markets.

## **Automation of U.S. Manufacturing**

We are automating our U.S. manufacturing processes and expanding our manufacturing capacity. During 2018, we took delivery of our first automated manufacturing line. This automated manufacturing line provided DPP test production for Brazil and will allow assembly of various configurations of DPP tests. The automated line has an annual capacity of between five and ten million tests, depending on the test configuration, and uses vision-guided, robotic operation to improve inspection and quality control. During 2019, we took delivery of our second and third manufacturing lines that together, following commissioning and regulatory approvals, will support our other product platforms. As we transition from manual to automated assembly, we believe the reduced variable costs will improve product gross margins.

### *DPP Technology & Development*

Our commercially available products employ either our patented DPP technology or traditional lateral flow technology. We believe products developed using our DPP technology can provide superior diagnostic performance compared with products that utilize traditional lateral flow technology.

We are executing our strategy to leverage DPP intellectual property, as well as our scientific and operational expertise, to create new collaborations where we will serve as an exclusive development and manufacturing partner. Examples of such collaborations include the following:

- In January 2015, we entered into an agreement with the Concussion Science Group (CSG) Division of Perseus Science Group LLC to develop a point-of-care diagnostic test for traumatic brain injury, including sports-related concussions, utilizing both our DPP and optical analyzer technologies.
- In October 2017, we signed a biomarker development project agreement with AstraZeneca, utilizing both our DPP and optical analyzer technologies.
- In April 2018, we entered into a collaboration agreement with LumiraDx to develop new point-of-care diagnostic tests for infectious diseases. Under terms of the agreement, we receive funding from LumiraDx, subject to satisfying certain milestones, to develop certain new point-of-care infectious disease tests. Following the regulatory approval and commercialization of tests in accordance with this agreement, Chembio will both sell reagents to, and receive royalty payments from, LumiraDx on sales of all products developed through this collaboration.
- In November 2018, we acquired opTricon (Berlin, Germany), a leading developer of handheld optical analyzers rapid diagnostic tests.
- In July 2019, we entered into a collaboration agreement with Shire Human Genetic Therapies, Inc., a wholly owned subsidiary of Takeda Pharmaceutical Company Limited, to develop a novel point-of-care diagnostic test to detect an undisclosed biomarker.
- In November 2019, we acquired Orangelife Comercio e Industria Ltda. (Rio de Janeiro, Brazil), a privately held manufacturer of lateral flow test for infectious diseases, to expand our market penetration and support Bio-Manguinhos, a major customer.

## Competition

Many of our competitors are significantly larger and have greater financial, research, manufacturing, and marketing resources. Important competitive factors include product quality, analytical performance, ease of use, price, customer service and reputation. Industry competition is based on these and the following additional factors:

- patent protection;
- scientific expertise;
- ability to develop and market products and processes;
- ability to obtain required regulatory approvals;
- ability to manufacture cost-effective products that meet applicable regulatory requirements;
- access to adequate capital; and,
- ability to attract and retain qualified personnel.

We believe our scientific capabilities and proprietary know-how relating to our patented DPP technology and lateral flow technology are very strong, particularly for the development and manufacture of tests for the detection of antibodies to infectious diseases, and other diseases.

Our ability to develop and market other products is in large measure dependent on our having additional resources and/or collaborative relationships. Some of our product development efforts have been funded on a project or milestone basis. We believe that our proprietary know-how relating to our patented DPP technology has been instrumental in our obtaining the collaborations we have and that we continue to pursue. We believe that our patent protection enhances our ability to both develop more profitable, collaborative relationships and expand licensing revenue. However, there are a number of competitive technologies used and/or seeking to be used by others in point-of-care settings.

Although we have no specific knowledge of any other competitors' products that could render our products obsolete, if we fail to maintain and enhance our competitive position or fail to introduce new products and product features, our customers may decide to use the products developed by our competitors, which could result in a loss of revenues and cash flow.

## Employees

As of December 31, 2019, we had 324 full-time equivalent employees, of whom 35 were in administration, 230 were in manufacturing, 42 were in research and development, and 17 were in sales and marketing and customer service. Of these employees, approximately 256 were located in the United States, 30 were located in Malaysia, 19 were located in Germany and 19 were located in Brazil.

We have never had a work stoppage, and none of our employees are represented by a labor organization or subject to any collective bargaining arrangements. We consider our employee relations to be good.

## Governmental Regulation

Certain of our activities are subject to regulatory oversight by the FDA under provisions of the Federal Food, Drug, and Cosmetic Act and regulations thereunder, including regulations governing the development, marketing, labeling, promotion, manufacturing, and export of diagnostic products. Our clinical laboratory customers are subject to oversight by Centers for Medicare and Medicaid Services, or CMS, pursuant to CLIA, as well as agencies in various states. Failure to comply with applicable requirements can lead to sanctions, including withdrawal of products from the market, recalls, refusal to authorize government contracts, product seizures, civil money penalties, injunctions, and criminal prosecution.

### *FDA Approval/Clearance Requirements*

Unless an exemption applies, each medical device that we market or wish to market in the United States must receive 510(k) clearance or Premarket Approval, or PMA. Medical devices that receive 510(k) clearance are "cleared" by the FDA to market, distribute, and sell in the United States. Medical devices that obtain a PMA by the FDA are "approved" to market, distribute and sell in the United States. We cannot be certain that 510(k) clearance or PMA approval will ever be obtained for any products that have not already obtained 510(k) clearance or PMA approval. Descriptions of the PMA and 510(k) clearance processes are provided below.

The FDA decides whether a device line must undergo either the 510(k) clearance or PMA based on statutory criteria that utilize a risk-based classification system. PMA is the FDA process of scientific and regulatory review to evaluate the safety and effectiveness of Class III medical devices and, in many cases, Class II medical devices. Class III devices are those that support or sustain human life, are of substantial importance in preventing impairment of human health, or which present a potential, unreasonable risk of illness or injury. The FDA uses these criteria to decide whether a PMA or a 510(k) is appropriate, including the level of risk that the agency perceives is associated with the device and a determination by the agency of whether the product is a type of device that is similar to devices that are already legally marketed. Devices deemed to pose relatively less risk are placed in either Class I or II. In many cases, the FDA requires the manufacturer to submit a 510(k) requesting clearance (also referred to as a premarket notification), unless an exemption applies. The 510(k) must demonstrate that the manufacturer's proposed device is "substantially equivalent" in intended use and in safety and effectiveness to a legally marketed predicate device. A "predicate device" is a pre-existing medical device to which equivalence can be drawn, that is either in Class I or Class II or is a Class III device that was in commercial distribution before May 28, 1976, for which the FDA has not yet called for submission of a PMA application.

Device classification depends on the device's intended use and its indications for use. In addition, classification is risk-based, that is, the risk the device poses to the patient and/or the user is a major factor in determining the class to which it is assigned. Class I includes devices with the lowest risk and Class III includes those with the greatest risk.

*Class I* devices are those for which safety and effectiveness can be assured by adherence to the FDA's general regulatory controls for medical devices, or the General Controls, which include compliance with the applicable portions of the FDA's quality system regulations, facility registration and product listing, reporting of adverse medical events, and appropriate, truthful and non-misleading labeling, advertising, and promotional materials. Some Class I devices also require premarket clearance by the FDA through the 510(k) process described below.

*Class II* devices are subject to the FDA's General Controls, and any other special controls as deemed necessary by the FDA to ensure the safety and effectiveness of the device. Premarket review and clearance by the FDA for Class II devices is accomplished through the 510(k) process. Pursuant to the Medical Device User Fee and Modernization Act of 2002, unless a specific exemption applies, 510(k) submissions are subject to user fees. Certain Class II devices are exempt from this premarket review process.

*Class III* includes devices with the greatest risk. Devices in this class must meet all of the requirements in Classes I and II. In addition, Class III devices cannot be marketed until they receive Premarket Approval.

The safety and effectiveness of Class III devices cannot be assured solely by the General Controls and the other requirements described above. These devices require formal clinical studies to demonstrate safety and effectiveness. Under Medical Device User Fee and Modernization Act of 2002, PMA applications (and supplemental premarket approval applications) are subject to significantly higher user fees than 510(k) applications, and they also require considerably more time and resources.

Rapid HIV tests intended for diagnostic use are regulated as Class III devices. Responsibility for assuring the safety and effectiveness of these tests lies within the Center for Biologics Evaluation and Research's Office of Blood Research and Review, with oversight by the Blood Products Advisory Committee. Approved rapid HIV tests must meet the regulations in the 21 CFR 800 series subparts, under the investigational device exemption, or IDE and PMA pathways.

## *Premarket Approval Pathway*

We manufacture, market and distribute three rapid HIV tests in the United States. Our HIV 1/2 STAT-PAK Assay, SURE CHECK HIV 1/2 Assay, and DPP HIV 1/2 Assay all have received FDA PMA approval. A PMA application must be supported by extensive data including, but not limited to, analytical, preclinical, clinical trials, manufacturing, statutory preapproval inspections, and labeling to demonstrate to the FDA's satisfaction the safety and effectiveness of the device for its intended use. Before a PMA is submitted, a manufacturer must apply for an IDE. If the device presents a "significant risk," as defined by the FDA, to human health, the FDA requires the device sponsor to file an IDE application with the FDA and obtain IDE approval prior to initiation of enrollment of human subjects for clinical trials. The IDE provides the manufacturer with a legal pathway to perform clinical trials on human subjects where without the IDE, only approved medical devices may be used on human subjects.

The IDE application must be supported by appropriate data, such as analytical, animal and laboratory testing results, manufacturing information, and an Investigational Review Board, or IRB, approved protocol showing that it is safe to test the device in humans and that the testing protocol is scientifically sound. If the clinical trial design is deemed to have "non-significant risk," the clinical trial may be eligible for "abbreviated" IDE requirements. In some instances, clinical trials for in vitro diagnostic medical devices may be exempt from the more burdensome IDE requirements if certain labeling requirements are met.

A clinical trial may be suspended by either the FDA or the Investigational Review Board at any time for various reasons, including a belief that the risks to the study participants outweigh the benefits of participation in the study. Even if a study is completed, clinical testing results may not demonstrate the safety and efficacy of the device, or they may be equivocal or otherwise insufficient to obtain approval of the product being tested. After the clinical trials have been completed, if at all, and the clinical trial data and results are collected and organized, a manufacturer may complete a PMA application.

After a PMA application is sufficiently complete, the FDA will accept the application and begin an in-depth review of the submitted information. By statute, the FDA has 180 days to review the "accepted application," although, generally, review of the application can take between one and three years, but it may take significantly longer. During this review period, the FDA may request additional information or clarification of information already provided. Also, during the review period, an advisory panel of experts from outside the FDA may be convened to review and evaluate the application and provide recommendations to the FDA as to the approvability of the device. The preapproval inspections conducted by the FDA include an evaluation of the manufacturing facility to ensure compliance with the FDA's quality systems regulations or QSR, as well as inspections of the clinical trial sites by the Bioresearch Monitoring group to evaluate compliance with good clinical practice and human subject protections. New PMA applications or PMA supplements are required for modifications that affect the safety or effectiveness of the device, including, for example, certain types of modifications to the device's indication for use, manufacturing process, labeling and design. Significant changes to an approved PMA require a 180-day supplement, whereas less substantive changes may utilize a 30-day notice, or a 135-day supplement. Premarket approval supplements often require submission of the same type of information as a premarket approval application, except that the supplement is limited to information needed to support any changes from the device covered by the original premarket approval application, and it may not require as extensive clinical data or the convening of an advisory panel.

Our HIV 1/2 STAT-PAK Assay PMA application number BP050009/0 and our SURE CHECK 1/2 HIV Assay PMA application number BP050010/0 were approved by the FDA in May 2006. Our DPP HIV 1/2 Assay PMA application number BP120032/0 was approved by the FDA in December 2012.

## *510(k) Clearance Pathway*

We are currently developing products that either will or are likely to require an FDA 510(k) clearance. We anticipate submitting a 510(k) for each such product to demonstrate that such proposed device is substantially equivalent to a previously cleared 510(k) device or a device that was in commercial distribution before May 28, 1976, for which the FDA has not yet called for the submission of a 510(k). The FDA's 510(k) clearance pathway usually takes from three to twelve months but could take longer. In some cases the FDA may require additional information, including clinical data, to make a determination regarding substantial equivalence.

If a device receives 510(k) clearance, any modification that could significantly affect its safety or effectiveness, or that would constitute a new or major change in its intended use, will require a new 510(k) clearance or, depending on the modification, a PMA. The FDA requires each device manufacturer to determine whether the proposed change requires submission of a new 510(k) or a PMA, but the FDA can review any such decision and, if it disagrees with the manufacturer's determination, can require the manufacturer to cease marketing and/or recall the modified device until 510(k) clearance or PMA of the modified device is obtained.

## *Clinical Laboratory Improvement Amendments of 1988*

A manufacturer of a test categorized as moderately complex may request that categorization of the test be waived through a CLIA Waiver by Application, or CW, submission to the FDA. When a test is categorized as waived, it may be performed by laboratories with a Certificate of Waiver, such as a physician's office outreach setting. In a CW submission, the manufacturer provides evidence to the FDA that a test meets the CLIA statutory criteria for waiver CLIA, a walk-in clinic or an emergency room provides CMS authority over all laboratory testing, except research that is performed on humans in the United States. The Division of Laboratory Services, within the Survey and Certification Group under the CMS, has the responsibility for implementing the CLIA program.

The CLIA program is designed to establish quality laboratory testing by ensuring the accuracy, reliability and timeliness of patient test results. Under CLIA, a laboratory is a facility that does laboratory testing on specimens derived from humans and used to provide information for the diagnosis, prevention or treatment of disease, or impairment of, or assessment of health. Under the CLIA program, unless waived, laboratories must be certified by the government, satisfy governmental quality and personnel standards, undergo proficiency testing, be subject to inspections and pay fees. We have received a CLIA waiver for all of our lateral flow rapid HIV tests that we market in the United States. Specifically, the CLIA waiver was granted by the FDA for HIV 1/2 STAT-PAK in November 2006, for SURE CHECK HIV 1/2 in October 2007, and for DPP HIV 1/2 in October 2014.

### *Pervasive and Continuing FDA Regulation*

A host of regulatory requirements apply to our approved devices, including: the quality system regulation, which requires manufacturers to follow elaborate design, testing, control, documentation and other quality assurance procedures; the Medical Reporting Regulations, which require manufacturers to report to the FDA specified types of adverse events involving their products; labeling regulations; and the FDA's general prohibition against promoting products for unapproved or "off-label" uses. Some Class II devices are subject to special controls-such as performance standards, post-market surveillance, patient registries, and FDA guidelines-that do not apply to Class I devices.

The regulatory requirements that apply to our approved products classified as medical devices include:

- product listing and establishment registration, which helps facilitate FDA inspections and other regulatory action;
- QSR, which require manufacturers, including third-party manufacturers, to follow stringent design, testing, control, documentation and other quality assurance procedures during all aspects of the development and manufacturing process;

- labeling regulations and FDA prohibitions against the promotion of products for uncleared, unapproved or off-label use or indication;
- clearance of product modifications that could significantly affect safety or efficacy or that would constitute a major change in intended use of one of our cleared devices;
- approval of product modifications that affect the safety or effectiveness of one of our cleared devices;
- medical device reporting regulations, which require that manufacturers comply with FDA requirements to report if their device may have caused or contributed to a death or serious injury, or has malfunctioned in a way that would likely cause or contribute to a death or serious injury if the malfunction of the device or a similar device were to recur;
- post-approval restrictions or conditions, including post-approval study commitments;
- post-market surveillance regulations, which apply when necessary to protect the public health or to provide additional safety and effectiveness data for the device;
- the FDA's recall authority, whereby it can ask, or under certain conditions order, device manufacturers to recall from the market a product that is in violation of governing laws and regulations;
- regulations pertaining to voluntary recalls; and,
- notices of corrections or removals.

Our Medford, New York facility is currently registered as an establishment with the FDA. We and any third-party manufacturers are subject to announced and unannounced inspections by the FDA to determine our compliance with QSR and other regulations.

### *21st Century Cures Act*

The 21st Century Cures Act, enacted in December 2016, contains several sections specific to medical device innovations. We believe that implementation of the 21st Century Cures Act may have a positive impact on its businesses by facilitating innovation and/or reducing the regulatory burden imposed on medical device manufacturers.

### *Government Regulation of Medical Devices for Animal Subjects*

We currently offer two veterinary devices in the United States: DPP VetTB Assay for Cervids and DPP VetTB Assay for Elephants. Diagnostic tests for animal health infectious diseases, including our veterinary devices for the prevention and/or treatment of animal disease, are regulated in the U.S. by the Center for Veterinary Biologics within the U.S. Department of Agriculture Animal and Plant Health Inspection Service, or APHIS, under the Virus, Serum, and Toxin Act of 1913. As a requirement, our veterinary devices were approved by APHIS before they could be sold in the U.S.

The APHIS regulatory approval process involves the submission of product performance data and manufacturing documentation. Following regulatory approval to market a product, APHIS requires that each lot of product be submitted for review before release to customers. In addition, APHIS requires special approval to market products where test results are used in part for government-mandated disease management programs.

### **Environmental Laws**

We believe that we are in compliance in all material respects with all foreign, federal, state, and local environmental regulations applicable to our manufacturing facilities. The cost of ongoing compliance with such regulations does not have a material effect on our operations.

## **Intellectual Property**

### *Intellectual Property Strategy*

Our intellectual property strategy is to: (1) build our own intellectual property portfolio around our DPP technology and optical analyzers; (2) pursue licenses, trade secrets and know-how within the area of rapid point-of-care testing; and, (3) develop and acquire proprietary positions to certain reagents.

### *DPP Intellectual Property*

We have obtained patent coverage on our DPP technology, including numerous patents in the United States, China, Malaysia, Eurasia, Mexico, Singapore, Japan, Australia, Indonesia, Korea and the U.K. Additional patent applications on our DPP technology are pending in the United States, as well as in foreign countries such as Brazil, Canada, the European Union, India, Israel, and South Africa.

DPP technology provides us with freedom to operate, which enables us to develop tests with better performance and capabilities compared with tests built on traditional lateral flow platforms. These advantages have allowed us to enter into multiple technology collaborations based upon DPP technology, which we believe will provide new manufacturing and marketing opportunities. We have filed additional patent applications that we believe will strengthen the DPP intellectual property and have also filed for patent protection for certain other point-of-care technologies or applications thereof.

We have also obtained patent coverage on our optical-based analyzer technology in the United States, with patents pending in several foreign countries.

### *Trademarks*

We have filed and obtained trademarks for our products, including DPP, SURE CHECK, STAT-VIEW, and STAT-PAK, and NEXT GENERATION DPP, as well as for the SampleTainer and DPP Micro Reader, which are used with certain DPP products. Our trademarks have been obtained in the United States and certain other countries around the world.

### *Trade Secrets and Know-How*

We have developed a substantial body of trade secrets and know-how relating to the development and manufacture of lateral flow and DPP-based diagnostic tests, including the sourcing and optimization of materials for such tests, and methods to maximize sensitivity, speed-to-result, specificity, stability and reproducibility of our tests. We possess proprietary know-how to develop tests for multiple conditions using colored particles. Our formulations enable long shelf lives of our rapid HIV and other tests, providing us with an important competitive advantage.

### *Lateral Flow Technology and Reagent Licenses*

We seek licenses and/or redesigns of products that we believe to be in our best interests. Because of the costs and other negative consequences of time-consuming patent litigation, we often attempt to obtain a license on reasonable terms.

The peptides used in our rapid HIV tests were licensed to us by one or more third parties. We also have licensed the antigens used in other tests including our Syphilis, Tuberculosis, Leptospirosis, Leishmaniasis and Chagas tests, and we may enter into other license agreements. In prior years, we concluded license agreements related to intellectual property rights owned by the United States associated with HIV-1 and a sub-license agreement for HIV-2 with Bio-Rad Laboratories N.A., the exclusive licensee of the Pasteur Institute's HIV-2 intellectual property estate.

## Available Information

We are required to file annual, quarterly and current reports, proxy statements and other information with the U.S. Securities and Exchange Commission. The SEC maintains a website at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements and amendments to those documents filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, are also available free of charge on our website at [www.chembio.com](http://www.chembio.com) as soon as reasonably practicable after such reports are electronically filed with or furnished to the SEC.

Investors should note that we currently announce material information to our investors and others using filings with the SEC, press releases, public conference calls, webcasts or our website ([www.chembio.com](http://www.chembio.com)), including news and announcements regarding our financial performance, key personnel, our brands and our business strategy. Information that we post on our corporate website could be deemed material to investors. We encourage investors to review the information we post on these channels. We may from time to time update the list of channels we will use to communicate information that could be deemed material and will post information about any such change on [www.chembio.com](http://www.chembio.com). The information on our website is not, and shall not be deemed to be, a part hereof or incorporated into this or any of our other filings with the SEC.

## Corporate Information

Our principal executive offices are located at 555 Wireless Boulevard, Hauppauge, New York 11788. Our telephone number is (631) 924-1135. Our website address is [www.chembio.com](http://www.chembio.com). The information contained in, or accessible through, our corporate website does not constitute part of this report.

### ITEM 1A. RISK FACTORS

*You should carefully consider each of the following risk factors and all of the other information provided in this Form 10-K in considering whether to make or continue to hold an investment in our Common Stock. The risks described below are those we currently believe may materially affect us. An investment in our Company involves a high degree of risk, and should be considered only by persons who can afford the loss of their entire investment. Although we believe that these risks are the most important for you to consider, you should read this section in conjunction with our financial statements, the notes to those financial statements and our management's discussion and analysis of financial condition and results of operations included in our periodic reports and incorporated into this Form 10-K by reference.*

#### ***Risks Related to Our Business***

Important competitive factors for our products include price, quality, performance, ease of use, and customer service. A few large corporations produce a wide variety of diagnostic tests and other medical devices and equipment. A larger number of mid-size companies generally compete only in the diagnostic industry and a significant number of small companies produce only a few diagnostic products. As a result, the diagnostic test industry is highly fragmented and segmented.

More generally, the point-of-care diagnostics industry is undergoing rapid technological changes, with frequent introductions of new technology-driven products and services. As new technologies become introduced into the point-of-care diagnostic testing market, we may be required to commit considerable additional efforts, time and resources to enhance our current product portfolio or develop new products. We may not have the available time and resources to accomplish this, and many of our competitors have substantially greater financial and other resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers, which would materially harm our operating results.

Although we own DPP patents, lateral flow technology is still a competitive platform to DPP, and lateral flow technology has a lower cost of manufacture than DPP products. Although the DPP platform has shown improved sensitivity as compared with conventional lateral flow platforms in a number of studies, several factors go into the development and performance attributes of products. Therefore the ability of our products to successfully compete will depend on several other factors, including our having a patented rapid test platform technology that differentiates DPP from lateral flow as well as from other diagnostic platform technologies.

There can be no assurance that our DPP patents or our products incorporating those patents will not be challenged at some time in the future.

**Our Competitors may Develop and Commercialize More Effective or Successful Products, and Our Research, Development and Commercialization Efforts may not Succeed.**

We regularly commit substantial resources to research and development and the commercialization of our new or enhanced products. The research and development process usually takes a long time from inception to commercial launch. During each stage of this process there is a substantial risk that we will not achieve our goals in a timely fashion, or at all, and we may have to abandon a new or enhanced product in which we have invested substantial time and money. We expect to continue to incur significant costs related to our research and development activities.

Our products require significant development and investment prior to commercialization, including testing to demonstrate the products' performance capabilities, cost-effectiveness or other benefits. We must obtain regulatory approval before most products may be sold and additional development efforts on these products may be required before the products will be reviewed. However, regulatory authorities may not approve these products for commercial sale or may substantially delay or condition such approval. There may be little or no market for the product and entry into or development of new markets for our products may require an investment of substantial resources even if all applicable regulatory approvals are obtained. Furthermore, we may spend a significant amount of money on advertising or other activities and still fail to develop a market for the product. The success of our efforts may be affected by our ability to manufacture products in a cost-effective manner, whether we can obtain necessary intellectual property rights and protection and our ability to obtain reimbursement authorizations in the markets where the product will be sold. Therefore, if we fail to develop and gain commercial acceptance for our products, or if competitors develop more effective products or a greater number of successful new products, customers may decide not to purchase our products.

**Our Products may not be Able to Compete with New Diagnostic Products or Existing Products Developed by Well-Established Competitors, which would Negatively Affect Our Business.**

The diagnostic industry is focused on the testing of biological specimens in a laboratory or at the point-of-care and is highly competitive and rapidly changing. Important competitive factors for our products include price, quality, performance, ease of use, and customer service.

A few large corporations produce a wide variety of diagnostic tests and other medical devices and equipment. A larger number of mid-size companies generally compete only in the diagnostic industry and a significant number of small companies produce only a few diagnostic products. As a result, the diagnostic test industry is highly fragmented and segmented.

Some of our principal competitors may have considerably greater financial, technical and marketing resources than we do. Several companies produce diagnostic tests that compete directly with our testing product line, including Abbott (Alere), OraSure Technologies and Trinity Biotech. Some competitors offer broader product lines and may have greater name recognition than we have. These and other companies have or may have products incorporating molecular or other advanced technologies that over time could directly compete with our testing product line. We also face competition from certain of our distributors or former customers that have created or may decide to create, their own products to compete with ours.

As new products incorporating new technologies enter the market, our products may become obsolete or a competitor's products may be more effective or more effectively marketed and sold. If our competitors' products take market share from our products through more effective marketing or competitive pricing, our revenues, margins and operating results could be adversely affected. In addition, our revenues and operating results could be negatively impacted if some of our customers internally develop or acquire their own sample collection devices and use those devices in place of our products in order to reduce costs.

**Our Future Revenues and Operating Results may be Negatively Affected by Ongoing Consolidation in the Healthcare Industry.**

There has been a significant amount of consolidation in the healthcare industry. This consolidation has increased the competition to provide goods and services to customers. In addition, group purchasing organizations and integrated health delivery networks have served to concentrate purchasing decisions for some customers, which has also placed pricing pressure on medical device suppliers. Due to ongoing consolidation, there could be additional pressure on the prices of our products.

**The Company may not successfully manage the transition associated with the appointment of a new chief executive officer, which could have an adverse impact on the Company.**

On January 9, 2020, we announced that John J. Sperzel III had notified the board of directors of his resignation as our Chief Executive Officer and President and one of our directors. On the same day, we announced that we had appointed Gail S. Page, one of our directors, to serve as our Interim Chief Executive Officer. On March 12, 2020, we announced that we had appointed Richard Eberly as our Chief Executive Officer, effective as of March 16, 2020.

The effectiveness of our new Chief Executive Officer, and our senior leadership team generally, following these transitions and any further transition as a result of these changes, could have a significant impact on our results of operations. Management transition is often difficult and inherently causes some loss of institutional knowledge, which could negatively affect our results of operations and financial condition. Our ability to execute our business strategies may be adversely affected by the uncertainty associated with these transitions.

**Our Continued Growth Depends on Retaining Our Current Key Employees and Attracting Additional Qualified Personnel, and We may not be Able to do so.**

Our success depends to a large extent upon the skills and experience of our executive officers, sales, marketing, operations and scientific staff. We may not be able to attract or retain qualified employees due to the intense competition for qualified personnel among medical products businesses and academic and other research institutions, as well as to geographic considerations, our ability to offer competitive compensation and benefits, and other reasons.

If we are not able to attract and retain the necessary qualified personnel to accomplish our business objectives, we may experience constraints that will adversely affect our ability to effectively manufacture, sell and market our products to meet the demands of our customers and strategic partners in a timely fashion, or to support internal research and development programs.

We have entered into employment contracts with our Interim Chief Executive Officer, Gail S. Page; our incoming Chief Executive Officer, Richard Eberly, our Chief Science & Technology Officer, Javan Esfandiari, and our Chief Financial Officer, Neil Goldman. Due to the specific knowledge and experience of these executives regarding the industry, technology and market generally and to our company specifically, the loss of the services of any one of these executives could have a material adverse effect on us. We have not obtained a key man insurance policy on any officer other than Mr. Esfandiari.

**We may not generate the expected benefits of our acquisitions of opTricon GmbH or Orangelife Comercio e Industria Ltda. and the integration of the acquisitions could disrupt our ongoing business, distract our management and increase our expenses.**

We acquired opTricon GmbH, or opTricon, and Orangelife Comercio e Industria Ltda., or Orangelife, in November 2018 and November 2019, respectively, with the expectation that the acquisition will result in various benefits, including securing global commercial rights and reducing cost of goods. Achieving the anticipated benefits of either acquisition is subject to a number of uncertainties, including whether our business and the businesses of opTricon or Orangelife can be integrated in an efficient and effective manner. We cannot assure you that we will be able to accurately forecast the performance or ultimate impact of either the opTricon acquisition or the Orangelife acquisition.

The integration processes may take longer than anticipated and result in the loss of valuable employees, the incurrence of additional and unforeseen expenses, the disruption of our ongoing business, processes and systems, or inconsistencies in standards, controls, procedures, practices, policies and compensation arrangements, any of which could adversely affect our ability to achieve the anticipated benefits of the acquisitions. There may be increased risk due to integrating financial reporting and internal control systems. The integration processes are subject to a number of uncertainties, and no assurance can be given that the anticipated benefits, expense savings and synergies will be realized or, if realized, the timing of their realization. Failure to achieve these anticipated benefits could result in increased costs or decreases in the amount of expected revenues and could adversely affect our future business, financial condition, operating results and prospects.

We have incurred and will continue to incur non-recurring expenses in connection with the opTricon acquisition and the Orangelife acquisition, including legal, accounting and other expenses. Additional unanticipated costs may be incurred following consummation of the opTricon acquisition or the Orangelife acquisition in the course of the integration of the respective businesses into our business. We cannot be certain that the realization of efficiencies related to the integration of the two businesses will offset the transaction and integration costs in the near term, or at all, or any losses from undiscovered liabilities not covered by an indemnification from the sellers of opTricon or Orangelife.

**We may not Generate the Expected Benefits of Future Acquisitions or Investments, and they could Disrupt Our Ongoing Business, Distract Our Management, Increase Our Expenses and Negatively Affect Our Business.**

As a way for us to grow our business, we may pursue strategic acquisitions or investments. These activities, and their impact on our business, are subject to many risks, including the following: (i) the benefits expected to be derived from an acquisition or investment may not materialize and could be affected by numerous factors, such as regulatory developments, insurance reimbursement, our inexperience with new businesses or markets, general economic conditions and increased competition; (ii) we may be unable to successfully integrate an acquired company's personnel, assets, management, information technology systems, accounting policies and practices, products and/or technology into our business; (iii) we may not be able to accurately forecast the performance or ultimate impact of an acquired business; and (iv) an acquisition may result in the incurrence of unexpected expenses, stockholder lawsuits, the dilution of our earnings or our existing stockholders' percentage ownership, or potential losses from undiscovered liabilities not covered by an indemnification from the seller(s) of the acquired business.

If these factors occur, we may be unable to achieve all or a significant part of the benefits expected from an acquisition or investment. This may adversely affect our financial condition, results of operations and ability to grow our business or otherwise achieve our financial and strategic objectives.

**Third-Party Reimbursement Policies and Potential Cost Constraints could Negatively Affect Our Business.**

The list of our product end-users includes hospitals, physicians and other healthcare providers. If these end-users do not receive adequate reimbursement for the cost of our products from their patients' healthcare insurers or payors, the use of our products could be negatively impacted. Furthermore, the net sales of our products could also be adversely affected by changes in reimbursement policies of government or private healthcare payors.

Hospitals, physicians and other healthcare providers who purchase diagnostic products in the United States generally rely on third-party payors, such as private health insurance plans, Medicare and Medicaid, to reimburse all or part of the cost of the product. Due to the overall escalating cost of medical products and services, there is increased pressures on the healthcare industry, both foreign and domestic, to reduce the cost of products and services. Given the efforts to control and reduce healthcare costs in the United States, available levels of reimbursement may change for our existing products or products under development. Third-party reimbursement and coverage may not be available or adequate in either the United States or international markets, current reimbursement amounts may be decreased in the future and future legislation, and regulation or reimbursement policies of third-party payors, may reduce the demand for our products or our ability to sell our products on a profitable basis.

**To the Extent that We are Unable to Collect Our Outstanding Accounts Receivable, Our Operating Results could be Materially Harmed.**

There may be circumstances and timing that require us to accept payment terms, including delayed payment terms, from distributors or customers, which, if not satisfied, could cause financial losses.

We generally accept payment terms which require us to ship product before the contract price has been paid fully, and there also are circumstances pursuant to which we may accept further delayed payment terms pursuant to which we may continue to deliver product. To the extent that these circumstances result in significant accounts receivables and those accounts receivables are not paid on a timely basis, or are not paid at all, especially if concentrated in one or two customers, we could suffer financial losses.

**Ongoing Changes in Healthcare Regulation could Negatively Affect Our Revenues, Business and Financial Condition.**

There have been several proposed changes in the United States at the federal and state level for comprehensive reforms regarding the payment for, the availability of and reimbursement for healthcare services. These proposals have ranged from fundamentally changing federal and state healthcare reimbursement programs, including providing comprehensive healthcare coverage to the public under government-funded programs, to minor modifications to existing programs. One example is the Patient Protection and Affordable Care or the Affordable Care Act, the Federal healthcare reform law enacted in 2010.

Healthcare reform initiatives will continue to be proposed, and may reduce healthcare related funding in an effort. It is impossible to predict the ultimate content and timing of any healthcare reform legislation and its resulting impact on us. If significant reforms are made to the healthcare system in the United States, or in other jurisdictions, those reforms may increase our costs or otherwise negatively effect on our financial condition and results of operations.

In April 2017, the European Parliament passed the Medical Devices Regulation (Regulation 2017/745), which repeals and replaces the European Union Medical Devices Directive and the Active Implantable Medical Devices Directive. Unlike directives, which must be implemented into the national laws of the European Economic Area, which we refer to as the EEA, member States, the regulations would be directly applicable, i.e., without the need for adoption of EEA member State laws implementing them, in all EEA member States and are intended to eliminate current differences in the regulation of medical devices among EEA member States. The Medical Devices Regulation, among other things, is intended to establish a uniform, transparent, predictable and sustainable regulatory framework across the EEA for medical devices and ensure a high level of safety and health while supporting innovation. The Medical Devices Regulation will, however, only become fully applicable three years after publication (in May 2020). Once applicable, the Medical Devices Regulation will, among other things:

- strengthen the rules on placing devices on the market and reinforce surveillance once they are available;
- establish explicit provisions on manufacturers' responsibilities for the follow-up of the quality, performance and safety of devices placed on the market;
- improve the traceability of medical devices throughout the supply chain to the end-user or patient through a unique identification number;
- set up a central database to provide patients, healthcare professionals and the public with comprehensive information on products available in the EU; and
- strengthen rules for the assessment of certain high-risk devices, such as implants, which may have to undergo an additional check by experts before they are placed on the market.

Once applicable, the Medical Devices Regulation may impose increased compliance obligations for us to access the EU market.

**We Believe Our Success Depends in Part on the Continued Funding of, and Our Ability to Participate in, Large Testing Programs in the U.S. and Worldwide, the Funding of which may be Reduced or Discontinued or Otherwise be Unavailable to Us.**

We believe it to be in our best interests to meaningfully participate in large testing programs. Moreover many of these programs are funded by governments and other donors, and there can be no assurance that funding will not be reduced or completely discontinued. Participation in these programs also requires alignment and engagement with the many other participants in these programs, including WHO, CDC, the U.S. Agency for International Development, foreign governments and their agencies, non-governmental organizations, and HIV service organizations. If we are unsuccessful in our efforts to participate in these programs, our operating results could be materially harmed.

In December 2013 President Obama signed into law the PEPFAR Stewardship and Oversight Act, which is the most recent reauthorization of PEPFAR. However, unlike the 2008 PEPFAR authorization, which authorized approximately \$45 billion in funding, the new law did not authorize a specific dollar amount for funding.

**Developing Testing Guidelines could Negatively Affect Sales of Our Products.**

Government agencies may issue diagnostic testing guidelines or recommendations, which can alter the usage of our HIV testing products. New laws or guidelines, or changes to existing laws or guidelines, and the manner in which these new or changed laws and guidelines are interpreted and applied, could impact the degree to which our testing products are used. These developments could affect the frequency of testing, the number of people tested and whether the testing products are used broadly for screening large populations or in a more limited capacity. These factors could in turn affect the level of sales of our products and our results of operations.

## **Legislative and Other Regulatory Changes could have an Effect on Our Business.**

The current U.S. Presidential Administration has promised to repeal and replace the Affordable Care Act, expressed concerns with respect to existing trade agreements, and has indicated a desire to make other regulatory changes during his administration. Changes in regulatory or economic conditions or in the laws and policies governing foreign trade, taxes, manufacturing, and development in the United States could impact our business. Economic and regulatory changes could also affect foreign currency exchange rates which, in turn, could affect our reported financial results and our competitiveness on a worldwide basis.

## **Developments Related to the U.K.'s Referendum On Membership in the E.U. Could Adversely Affect Us.**

On June 23, 2016, the United Kingdom voted in favor of leaving the European Union, or E.U.. On January 24, 2020, the U.K. and the E.U. entered into a withdrawal agreement pursuant to which the U.K. formally left the E.U. on January 31, 2020, but will, for a transition period ending on December 31, 2020, maintain access to the E.U. single market and to the global trade deals negotiated by the E.U. on behalf of its members and remain subject to E.U. law. The ultimate impact of the "leave" vote will depend on the terms that are negotiated in relation to the U.K.'s future relationship with the E.U. "Brexit" could impair our ability to transact business in the U.K. and E.U. countries. Brexit has already and could continue to contribute to instability in the global financial markets. The long-term effects of Brexit will depend in part on any new trade agreements the U.K. makes to retain access to E.U. markets following the U.K.'s withdrawal transition period from the E.U. Negotiations of a trade agreement may be unsuccessful, and the U.K. may not reach agreement with the E.U. on the future terms of the U.K.'s relationship with the E.U.

Without an agreement, there will be a period of considerable uncertainty particularly in relation to the financial and banking markets and the regulation of our industry, including the regulatory approval process.

We expect that Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the U.K. determines which E.U. laws to replicate or replace. If the U.K. were to significantly alter its regulations affecting the pharmaceutical industry, we could face significant new costs relating to the development, manufacture, and marketing of our current and future products. It may also be time-consuming and expensive for us to alter our internal operations in order to comply with any new regulations.

Among other outcomes, Brexit could disrupt the free movement of goods, services and people between the U.K. and the E.U., and result in increased legal and regulatory complexities, as well as potential higher costs of conducting business in the U.K. and the E.U. In addition, changes to U.K. immigration policy as a result of Brexit could adversely affect our ability to retain talent for our European operations. Given the lack of comparable precedent, it is unclear what financial, trade, regulatory, and legal implications the final withdrawal of the U.K. from the E.U. would have and how such withdrawal would affect us. Any of these effects, and others we cannot anticipate, could negatively affect our business and financial condition.

## **We could be Exposed to Liability if We Experience Security Breaches or Other Disruptions, which could Harm Our Reputation and Business.**

We may be subject to cyber-attacks whereby computer hackers may attempt to access our computer systems or our third party IT service provider's systems and, if successful, misappropriate personal or confidential information. In addition, a contractor or other third party with whom we do business may attempt to circumvent our security measures or obtain such information, and may purposefully or inadvertently cause a breach involving sensitive information. We will continue to evaluate and implement additional protective measures to reduce the risk and detect cyber incidents, but cyber-attacks are becoming more sophisticated and frequent and the techniques used in such attacks change rapidly. Even though we take cyber-security measures that are continuously reviewed and updated, our information technology networks and infrastructure may still be vulnerable due to sophisticated attacks by hackers or breaches.

Even the most well protected IT networks, systems, and facilities remain potentially vulnerable because the techniques used in security breaches are continually evolving and generally are not recognized until launched against a target and, in fact, may not be detected. Any such compromise of our or our third party's IT service providers' data security and access, public disclosure, or loss of personal or confidential business information, could result in legal claims proceedings, liability under laws to protect, privacy of personal information, and regulatory penalties, disrupt our operations, require significant management attention and resources to remedy any damages that result, damage our reputation and customers willingness to transact business with us, any of which could adversely affect our business.

**Our Ability to Efficiently Operate Our Business is Reliant on Information Technology, and Any Material Failure, Inadequacy, Interruption or Security Breach of that Technology could Harm Our Business.**

We rely heavily on complex information technology systems across our operations and on the internet, including for management of inventory, invoices, purchase orders, shipping, interactions with our third-party logistics provider, revenue and expense accounting, consumer call support, online business, and various other processes and transactions. Our ability to effectively manage our business, coordinate the production, distribution and sale of our products, respond to customer inquiries, and ensure the timely and accurate recording and disclosure of financial information depends significantly on the reliability and capacity of these systems and the internet.

If any of the foregoing systems fails to operate effectively, problems with transitioning to upgraded or replacement systems, or disruptions in the operation of the internet, could cause delays in product sales and reduced efficiency of our operations. Significant expenditures could be required to fix any such problem.

**If there is an Increase in Demand for Our Products, it could Require Us to Expend Considerable Resources or Harm Our Customer Relationships if We are Unable to Meet that Demand.**

If there are significant or unexpected increases in the demand for our products, we may not be able to meet that demand without expending additional capital resources. This would increase our capital costs, which could negatively affect our earnings in the short term. In addition, new manufacturing equipment or facilities may require FDA, WHO, and other regulatory approvals before they can be used to manufacture our products. To the extent we are unable to obtain or are delayed in obtaining such approvals, our ability to meet the demand for our products could be adversely affected. Furthermore, our suppliers may be unable or unwilling to expend the necessary capital resources or otherwise expand their capacity, which could negatively affect our business.

Our business could be negatively affected if we or our suppliers are unable to develop necessary manufacturing capabilities in a timely manner. If we fail to increase production volumes in a cost effective manner or if we experience lower than anticipated yields or production problems as a result of changes that we or our suppliers make in our manufacturing processes to meet increased demand, we could experience shipment delays or interruptions and increased manufacturing costs, which could also have a material adverse effect on our revenues and profitability.

If there are unexpected increases in demand for our products, we may be required to obtain additional raw materials in order to manufacture products to meet the increase in demand. However, some raw materials require significant ordering lead time and some are currently obtained from a sole supplier or a limited group of suppliers. It is also possible that one or more of our suppliers may become unwilling or unable to deliver materials to us. Any shortfall in our supply of raw materials and components, or our inability to quickly and cost-effectively obtain alternative sources for this supply, could have a material adverse effect on our ability to meet increased demand for our products. This could negatively affect our total revenues or cost of sales and related profits.

If we are unable to meet customer demand for our products, it could also harm our relationships with our customers and impair our reputation within the industry. This, in turn, could have a material adverse effect on our business.

### ***Risks Related to Our Products***

#### **For Our Business to Succeed in the Future, Our Current and Future Products Must Receive Market Acceptance.**

Market acceptance and the timing of such acceptance, of our new products or technologies is necessary for our future success. To achieve market acceptance, we and our distributors will likely be required to undertake substantial efforts and spend significant funds to inform every one of the existence and perceived benefits of our products. We also may require government funding for the purchase of our products to help create market acceptance and expand the use of our products.

It may be difficult evaluate the market reaction to our products and our marketing efforts for new products may not be successful. The government funding we receive may be limited for new products. As such, there can be no assurance that any products will obtain significant market acceptance and fill the market need that is perceived to exist on a timely basis, or at all.

#### **We may not have Sufficient Resources to Effectively Introduce and Market Our Products, which could Materially Harm Our Operating Results.**

Introducing and achieving market acceptance for our new products will require substantial marketing efforts and will require us and/or our contract partners, sales agents, and/or distributors to make significant expenditures of time and money. In some instances we will be significantly or totally reliant on the marketing efforts and expenditures of our contract partners, sales agents, and distributors. If they do not have or commit the expertise and resources to effectively market the products that we manufacture, our operating results will be materially harmed.

#### **New Developments in Health Treatments and Non-Diagnostic Products may Reduce or Eliminate the Demand for Our Products.**

The development and commercialization of products outside of the diagnostics industry could adversely affect sales of our products. For example, the development of a safe and effective vaccine to HIV or treatments for other diseases or conditions that our products are designed to detect, could reduce or eventually eliminate the demand for our HIV or other diagnostic products and result in a loss of revenues.

#### **Sales Cycles for Our Products can be Lengthy, which can Cause Variability and Unpredictability in Our Business.**

Some of our products may require lengthy and unpredictable sales cycles, which makes it more difficult to accurately forecast revenues in a given period and may cause revenues and operating results to vary from period to period. Our products may involve sales to large public and private institutions which may require many levels of approval and may be dependent on economic or political conditions and the availability of grants or funding from government or public health agencies which can vary from period to period. There can be no assurance that purchases or funding from these agencies will occur or continue, especially if current negative economic conditions continue or intensify. As a result, we may expend considerable resources on unsuccessful sales efforts or we may not be able to complete transactions at all or on a schedule and in an amount consistent with our objectives.

### **We May Face Product Liability Claims for Injuries.**

The testing, manufacturing and marketing of medical diagnostic products involves an inherent risk of product liability claims. If we cannot successfully defend ourselves against product liability claims, we may incur substantial liabilities or be required to limit or cease sales of our products. We cannot be sure that we will not incur liabilities in excess of the policy limits of our existing product liability insurance coverage or that we will be able to continue to obtain adequate product liability insurance coverage in the future at an acceptable cost, or at all. In addition, a defect in the design or manufacture of our products could have a material adverse effect on our reputation in the industry and subject us to claims of liability for injury and otherwise. Any substantial underinsured loss resulting from such a claim could have a material adverse effect on our profitability, and the damage to our reputation in the industry could have a material adverse effect on our business.

### **Our Customers may not Adopt Rapid Point-of-Care Diagnostic Testing.**

Rapid point-of-care tests are beneficial because, among other things, they can be administered by healthcare providers in their own facilities or used by consumers at home without sending samples to central laboratories. But currently the majority of diagnostic tests used by physicians and other healthcare providers in the U.S. are provided by clinical reference laboratories and hospital-based laboratories. In some international markets, such as Europe, diagnostic testing is performed primarily by centralized laboratories. Future sales of our products will depend, in part, on our ability to expand market acceptance of rapid point-of-care testing and successfully compete against laboratory testing methods and products. However, we expect that clinical reference and other hospital-based laboratories will continue to compete vigorously against our rapid point-of-care products. Even if we can demonstrate that our products are more cost effective, save time, or have better performance or other benefits, physicians, other healthcare providers and consumers may resist changing to rapid point-of-care tests and instead may choose to obtain diagnostic results through laboratory tests. If we fail to achieve and expand market acceptance of our rapid point-of-care diagnostic tests with customers, it would have a negative effect on our future sales growth.

### **Customer Concentration Creates Risks for Our Business.**

A significant portion of our revenues each year comes from a few large customers. To the extent that such a large customer fails to meet its purchase commitments, changes its ordering patterns or business strategy, or otherwise reduces its purchases or stops purchasing our products, or if we experience difficulty in meeting the demand by these customers for our products, our revenues and results of operations could be adversely affected.

### **If Our Products do not Perform Properly, It may Affect Our Revenues, Stock Price and Reputation.**

Our products may not perform as expected. For example, a defect in one of our diagnostic products or a failure by a customer to follow proper testing procedures may cause the product to report inaccurate information. Identifying the root cause of a product performance or quality issue can be difficult and time consuming.

If our products do not to perform in accordance with the applicable label claims or otherwise in accordance with the expectations or needs of our customers, customers may switch to a competing product or otherwise stop using our products, and our revenues could be negatively affected. If this occurs, we may be required to implement holds or product recalls and incur warranty obligations. Furthermore, the poor performance by one or more of our products could have an adverse effect on our reputation, our continuing ability to sell products and the price of our Common Stock.

## **If We Expand Our International Presence, It may Increase Our Risks and Expose Our Business to Regulatory, Cultural or Other Challenges.**

We will continue to try to increase revenue derived from international sales of our products. There are several of factors that could adversely affect the performance of our business and/or cause us to incur substantially increased costs because of our international presence and sales, including: (i) uncertainty in the application of foreign laws and the interpretation of contracts with foreign parties; (ii) cultural and political differences that favor local competitors or make it difficult to effectively market, sell and gain acceptance of our products; (iii) exchange rates, currency fluctuations, tariffs and other barriers, extended payment terms and dependence on international distributors or representatives; (iv) trade protection measures, trade sanctions and import/export licensing requirements; (v) our inability to obtain or maintain regulatory approvals or registrations for our products; (vi) Economic conditions, political instability, the absence of available funding sources, terrorism, civil unrest, war and natural disasters in foreign countries; (vii) Reduced protection for, or enforcement of, our patents and other intellectual property rights in foreign countries; (viii) our inability to identify international distributors and negotiate acceptable terms for distribution agreements; and (ix) restrictions on our ability to repatriate investments and earnings from foreign operations.

Economic, cultural and political conditions and foreign regulatory requirements may slow or prevent the manufacture of our products in countries other than the United States. Interruption of the supply of our products could reduce revenues or cause us to incur significant additional expenses in finding an alternative source of supply. Foreign currency fluctuations and economic conditions in foreign countries could also increase the costs of manufacturing our products in foreign countries.

### *Financial, Economic and Financing Risks*

#### **We have incurred losses in recent years and we are uncertain about our future profitability.**

We incurred an operating loss every year from 2014 through 2019. Under our operating plans, we have made, and plan to continue to make, significant investments in our production capacity, including in expanding facilities and automating manufacturing, and in our sales and marketing, regulatory approval, and research and development activities. Our ability to achieve profitability and generate cash flow in the future will depend on our ability to increase sales of our existing products and to successfully introduce new and enhanced products into the marketplace, all while controlling and managing our expenses consistent with our operating plan.

If we are unable to increase our revenues and manage our expenses in accordance with our operating plan, our operating results would be harmed and we may not be able to generate the cash flow needed to fund the investments in our production capacity and other activities, we will be required to implement one or both of the following:

- We could reduce the level, or otherwise delay the timing, of the anticipated investments in our production capacity and other activities, which would likely curtail or delay the growth in our business contemplated by our operating plan and could impair or defer our ability to achieve profitability and generate cash flow.
- We could raise additional funds through public or private financings, strategic relationships, or other arrangements, to the extent funding would be available to us on acceptable terms or at all. If we succeed in raising additional funds through the issuance of equity or convertible securities, then the issuance could result in substantial dilution to existing stockholders. Furthermore, the holders of these new securities or debt may have rights, preferences and privileges senior to those of the holders of our Common Stock.

In such circumstances, we also would need to forego acquisition opportunities, which could impede our ability to grow our business.

## **Our Financial Results may Fluctuate.**

From quarter to quarter and year to year, our operating results can fluctuate, which could cause our growth or financial performance to fail to meet the expectations of investors and securities analysts. Sales to our distributors and other customers may not meet expectations because of lower than expected customer demand or other factors, including continued economic volatility and disruption, reduced governmental funding, and other circumstances described elsewhere in this report. A variety of factors could also contribute to the variability of our financial results, including infrequent, unusual or unexpected changes in revenues or costs.

Different products provide dissimilar contributions to our gross product margin. Accordingly, our operating results could also fluctuate and be negatively affected by the mix of products sold and the relative prices and gross product margin contribution of those products. Failure to achieve operating results consistent with the expectations of investors and securities analysts could adversely affect our reputation and the price of our Common Stock.

## **The failure to comply with the terms of our Credit Agreement and Guaranty could result in a default under its terms and, if uncured, could result in action against our pledged assets and dilution of our stockholders.**

On September 3, 2019, we entered into a Credit Agreement and Guaranty, or Credit Agreement, with Perceptive Credit Holdings II, LP, or Perceptive. Under the Credit Agreement, we received a \$20,000,000 senior secured term loan credit facility, which was drawn in full on September 4, 2019. In connection with the Credit Agreement, we issued a warrant to purchase up to 550,000 shares of our common stock. The credit agreement is secured by a first priority, perfected lien on substantially all of our property and assets, including our equity interests in our subsidiaries.

The Credit Agreement also contains covenants that restrict our ability to finance future operations or capital needs or to engage in other business activities. The Credit Agreement restricts our ability and the ability of our restricted subsidiaries to:

- incur, assume or guarantee additional Indebtedness (as defined in the Credit Agreement);
- repurchase capital stock;
- make other restricted payments including, without limitation, paying dividends and making investments;
- create liens;
- sell or otherwise dispose of assets, including capital stock of subsidiaries;
- enter into agreements that restrict dividends from subsidiaries;
- enter into mergers or consolidations; and
- enter into transactions with affiliates

In addition, the Credit Agreement also contain covenants requiring us and our subsidiaries to maintain cash and cash equivalents held in one or more accounts subject to the first priority perfected security interests of the lenders under the Credit Agreement of not less than \$3,000,000. The Credit Agreement also provides for specified quarterly minimum consolidated net revenue covenants of us and our subsidiaries for the trailing twelve-month period ended on each such calculation date during the term of the Credit Agreement. A breach of any of these covenants would result in a default under the Credit Agreement. If an event of default under our Credit Agreements occurs, Perceptive could elect to declare all amounts outstanding thereunder, together with accrued interest, to be immediately due and payable. If we were unable to pay such amounts, Perceptive could proceed against the collateral pledged to them. We have pledged our inventory, accounts receivable, cash, securities, other general intangibles and the capital stock of certain subsidiaries to the lenders. In such an event, we cannot assure you that we would have sufficient assets to pay amounts due under the Credit Agreement.

**Servicing our debt will require a significant amount of cash. Our ability to generate sufficient cash to service our debt depends on many factors beyond our control.**

Our ability to make payments on and to refinance our debt, to fund planned capital expenditures, and to maintain sufficient working capital depends on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. We cannot assure you that our business will generate sufficient cash flow from operations or from other sources in an amount sufficient to enable us to service our debt or to fund our other liquidity needs. In the year ended December 31, 2019, our operations used \$9.1 million in cash. If our cash flow and capital resources are insufficient to allow us to make scheduled payments on our debt, we may need seek additional capital or restructure or refinance all or a portion of our debt on or before the maturity thereof, any of which could have a material adverse effect on our business, financial condition or results of operations. We cannot assure you that, if needed, we would be able to refinance any of our debt on commercially reasonable terms or at all, or that the terms of that debt will allow any of the above alternative measures or that these measures would satisfy our scheduled debt service obligations. If we are unable to generate sufficient cash flow to repay or refinance our debt on favorable terms, it could significantly adversely affect our financial condition. Our ability to restructure or refinance our debt will depend on the condition of the capital markets and our financial condition. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. There can be no assurance that we will be able to obtain any financing when needed.

**Our Operating Results may be Negatively Affected by Changes in Foreign Currency Exchange Rates.**

In the past our exposure to foreign currency exchange rate risk has not been material. Nevertheless, sales of our products are subject to currency risks, since changes in the values of foreign currencies relative to the value of the U.S. dollar can render our products comparatively more expensive. The fluctuations in the exchange rate could negatively impact international sales of our products, as could changes in the general economic conditions.

The revenues and expenses of Chembio Diagnostics Malaysia, opTricon and Orangelife, one of our subsidiaries, are recorded in Malaysian Ringgit, in Euros and Brazilian Real, respectively. Revenues and expenses denominated in foreign currencies are translated into U.S. dollars for purposes of reporting our consolidated financial results. Our expectation is that the Chembio Diagnostics Malaysia, opTricon and Orangelife businesses will continue to grow and, consequently, our exposure to foreign currency exchange rates may grow as well.

Our foreign subsidiaries' revenues and expenses and the translation of their financial results into U.S. dollars may be negatively affected by fluctuations in the exchange rate. Favorable movement in exchange rates have benefited us in prior periods. However, where there are unfavorable currency exchange rate fluctuations, our consolidated financial statements could be negatively affected. Furthermore, fluctuations in exchange rates could affect year-to-year comparability of operating results. In the past, we have not generally entered into hedging instruments to manage our currency exchange rate risk, but we may need to do so in the future. However, our attempts to hedge against these risks may not be successful. If we are unable to successfully hedge against unfavorable foreign currency exchange rate movements, our consolidated financial results may be adversely impacted.

**We Operate in Countries where there is or may be Widespread Corruption.**

We have a policy in place prohibiting our employees, distributors and agents from engaging in corrupt business practices, including activities prohibited by the U.S. Foreign Corrupt Practices Act. Nevertheless, because we work through independent sales agents and distributors outside the United States, we do not have control over the day-to-day activities of such independent agents and distributors. In addition, in the donor-funded markets in Africa where we sell our products, there is significant oversight from PEPFAR, the Global Fund, and advisory committees comprised of technical experts concerning the development and establishment of national testing protocols. This is a process that includes an overall assessment of a product which includes extensive product performance evaluations including five active collaborations and manufacturer's quality systems, as well as price and delivery. In Brazil, where we operate our subsidiary Orangelife and have had numerous product collaborations with FIOCRUZ, the programs through which our products may be deployed are all funded by the Brazilian Ministry of Health. Although FIOCRUZ is affiliated with the Brazilian Ministry of Health, and is its sole customer, FIOCRUZ is not the exclusive supplier for the Ministry of Health. However, because each of our previous collaborations with FIOCRUZ incorporates a technology transfer aspect, we believe we have a competitive advantage versus other suppliers to the Brazilian Ministry of Health, assuming other aspects of our product offering through FIOCRUZ are otherwise competitive in comparison. We have no knowledge or reason to know of any activities by our employees, distributors or sales agents of any actions which could be in violation of the FCPA, although there can be no assurance of this.

Our subsidiary Chembio Diagnostics Malaysia Sdn. Bhd. is located in Malaysia. There have been numerous high-profile corruption cases, and corruption is one of the most problematic factors for doing business in Malaysia. While the Malaysian government has acknowledged the problem, it appears that endemic corruption is continuing and that market-based principles are not applied in cases involving individuals with high-level political access. To the extent bribery and similar practices continue to exist in Malaysia, U.S. companies such as ours, which are subject to U.S. laws making it illegal to pay bribes to foreign officials, may make us less competitive in winning business in Malaysia when competing with non-U.S. companies.

**Changes in Interpretation or Application of U.S. Generally Accepted Accounting Principles may Adversely Affect Our Operating Results.**

We prepare our financial statements to conform to U.S. generally accepted accounting principles. These principles are subject to interpretation by the Financial Accounting Standards Board, the American Institute of Certified Public Accountants, the Public Company Accounting Oversight Board, the Securities and Exchange Commission and various other regulatory or accounting bodies. A change in interpretations of, or our application of, these principles can have a significant effect on our reported results and may even affect our reporting of transactions completed before a change is announced. Additionally, as we are required to adopt new accounting standards, our methods of accounting for certain items may change, which could cause our results of operations to fluctuate from period to period. For example, upon adoption of Accounting Standards Codification (“ASC”) 606 Revenue from Contracts with Customers of the Financial Accounting Standards Board (“FASB”), we now recognize revenue upon transfer of control, which is generally at time of delivery. Under the previous accounting guidance, we recognized revenue upon acceptance when and if we had production responsibilities. If circumstances change over time or interpretation of the revenue recognition rules change, we could be required to adjust the timing of recognizing revenue and our financial results could suffer.

**We Base Our Estimates or Judgments Relating to Critical Accounting Policies on Assumptions that can Change or Prove to be Incorrect.**

Our financial statements have been prepared in accordance with accounting principles generally accepted in the United States and our discussion and analysis of financial condition and results of operations is based on such statements. The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. We continuously evaluate significant estimates used in preparing our financial statements, including those related to (i) revenue recognition; (ii) stock-based compensation; (iii) allowance for uncollectible accounts receivable; (iv) inventory reserves and obsolescence; (v) customer sales returns and allowances; (vi) contingencies; and (vii) income taxes, (viii) goodwill and intangibles, (ix) business acquisition, and (x) research and development costs.

Our estimates are based on historical experience and various other assumptions that we believe to be reasonable, as set forth in our discussion and analysis of financial condition and results of operations, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these and other estimates if our assumptions change or if actual circumstances differ from those in our assumptions. If our operating results fall below the expectations of securities analysts and investors, the price of our Common Stock may decline.

**Our Global Operations may be Adversely Effected by the Coronavirus Outbreak and Face Risks that could Impact our Business.**

A novel strain of coronavirus, COVID-19, originated in Wuhan, China, in December 2019. As of March 2020, the virus has spread globally, including to the United States, Malaysia, Germany and Brazil. Our business operations in those locations are subject to potential business interruptions arising from protective measures that may be taken by the respective governments, agencies or other governing bodies in each country. Business disruptions in other countries also could negatively affect the sources and availability of components and materials that are essential to the operation of our business. Extended periods of interruption to our U.S. or international operations due to the coronavirus outbreak could adversely impact the growth of our business, could cause us to cease or delay operations, and could prevent our customers from receiving shipments or processing payments.

The extent to which the coronavirus impacts our global business, sales and results of operations will depend on future developments, which are highly uncertain and cannot be predicted. This includes new information that may emerge concerning the severity of the coronavirus, the spread and proliferation of the coronavirus around the world, and the actions taken to contain the coronavirus or treat its impact, among others.

## **Our Business may be Negatively Affected by Terrorist Attacks or Natural Disasters.**

Terrorist attacks or natural disasters could cause economic instability. These events could negatively affect economic conditions both within and outside the United States and harm demand for our products. The operations of our customers and suppliers could be negatively impacted and eliminate, reduce or delay our customers' ability to purchase and use our products and our suppliers' ability to provide raw materials and finished products.

Our facilities, including some pieces of manufacturing equipment and our computer systems, may be difficult to replace. Various types of disasters, including fires, earthquakes, floods and acts of terrorism, may affect our facilities and computer systems. In the event our existing facilities or computer systems are affected by man-made or natural disasters, we may have difficulty operating our business and may be unable to manufacture products for sale or meet customer demands or sales projections. If our manufacturing operations were curtailed or shut down entirely, it would seriously harm our business.

### ***Risks Related to Intellectual Property***

#### **Our Success Depends on Our Ability to Protect Our Proprietary Technology. We Rely on Trade Secret Laws and Agreements with Our Key Employees and Other Third Parties to Protect Our Proprietary Rights, and We cannot be sure that these Laws or Agreements will Adequately Protect Our Rights.**

Our industry places considerable importance on obtaining patent, trademark and trade secret protection, as well as other intellectual property rights, for new technologies, products and processes. Our success depends, in part, on our ability to develop and maintain a strong intellectual property portfolio or obtain licenses to patents and technologies, both in the United States and in other countries. If we cannot continue to develop, obtain and protect intellectual property rights, our revenues and gross profits could be adversely affected. Moreover, our current and future licenses or other rights to patents and other technologies may not be adequate for the operation of our business.

As appropriate, we intend to file patent applications and obtain patent protection for our proprietary technology. These patent applications and patents will cover, as applicable, compositions of matter for our products, methods of making those products, methods of using those products and apparatuses relating to the use or manufacture of those products. However, there have been changes to the patent laws and proposed changes to the rules of the U.S. Patent and Trademark Office, which may impact our ability to protect our technology and enforce our intellectual property rights. For example, in 2011, the U.S. enacted sweeping changes to the U.S. patent system under the Leahy-Smith America Invents Act, including changes that would transition the U.S. from a "first-to-invent" system to a "first-to-file" system and alter the processes for challenging issued patents. These changes could increase the uncertainties and costs surrounding the prosecution of our patent applications and the enforcement or defense of our issued patents.

We believe that factors such as the technological and creative skills of our personnel, strategic relationships, new product developments, frequent product enhancements and name recognition are essential to our success. All our management personnel are bound by non-disclosure agreements. If personnel leave our employment, in some cases we would be required to protect our intellectual property rights pursuant to common law theories which may be less protective than provisions of employment, non-competition or non-disclosure agreements.

We seek to protect our proprietary products under trade secret and copyright laws, enter into license agreements for various materials and methods employed in our products, and enter into strategic relationships for distribution of the products. These strategies afford only limited protection. We currently have some foreign patents issued, and we are seeking additional patent protection in several other foreign jurisdictions for our DPP and optical technology. We have licenses to reagents (antigens and peptides) used in several of our products and products under development. Despite our efforts to protect our proprietary assets, and respect the intellectual property rights of others, we participate in several markets where intellectual property rights protections are of little or no value. This can place our products and our company at a competitive disadvantage.

Moreover, issued patents remain in effect for a fixed period and after expiration will not provide protection of the inventions they cover. Once our patents expire, we may be faced with increased competition, which could reduce our revenues. We may also not be able to successfully protect our rights to unpatented trade secrets and know-how.

To facilitate development and commercialization of a proprietary technology base, we may need to obtain additional licenses to patents or other proprietary rights from other parties. Obtaining and maintaining these licenses, which may not be available, may require the payment of up-front fees and royalties. In addition, if we are unable to obtain these types of licenses, our product development and commercialization efforts may be delayed or precluded.

**Any Future Intellectual Property Disputes could Require Significant Resource and Limit or Eliminate Our Ability to Sell Products or Use Certain Technologies.**

We may be required to expend substantial resources in asserting or protecting our intellectual property rights, or in defending suits related to intellectual property rights. We may seek to enforce our patents or other intellectual property rights through litigation. Such litigation is prevalent and is expected to continue. In our business, there are a large number of patents and patent applications similar to our products, and additional patents may be issued to third parties relating to our product areas. We, our customers or our suppliers may be sued for infringement of patents or misappropriation of other intellectual property rights with respect to one or more of our products. We may also have disputes with parties that license patents to us if we believe the license is no longer needed for our products or the licensed patents are no longer valid or enforceable.

There are a large number of patents in our industry, and the claims of these patents appear to overlap in many cases. Therefore there is a significant amount of uncertainty regarding the extent of patent protection and infringement. Companies may have pending patent applications, which are typically confidential for the first eighteen months following filing that cover technologies we incorporate in our products. Accordingly, we may be subjected to substantial damages for past infringement or be required to modify our products or stop selling them if it is ultimately determined that our products infringe a third party's proprietary rights. In addition, governmental agencies could commence investigations or criminal proceedings against our employees or us relating to claims of misuse or misappropriation of another party's proprietary rights.

If we are involved in litigation or other legal proceedings with respect to patents or other intellectual property and proprietary technology, it could adversely affect our revenues, results of operations, market share and business because (1) it could consume a substantial portion of managerial and financial resources; (2) its outcome would be uncertain and a court may find that our patents are invalid or unenforceable in response to claims by another party or that the third-party patent claims are valid and infringed by our products; (3) the pendency of any litigation may in and of itself cause our distributors and customers to reduce or terminate purchases of our products; (4) a court could award a preliminary and/or permanent injunction, which would prevent us from selling our current or future products; and (5) an adverse outcome could subject us to the loss of the protection of our patents or to liability in the form of past royalty payments, penalties, reimbursement of litigation costs and legal fees, special and punitive damages, or future royalty payments, any of which could significantly affect our future earnings.

Under certain contracts with third parties, we may indemnify the other party if our products or activities have actually or allegedly infringed upon, misappropriated or misused another party's proprietary rights. Furthermore, our products may contain technology provided to us by third parties, and we may be unable to determine in advance whether such technology infringes the intellectual property rights of a third party. These other parties may also not be required or financially able to indemnify us in the event that an infringement or misappropriation claim is asserted against us.

There may also be other types of disputes that we become involved in regarding intellectual property rights, including state, federal or foreign court litigation, and patent interference, patent reissue, patent reexamination, or trademark opposition proceedings in the United States Patent and Trademark Office. Opposition or revocation proceedings could be instituted in a foreign patent office as well. These proceedings permit certain persons to challenge the validity of a patent on the grounds that it was known from the prior art. The filing of such proceedings, or the issuance of an adverse decision in such proceedings, could result in the loss of valuable patent rights that could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

## **Risks Related to Our Third Party Collaborators**

### **Our Use of Third-Party Suppliers, some of which may Constitute Our Sole Supply Source, for Certain Important Product Components and Materials Presents Risks that Could Have Negative Consequences for Our Business.**

We purchase certain HIV antigens, a syphilis antigen, the nitrocellulose, and certain other critical components used in our STAT-PAK, STAT-VIEW, SURE CHECK and DPP product lines from a sole or limited number of sources. If for any reason these suppliers become unwilling or unable to supply our antigen, nitrocellulose, or other critical component needs, we believe that alternative supplies could be obtained at a competitive cost. However, a change in any of the antigens, nitrocellulose or other critical components used in our products would require additional development work and approval by the FDA and other regulatory agencies. In addition, it may be difficult to find such an alternate supply source in a reasonable time period or on commercially reasonable terms, if at all. As a result, the termination or limitation of our relationship with one or more of these suppliers could require significant time to complete, increase our costs, and disrupt or discontinue our ability to manufacture and sell the affected products.

With some of these suppliers, we do not have long-term agreements and instead purchase components and materials through a purchase order process. As a result, these suppliers may stop supplying us components and materials, limit the allocation of supply and equipment to us due to increased industry demand, or significantly increase their prices at any time with little or no advance notice. Our reliance on a limited number of suppliers could also result in delivery problems, reduced control over product pricing and quality, and our inability to identify and qualify another supplier in a timely manner.

Moreover, some of these suppliers may experience financial difficulties that could prevent them from supplying us with components or subassemblies used in the design and manufacture of our products. In addition, these suppliers may experience manufacturing delays or shut downs due to circumstances beyond their control, such as labor issues, political unrest or natural disasters.

Any supply deficiencies could materially and adversely affect our ability to fulfill customer orders and our results of operations. The availability of critical components and materials from sole- or limited source suppliers could reduce our control over pricing, quality and timely delivery, increase our costs, could disrupt our ability to manufacture and sell, and preclude us from manufacturing and selling, certain of our products into one or more markets. Any such event could have a material adverse effect on our results of operations, cash flow and business.

### **We May Work with Strategic Collaborators to Assist in Developing and Commercializing Our Products, which could Limit Rights We Receive from the Collaborations and Exposes Us to Other Risks Outside Our Control.**

Some business opportunities that require a technology controlled by a third party, a significant level of investment for development and commercialization or a distribution network beyond our existing sales force may necessitate involving one or more strategic collaborators. As part of our strategy for development and commercialization of our products, we may enter into arrangements with distributors or other third-parties. Relying on such collaborative relationships could be risky to our business for a number of reasons, including: (i) we may be required to transfer material rights to such strategic collaborators, licensees and others; (ii) our collaborators may not obtain regulatory approvals necessary to continue the collaborations in a timely manner; (iii) our collaborators may decide to terminate our collaborative arrangement or become insolvent; (iv) our collaborators may develop technologies or components competitive with our products; (v) disagreements with collaborators could result in the termination of the relationship or litigation; and (vi) we may not be able to agree to future collaborative arrangements, or renewals of existing collaborative agreements, on acceptable terms or at all.

We expect our collaborators will have an economic motivation to succeed in performing their contractual responsibilities under our agreements, there is no assurance that they will do so. Due to our reliance on strategic agreements, it can make it difficult to accurately forecast our future revenues and operating results.

**Our Ability to Grow Our Business will be Limited if We Fail to Maintain Existing Distribution Channels or Develop New Distribution Channels.**

We collaborate with laboratories, diagnostic companies and distributors in order to sell our products. The sale of our products depends in large part on our ability to sell products to these customers and on the marketing and distribution abilities of the companies with which we collaborate and work with.

By relying on distributors or third-parties to market and sell our products could negatively impact our business for various reasons, including: (i) we may not be able to find suitable distributors for our products on satisfactory terms, or at all; (ii) agreements with distributors may prematurely terminate or may result in litigation between the parties; (iii) our distributors or other customers may not fulfill their contractual obligations and distribute our products in the manner or at the levels we expect; (iv) our distributors may prioritize their own private label products that compete with our products; (v) Our existing distributor relationships or contracts may preclude or limit us from entering into arrangements with other distributors; and (vi) we may not be able to negotiate new or renew existing distribution agreements on acceptable terms, or at all.

We will try to maintain and expand our business with distributors and customers and make every effort to require that they fulfill their contractual obligations, but there can be no assurance that such companies will do so or that new distribution channels will be available on satisfactory terms. If we are unable to do so, our business will be negatively impacted.

**Our U.S. Government Contracts Require Compliance with Numerous Laws and Increases Our Risk and Liability.**

We are currently receiving funding from the U.S. government related to DPP Zika, and our growth strategy targets sales to U.S. government entities. As a result of our U.S. government funding and potential product sales to the U.S. government, we must comply with laws and regulations relating to the award, administration and performance of U.S. government contracts. U.S. government contracts typically contain a number of extraordinary provisions that would not typically be found in commercial contracts and which may create a disadvantage and additional risks to us as compared to competitors that do not rely on government contracts. As a U.S. government contractor, we are subject to increased risks of investigation, criminal prosecution and other legal actions and liabilities to which purely private sector companies are not. The results of any such actions could adversely impact our business and have an adverse effect on our consolidated financial performance.

A violation of specific laws and regulations could result in the imposition of fines and penalties or the termination of our contracts, as well as suspension or debarment. The suspension or debarment in any particular case may be limited to the facility, contract or subsidiary involved in the violation or could be applied to our entire enterprise in certain severe circumstances. Even a narrow scope suspension or debarment could result in negative publicity that could adversely affect our ability to renew contracts and to secure new contracts, both with the U.S. government and private customers, which could materially and adversely affect our business and results of operations. Fines and penalties could be imposed for failing to follow procurement integrity and bidding rules, employing improper billing practices or otherwise failing to follow rules relating to billing on cost-plus contracts, receiving or paying kickbacks, or filing false claims, among other potential violations. In addition, we could suffer serious reputational harm and the value of our Common Stock could be negatively affected if allegations of impropriety related to such contracts are made against us.

**Our U.S. Government Contracts are Subject to Future Funding and the Government's Choice to Exercise Options, and may be Terminated at the Government's Convenience.**

Our contracts with the U.S. government are subject to future funding and are subject to the right of the government to terminate the contracts in whole or in part for its convenience. There is pressure for the U.S. government to reduce spending. The non-appropriation of funds or the termination for the government's convenience of our contracts could negatively affect our financial results. If levels of U.S. government expenditures and authorizations for emerging diseases decrease or shift to programs in areas where we do not offer products or are not developing product candidates, or if the U.S. government otherwise declines to exercise its options under its contracts with us, our business, revenues and other operating results would suffer.

***Risks Related to Regulations***

**Because We may not be Able to Obtain or Maintain the Necessary Regulatory Approvals for Some of Our Products, We may not Generate Revenues in the Amounts We Expect, or in the Amounts Necessary to Continue Our Business. Our Existing Products as well as Our Manufacturing Facility Must Meet Quality Standards and are Subject to Inspection by a Number of Domestic Regulatory and Other Governmental and Non-Governmental Agencies.**

All of our proposed and existing products are subject to regulation in the U.S. by the U.S. Food and Drug Administration, the U.S. Department of Agriculture and/or other domestic and international governmental, public health agencies, regulatory bodies or non-governmental organizations. In particular, we are subject to strict governmental controls on the development, manufacture, labeling, distribution and marketing of our products. The process of obtaining required approvals or clearances varies according to the nature of, and uses for, a specific product. These processes can involve lengthy and detailed laboratory testing, human or animal clinical trials, sampling activities, and other costly, time-consuming procedures. The submission of an application to a regulatory authority does not guarantee that the authority will grant an approval or clearance for that product. Each authority may impose its own requirements and can delay or refuse to grant approval or clearance, even though a product has been approved in another country.

The time taken to obtain approval or clearance varies depending on the nature of the application and may result in the passage of a significant period of time from the date of submission of the application. Delays in the approval or clearance processes increase the risk that we will not succeed in introducing or selling the subject products, and we may determine to devote our resources to different products.

Changes in government regulations could increase our costs and could require us to undergo additional trials or procedures, or could make it impractical or impossible for us to market our products for certain uses, in certain markets, or at all.

Changes in government regulations may adversely affect our financial condition and results of operations because we may have to incur additional expenses if we are required to change or implement new testing, manufacturing and control procedures. If we are required to devote resources to develop such new procedures, we may not have sufficient resources to devote to research and development, marketing, or other activities that are critical to our business.

We can manufacture and sell our products only if we comply with regulations and quality standards established by government agencies such as the FDA and the U.S. Department of Agriculture as well as by non-governmental organizations such as the ISO and WHO. We have implemented a quality control system that is intended to comply with applicable regulations. Although FDA approval is not required for the export of our products, there are export regulations promulgated by the FDA that specifically relate to the export of our products that require compliance with FDA QSRs and that also require meeting certain documentary requirements regarding the approval of the product in export markets.

**If We do not Comply with FDA or Other Regulatory Requirements, We may be Required to Suspend Production or Sale of Our Products or Institute a Recall, which could Result in Higher Costs and a Loss of Revenues.**

Regulations of the FDA and other federal, state and foreign regulatory agencies have significant effects on many aspects of our operations, and the operations of our suppliers and distributors, including packaging, labeling, manufacturing, adverse event reporting, recalls, distribution, storage, advertising, promotion and record keeping. We are subject to routine inspection by the FDA and other agencies to determine compliance with QSRs and FDA regulatory requirements in the United States and other applicable regulations worldwide, including but not limited to ISO standards. We believe that our facilities and procedures are in material compliance with the FDA requirements and ISO standards, but the regulations may be unclear and are subject to change, and we cannot be sure that the FDA or other regulators will agree with our compliance with these requirements. The FDA and foreign regulatory agencies may require post-marketing testing and surveillance to monitor the performance of approved or cleared products or impose conditions on any product clearances or approvals that could restrict the distribution or commercial applications of those products. Regulatory agencies may impose restrictions on our or our distributors' advertising and promotional activities or preclude these activities altogether if a noncompliance is believed to exist. In addition, the subsequent discovery of previously unknown problems with a product may result in restrictions on the product or additional regulatory actions, including withdrawal of the product from the market.

Our inability to comply with the applicable requirements of the FDA can result in, among other things, 483 notices, warning letters, administrative or judicially imposed sanctions such as injunctions, recall or seizure of products, civil penalties, withdrawal of product registrations, total or partial suspension of production, refusal to grant premarket clearance for devices, a determination that a device is not approvable, marketing clearances or approvals, or criminal prosecution. For example, in February 2020, we received a "not approvable" letter from the U.S. Food and Drug Administration with respect to our premarket approval submission on our DPP HIV-Syphilis multiplex test for commercial use in the United States. The ability of our suppliers to supply critical components or materials and of our distributors to sell our products could also be adversely affected if their operations are determined to be out of compliance. Such actions by the FDA and other regulatory bodies could adversely affect our revenues, costs and results of operations.

We must frequently make judgment decisions with respect to compliance with applicable laws and regulations. If regulators subsequently disagree with how we have sought to comply with these regulations, we could be subjected to substantial civil and criminal penalties, as well as product recall, seizure or injunction with respect to the sale of our products. Our reputation could be substantially impaired if we are assessed any civil and criminal penalties and limit our ability to manufacture and market our products which could have a material adverse effect on our business.

**Our Inability to Respond to Changes in Regulatory Requirements could Adversely Affect Our Business.**

We believe that our products and procedures are in material compliance with all applicable FDA regulations, ISO requirements, and other applicable regulatory requirements, but the regulations regarding the manufacture and sale of our products, the QSR and ISO requirements, and other requirements may be unclear and are subject to change. Newly promulgated regulations could require changes to our products, necessitate additional clinical trials or procedures, or make it impractical or impossible for us to market our products for certain uses, in certain markets, or at all. The FDA and other regulatory authorities also have the ability to change the requirements for obtaining product approval and/or impose new or additional requirements as part of the approval process. These changes or new or additional requirements may occur after the completion of substantial clinical work and other costly development activities. The implementation of such changes or new or additional requirements may result in additional clinical trials and substantial additional costs and could delay or make it more difficult or complicated to obtain approvals and sell our products. In addition, the FDA may revoke an Emergency Use Authorization under which our products are sold, where it is determined that the underlying health emergency no longer exists or warrants such authorization. Such revocation would preclude the sale of our affected products unless and until a further regulatory approval or authorization is obtained. We cannot predict the effect, if any, that these changes might have on our business, financial condition or results of operations.

## **Demand for Our Products may be Affected by FDA Regulation of Laboratory-Developed Tests and Genetic Testing.**

Regulatory responsibility over instruments, test kits, reagents and other devices used to perform diagnostic testing by clinical laboratories is covered by the FDA. The FDA has previously taken the position that it has regulatory authority over laboratory-developed tests, or LDTs, but has exercised enforcement discretion by not regulating most LDTs performed by high complexity CLIA-certified laboratories. LDTs are tests designed, developed, and performed in-house by a laboratory. These laboratories are subject to CLIA regulation but such laboratories have previously not been subject to regulation by FDA under the agency's medical device requirements.

However, the FDA has announced that it would begin regulating LDTs, and in October 2014 the FDA issued proposed guidance on the regulation of LDTs for public comment. But, on November 18, 2016, the FDA announced that it would not finalize the proposed guidance prior to the end of the Obama administration. On January 13, 2017, the FDA released a discussion paper synthesizing public comments on the 2014 draft guidance documents and outlining a possible approach to regulation of LDTs. The discussion paper has no legal status and does not represent a final version of the LDT draft guidance documents. We cannot predict what policies the Trump administration will adopt with respect to LDTs. If the FDA increases regulation of LDTs, it could make it more difficult for laboratories and other customers to continue offering LDTs that involve genetic or molecular testing. This, in turn, could reduce demand for our products and adversely impact our revenues.

## **In Addition to FDA Requirements, We Are Subject to Several Government Regulations, Compliance with which could Increase Our Costs and Affect Our Operations.**

In addition to the FDA regulations previously described, laws and regulations in some states may restrict our ability to sell products in those states.

We must comply with numerous laws related to safe working conditions, environmental protection, disposal of hazardous substances, fire hazard control, manufacturing practices and labor or employment practices. Compliance with these laws or any new or changed laws regulating our business could result in substantial costs. Due to the number of laws and regulations governing our industry, and the actions of a number of government agencies that could affect our operations, it is impossible to reliably predict the full nature and impact of these laws and regulations. To the extent the costs and procedures associated with complying with these laws and requirements are substantial or it is determined that we do not comply, our business and results of operations could be adversely affected.

## **We may Incur Additional Costs if We do not Comply with Privacy, Security and Breach Notification Regulations.**

We believe that we are not a covered entity nor a business associate of a covered entity and are not responsible for complying with the Health Insurance Portability and Accountability Act of 1996, or HIPAA. Even though we likely are not a covered entity under HIPAA, we do have in place administrative, technical and physical safeguards to protect the privacy and security of consumers' personal information.] We are required to comply with varying state privacy, security and breach reporting laws. If we fail to comply with existing or new laws and regulations related to properly transferring data containing consumers' personal information, we could be subject to monetary fines, civil penalties or criminal sanctions. Also, there are other federal and state laws that protect the privacy and security of consumers' personal information, and we may be subject to enforcement by various governmental authorities and courts resulting in complex compliance issues. We could incur damages under state laws pursuant to an action brought by a private party for the wrongful use or disclosure of consumers' personal information.

### **Failure to Comply With Recent European Data Protection Requirements could Increase Our Costs.**

The EU has adopted a comprehensive overhaul of its data protection regime from the prior national legislative approach to a single European Economic Area Privacy Regulation called the General Data Protection Regulation, or GDPR, which came into effect on May 25, 2018. The new EU data protection regime extends the scope of the EU data protection law to all foreign companies processing data of EU residents. It imposes a strict data protection compliance regime with severe penalties of up to the greater of 4% of worldwide turnover and €20 million and includes new rights such as the “portability” of personal data. Although the GDPR will apply across the EU without a need for local implementing legislation, as had been the case under the prior data protection regime, local data protection authorities will still have the ability to interpret the GDPR, which has the potential to create inconsistencies on a country-by-country basis. We are evaluating these new requirements and implementing a plan to ensure compliance. Complying with the enhanced obligations imposed by the GDPR may result in significant costs to our business and require us to amend certain of our business practices. Further, we have no assurances that violations will not occur, particularly given the complexity of the GDPR, as well as the uncertainties that accompany new, comprehensive legislation.

### **If We are not Able to Manufacture Products in Accordance with Applicable Requirements, It could Adversely Affect Our Business.**

Our products must meet detailed specifications, performance standards and quality requirements. As a result, our products and the materials used in their manufacture or assembly undergo regular inspections and quality testing. Factors such as defective materials or processes, mechanical failures, human errors, environmental conditions, changes in materials or production methods, and other events or conditions could cause our products or the materials used to produce or assemble our products to fail inspections and quality testing or otherwise not perform in accordance with our label claims or the expectations of our customers.

If we are not able to meet the applicable specifications, performance standards, quality requirements or customer expectations could adversely affect our ability to manufacture and sell our products or comply with regulatory requirements. These events could, in turn, adversely affect our revenues and results of operations.

### **Healthcare Fraud and Abuse Laws Could Adversely Affect Our Business and Results of Operations.**

There are various federal and state laws targeting fraud and abuse in the healthcare industry to which we are subject, including anti-kickback laws, laws constraining the sales, false claims laws, marketing and promotion of medical devices by limiting the kinds of financial arrangements that manufacturers of these products may enter into with physicians, hospitals, laboratories and other potential purchasers of medical devices. There are other laws we are subject to that require us to report certain transactions between it and healthcare professionals. Violations of these laws are punishable by criminal or civil sanctions, including substantial fines, imprisonment and exclusion from participation in government healthcare programs. Many of the existing requirements are new and have not been definitively interpreted by state authorities or courts, and available guidance is limited. We could face enforcement action and fines and other penalties, and could receive adverse publicity, unless and until we are in full compliance with these laws, all of which could materially harm us. Furthermore, changes in or evolving interpretations of these laws, regulations, or administrative or judicial interpretations, may require us to change our business practices or subject our business practices to legal challenges, which could have a material adverse effect on our business, financial condition and results of operations.

## **Our Compliance with Regulations Governing Public Companies is Complex and Expensive.**

Public companies are subject to various laws and regulations, which have increased the scope, complexity and cost of corporate governance, reporting and disclosure practices. For example, we are subject to the Sarbanes-Oxley Act of 2002, The Dodd-Frank Wall Street Reform and Consumer Protection Act and the requirements of The NASDAQ Global Market. The implementation of certain aspects of these laws and regulations has required and will continue to require substantial management time and oversight and may require us to incur significant additional accounting and legal costs. We continually review changes with respect to new and proposed rules and cannot predict or estimate the amount of additional costs, and the timing of such costs, we may incur. There are several interpretations of these laws and regulations, in many cases due to their lack of specificity, and as a result, their application in practice may change as new guidance is provided by regulatory and governing bodies. This may result in continuing uncertainty regarding compliance matters and higher costs. We are committed to maintaining high standards of corporate governance and public disclosure, but if we fail to comply with any of these requirements, legal proceedings may be initiated against us, which may adversely affect our business.

### ***Risks Related to Our Common Stock***

#### **Our Common Stock has Limited Liquidity, and Investors may not be Able to Sell as Much Stock as They Want at Prevailing Market Prices or at all.**

The liquidity of our Common Stock depends on several factors, including but not limited to our financial results and overall market conditions, so it is not possible to predict whether this level of liquidity will continue, be sustained, or decrease. Decreased trading volume in our stock would make it more difficult for investors to sell their shares in the public market at any given time at prevailing prices. Our management and larger stockholders exercise significant control over our company.

#### **The Price of Our Common Stock could Continue to be Volatile.**

The price of our Common Stock has been volatile and may be volatile in the future. The following factors, among others, could have a significant impact on the market for our Common Stock: (1) the performance of our business; (2) clinical results with respect to our products or those of our competitors; (3) the gain or loss of significant contracts and availability of funding for the purchase of our products; (4) actions undertaken by the Congress or the Presidential Administration; (5) changes in our relations with our key customers, distributors or suppliers; (6) developments in patent or other proprietary rights; (7) litigation or threatened litigation; (8) general market and economic conditions; (9) the relatively low trading volume for our Common Stock; (10) changes in competition; (11) Complaints or concerns about the performance or safety of our products and publicity about those issues, including publicity expressed through social media or otherwise over the internet; (12) failure to achieve, or changes in, financial estimates by securities analysts and comments or opinions about us by securities analysts or major stockholders; (13) announcement of regulatory or enforcement actions by the FDA or other agencies against us, our products or our customers; (14) changes in our operating results; and (15) terrorist attacks, civil unrest, war and national disasters.

Overall, the stock market has experienced price and volume fluctuations that have affected the market price of our Common Stock, as well as the stock of many other similar companies. Such price fluctuations are generally unrelated to the operating performance of the specific companies whose stock is affected.

After the volatility in the market price of a company's stock, class action litigation has occurred against the issuing company. If we were subject to this type of litigation in the future, we could incur substantial costs and the attention and resources of our management could be diverted, each of which could have a material adverse effect on our revenue and earnings. Any adverse determination in this type of litigation could also subject us to significant liabilities.

#### **Any Future Issuances of Shares of Our Common Stock by Us Could Harm the Price of Our Common Stock and Our Ability to Raise Funds in New Equity Offerings.**

Any future sales of a substantial number of our shares of Common Stock or other equity-related securities, or the perception that such sales may occur, could adversely affect the price of our Common Stock, and could impair our ability to raise capital through future offerings of equity or equity-related securities.

## **Our Management and Larger Stockholders Exercise Significant Control Over Us.**

As of December 31, 2019, 25.5% of our outstanding common stock was beneficially owned by our executive officers, directors and 5% stockholders including three large investors that beneficially own 21%, of our outstanding common stock. For the foreseeable future, and assuming these ownership percentages continue to apply, to the extent that these parties vote similarly, they may be able to exercise significant control over many matters requiring approval by the board of directors or our stockholders. As a result, they may be able to:

- control the composition of our board of directors;
- control our management and policies;
- determine the outcome of significant corporate transactions, including changes in control that may be beneficial to stockholders; and,
- act in each of their own interests, which may conflict with or differ from the interests of each other or the interests of the other stockholders.

## **Sales of Our Common Stock by Existing Stockholders, Executive Officers or Directors could Depress the Market Price of Our Common Stock.**

If our existing stockholders, officers or directors sell our Common Stock in the public market, or the perception that such sales may occur, it could negatively affect the price of our Common Stock. We are unable to estimate the number of shares of our Common Stock that may actually be resold in the public market since this will depend on the market price for our Common Stock, the individual circumstances of the sellers and other factors.

Institutional stockholders own significant amounts of our Common Stock. If one or more of these stockholders sell large portions of their holdings in a relatively short time, the prevailing price of our Common Stock could be negatively affected. In addition, it is possible that one or more of our executive officers or non-employee members of our Board of Directors could sell shares of our Common Stock during an open trading window. These transactions and the perceived reasons for these transactions could have a negative effect on the prevailing market price of our Common Stock.

## **We do not Intend to Pay Cash Dividends on Our Common Stock.**

We do not expect to pay any cash dividends on our Common Stock and currently intend to retain our earnings, if any, to finance the expansion of our business. Therefore, the success of an investment in our Common Stock will depend entirely upon any future increase in value of our Common Stock. There is no guarantee that our Common Stock will gain value or even maintain the price at which investors purchased their shares.

## **ITEM 2. PROPERTIES**

Our U.S. manufacturing, administrative offices, and research facilities are located in leased space in Medford, New York, pursuant to a lease covering approximately 39,650 square feet and expiring on June 30, 2021.

On February 5, 2019, we entered into a commercial real estate lease for new corporate headquarters comprised of 70,000 square feet of office, research and development, and warehouse space located in Hauppauge, New York. The lease has an initial term of eleven years that can be extended, at our option, for two additional terms of five years each. Rent under the lease, which is payable in monthly installments, totals approximately \$900,000 for the initial year and then increases by approximately three percent each succeeding year.

On February 5, 2019, we also entered into an agreement to sublet the space at Holbrook, New York. The sublease has a term that (a) commenced on the date we vacate the premises and (b) terminate on April 29, 2020. The sublessee has paid us 50% of our rent and additional rent payments, which will total approximately \$100,000 per year during the term of the sublease.

Our European headquarters and Center of Excellence for Optical Technology is located in leased office and manufacturing space in Berlin, Germany. Our Southeast Asia manufacturing, warehouse, and commercial facilities are located in leased space in Kuala Lumpur, Malaysia. Our Latin America manufacturing, warehouse, and commercial facilities are located in Rio de Janeiro, Brazil. We regularly review our real estate portfolio and develop footprint strategies to support our customers' global plans, while at the same time supporting our technical needs and controlling operating expenses.

## **ITEM 3. LEGAL PROCEEDINGS**

From time to time we may become involved in legal proceedings or may be subject to claims arising in the ordinary course of our business. Although the results of litigation and claims cannot be predicted with certainty, we currently believe that the final outcome of these ordinary course matters will not have a material adverse effect on our business, operating results, financial condition or cash flows. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

#### **Listing Information**

Our stock is listed on the NASDAQ Global Select Market of the NASDAQ Stock Market LLC under the symbol "CEMI."

#### **Holder**

As of March 1, 2020, there were 132 record owners of our Common Stock (including nominee holders such as banks and brokerage firms who hold shares for beneficial owners).

#### **Recent Sales of Unregistered Securities**

During the year ended December 31, 2019, we issued unregistered securities in connection with the acquisition of Orangelife. See Note 2 - Acquisitions, for further discussion.

#### **Issuer Purchases of Equity Securities**

We did not repurchase any of our equity securities during the year ended December 31, 2019.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the audited consolidated financial statements and related notes included in this report. In addition to historical information, the following discussion contains forward-looking statements that involves risks, uncertainties and assumptions. See "Special Note Regarding Forward-Looking Statements" at page 4 of this report. Please read "Item1A. Risk Factors" for a discussion of factors that could cause our actual results to differ materially from our expectations.

The following discussion is presented in six sections:

- Executive Overview
- Consolidated Results of Operations
- Liquidity and Capital Resources
- Significant Accounting Policies and Critical Accounting Estimates
- Recently Issued Accounting Pronouncements

### Executive Overview

Through our wholly owned subsidiaries, Chembio Diagnostic Systems Inc., Chembio Diagnostics Malaysia Sdn Bhd, Chembio Diagnostics Germany, and Chembio Diagnostics Brazil we develop, manufacture and commercialize point-of-care diagnostic tests that are used to detect or diagnose diseases. All products that are currently being developed are based on our patented DPP technology, a novel point-of-care diagnostic platform that offers certain customer advantages as compared to traditional lateral flow technology. Chembio was formed in 1985.

Recent operational accomplishments and highlights include:

- Achieved product sales of \$28.8 million for full year 2019, an increase of 3.3% over prior year
- Achieved total revenue of \$34.5 million for full year 2019, a decrease of 0.3% over prior year
- Acquired Orangelife Comercio e Industria Ltda., a privately-held Brazilian manufacturer of lateral flow tests for infectious diseases to diversify and expand our market penetration in Brazil and support Bio-Manguinhos, a major customer.
- Received WHO Prequalification approval for the HIV Self-Test and our Malaysian production facility
- Successfully completed the technical feasibility phase for a rare disease with Takeda Pharmaceutical.
- Initiated production on our fully-automated DPP test manufacturing line and took delivery of our second and third automated lines for our other product platforms.

We strengthened our balance sheet by entering a credit agreement with Perceptive Credit Holdings II, L.P. for a \$20 million term loan. See "—Liquidity and Capital Resources."

The Company's product commercialization and product development efforts are focused on infectious disease testing and technology collaborations. In infectious disease, the Company is commercializing tests for HIV and Syphilis, Zika virus, and developing tests for malaria, dengue virus, chikungunya virus, ebola, lassa, Marburg, leptospirosis, *Rickettsia typhi*, *Burkholderia pseudomallei*, and *Orientia tsutsugamushi*, individually or as part of fever panel tests. Through technology collaborations, the Company is developing tests for concussion, bovine tuberculosis, a rare disease in collaboration with Takeda Pharmaceutical, and a biomarker development project in collaboration with AstraZeneca.

Large and growing markets have been established for these kinds of tests, initially in high prevalence regions where they are indispensable for large scale prevention and treatment programs. Our product development is focused on areas where the availability of rapid point-of-care screening, diagnostic, or confirmatory results can improve health outcomes. More generally, we believe there is and will continue to be a growing demand for diagnostic products that can provide accurate, actionable diagnostic information in a rapid, cost-effective manner at the point of care.

Our products are sold to medical laboratories and hospitals, governmental and public health entities, non-governmental organizations, medical professionals and retail establishments, both domestically and internationally, under our STAT-PAK, SURE CHECK, STAT-VIEW or DPP registered trademarks, or under the private labels of our marketing partners.

## Consolidated Results of Operations

The results of operations for the years ended December 31, 2019 and 2018 were as follows:

	Year Ended December 31,			
	2019		2018	
TOTAL REVENUES	\$ 34,464,032	100%	\$ 34,581,440	100%
<b>COSTS AND EXPENSES:</b>				
Cost of product sales	22,394,317	65%	22,599,432	65%
Research and development expenses	8,538,416	25%	8,526,256	26%
Selling, general and administrative expenses	16,138,424	47%	11,100,775	33%
Acquisition costs	721,465	2%	337,645	1%
	47,792,622	139%	42,564,108	25%
LOSS FROM OPERATIONS	(13,328,590)	(39)%	(7,982,668)	(23)%
OTHER (LOSS)/INCOME	(846,831)	(2)%	49,498	0%
LOSS BEFORE INCOME TAXES	(14,175,421)	(41)%	(7,933,170)	(23)%
Income tax benefit	(500,292)	(2)%	(67,521)	0%
NET LOSS	\$ (13,675,129)	(39)%	\$ (7,865,649)	(23)%

Percentages in the table reflect the percent of total revenues.

### Total Revenues

Total revenues during the year ended December 31, 2019 were \$34.5 million, a decrease of \$0.1 million, or 0.3% compared to 2018. The decrease in total revenues was comprised of the following:

- \$0.9 million, or 3.3% increase in net product sales, reflecting gains in U.S., Europe, and Latin America, offset in part by lower sales in Africa and Asia. U.S. sales benefited from our winning back a large public health program and Latin America benefited from initial sales of Zika, Chikungunya, and Dengue Fever tests, both standalone and in the multiplex version. Europe includes contribution from our acquisition of Chembio Diagnostics GmbH in November 2018. Asia and Africa declines were affected by the timing of national tenders.
- \$1.0 million, or 15.7% decrease in R&D and grant, and license and royalty revenues compared to 2018, relating to the timing and cadence of customer program schedules and their related performance obligations.

### Gross Product Margin

Cost of product sales is primarily comprised of material, labor, manufacturing overhead, depreciation and amortization, and other operating expenses. Gross product margin is net product sales less cost of product sales, and gross product margin percentage is gross product margin as a percentage of net product sales.

Gross product margin increased by \$1.1 million, or 21.4% compared to 2018. The following schedule calculates gross product margin:

	For the years ended December 31		Favorable/ (unfavorable)	% Change
	2019	2018		
	(in thousands)			
Net product sales	\$ 28,845	\$ 27,913	\$ 932	3.3%
Less: Cost of product sales	(22,394)	(22,599)	205	(0.9)%
Gross product margin	\$ 6,451	\$ 5,314	\$ 1,137	21.4%
Gross product margin %	22.4%	19.0%		

The \$1.1 million increase in gross product margin was comprised of the following:

- \$0.2 million from favorable product sales volume as described above, and
- \$0.9 million from favorable product margins, related to the impact of geographic mix on average selling price, initial benefits from our first automated assembly line, and reduced contract labor costs.

## Research and Development

This category includes costs incurred for clinical and regulatory affairs and other research and development, as follows:

	<b>For the years ended December 31</b>		<b>Favorable/ (unfavorable)</b>	<b>% Change</b>
	<b>2019</b>	<b>2018</b>		
	<b>(in thousands)</b>			
Clinical and regulatory affairs	\$ 1,516	\$ 1,307	\$ (209)	(16.0)%
Other research and development	7,022	7,219	197	2.7%
<b>Total research and development</b>	<b>\$ 8,538</b>	<b>\$ 8,526</b>	<b>\$ (12)</b>	<b>(0.1)%</b>

The increase in clinical & regulatory affairs costs for 2019 as compared to 2018 is primarily associated with new product negotiations in new countries and around the world and clinical trial costs. The decrease in other research and development costs is correlates to the reduction in R&D revenue noted above.

## Selling, General and Administrative Expense

Selling, general and administrative expense includes administrative expenses, sales and marketing costs including commissions, and other corporate items. The \$5.0 million, or 45.4% increase in selling, general and administrative expenses for the year ended December 31, 2019 as compared to 2018 includes \$0.9 million costs from Chembio Diagnostics Germany, \$1.1 million higher non-cash equity compensation costs, and \$0.7 million of rent and other costs related to leasing our new facility in Hauppauge, NY, which were partially non-cash in 2019 due to the lease terms.

## Acquisition Costs

Acquisition costs include legal, due diligence, audit, and related costs associated with acquisitions. The \$0.4 million increase in acquisition costs for the year ended December 31, 2019 as compared to 2018 is associated with spending related to acquisitions. During 2019, these included an audit required for Chembio Diagnostics Germany, as well as diligence and legal costs related to the acquisition of Chembio Dignostics Brazil in November 2019.

## Other Income and Expense

Other income and expenses are principally interest income earned on our deposits, net of interest expense, which increased by approximately \$0.9 million for 2019 as compared to 2018 due to the interest paid on the term loan debt the company entered into in September 2019.

## Income Tax Provision

For 2019 we recognized a tax benefit of \$0.6 primarily attributable to the loss generated by Chembio Diagnostics Malaysia. As of December 31, 2019 and 2018, the Company recorded a full valuation allowance against its net deferred tax assets.

## Liquidity and Capital Resources

During 2019, we funded our business operations, including capital expenditures and working capital requirements, principally from cash and cash equivalents. Our operations used \$9.1 million of cash. As of December 31, 2019, we had outstanding debt (excluding leases) in the amount of \$20.2 million (carrying amount of \$17.7 million), consisting of loans of \$20.0 million under a credit agreement entered into on September 3, 2019 (see “—Sources of Funds—Credit Agreement” below) and \$0.2 million under a seller-financed note payable incurred in connection with our purchase of automated manufacturing equipment.

We continually evaluate our liquidity requirements, capital needs and availability of capital resources based on our operating needs and our planned growth initiatives. We believe our existing cash and cash equivalents will be sufficient to meet our anticipated cash needs for at least the next twelve months.

Our future working capital needs will depend on many factors, including the rate of our business and revenue growth, the timing of our continuing automation of U.S. manufacturing, and the timing of investment in our research and development as well as sales and marketing. If, however, those sources of liquidity become insufficient to fund the growth of our business, we may need to reduce the level or slow the timing of its growth plans, which would likely curtail or delay the growth in our business contemplated by our operating plan and could impair or defer our ability to achieve profitability and generate cash flow, or to seek to raise additional funds through debt or equity financings, strategic relationships, or other arrangements, to the extent funding would be available to us on acceptable terms or at all. If we were to raise additional funds through the issuance of equity or convertible securities, the issuance could result in substantial dilution to existing stockholders, and the holders of these new securities or debt may have rights, preferences and privileges senior to those of the holders of common stock.

### *Sources of Funds*

Credit Agreement. On September 3, 2019, we, as borrower, and certain of our subsidiaries, as guarantors, entered into a Credit Agreement and Guaranty, or the Credit Agreement, with Perceptive Credit Holdings II, LP, or the Lender.

- **Principal Amount.** The Credit Agreement provides for a \$20,000,000 senior secured term loan credit facility, which was drawn in full on September 4, 2019. Under the terms of the Credit Agreement, we may use the proceeds (i) for general working capital purposes and other permitted corporate purposes, (ii) to refinance certain of our existing indebtedness and (iii) to pay fees, costs and expenses incurred in connection with the Credit Agreement, including the Lender's closing cost amount of \$550,000, which was netted from the proceeds, and a financing fee of \$600,000 (3.0% of gross proceeds) payable to Craig-Hallum Capital Group LLC, our financial advisor for the financing.
- **Interest Rate.** Principal outstanding under the Credit Agreement bears interest at a rate per annum equal to the sum of (a) the greater of the one-month London Interbank Offered Rate and 2.5% plus (b) 8.75%. At any time at which an event of default (as described under "—Default Provisions" below) has occurred and is continuing, the interest rate will increase by 4.0%. Accrued interest is payable on a monthly basis.
- **Scheduled Repayment.** No principal repayments are due prior to September 30, 2022, unless we elect to prepay principal as described under "—Optional Prepayment" below or principal is accelerated pursuant to an event of default as described under "—Default Provisions" below. Principal installments in the amount of \$300,000 are payable on the last day of each of the eleven months from September 2022 through July 2023, and all remaining principal is payable at maturity on September 3, 2023.
- **Optional Prepayment.** We may prepay outstanding principal from time to time, subject to payment of a premium on the prepaid principal amount equal to 10% through September 3, 2020, 8% from September 4, 2020 through September 3, 2021, and 4% from September 4, 2021 through September 3, 2022.

No premium will be due with respect to any prepayment made on or after September 4, 2022.

- **Guaranties.** Our subsidiaries Chembio Diagnostic Systems Inc. and Chembio Diagnostics Malaysia Sdn Bhd. have guaranteed, and the Lender from time to time may require our other subsidiaries to guarantee, our obligations under the Credit Agreement.
- **Security.** Our obligations under the Credit Agreement are secured by a first priority, perfected lien on substantially all of our property and assets, including our equity interests in our subsidiaries. Our subsidiary Chembio Diagnostic Systems Inc. has secured its guarantee of our Credit Agreement obligations with a lien on substantially all of its assets, and the Lender from time to time may require Chembio Diagnostics Malaysia Sdn Bhd. and any of our other subsidiaries that has guaranteed our Credit Agreement obligations to do the same.
- **Representations and Warranties; Financial and Other Covenants.** In the Credit Agreement we made customary representations and warranties as well as customary affirmative and negative covenants, including covenants limiting additional indebtedness, liens, guaranties, mergers and acquisitions, substantial asset sales, investments and loans, sale and leasebacks, transactions with affiliates, and fundamental changes. The Credit Agreement also contains financial covenants requiring that (i) we maintain aggregate unrestricted cash of not less than \$3,000,000 at all times and (ii) we achieve specified minimum rolling four-quarter (“last twelve month”) total revenue amounts as of September 30, 2019 and the last day of each calendar quarter thereafter. The minimum total revenue amounts, which range from \$32.0 million to \$50.1 million, were developed for purposes of the Credit Agreement and do not reflect the internal estimates and plans used by our management and board of directors to understand and evaluate our operating performance, to establish budgets, and to establish operational goals for managing our business. We therefore do not believe that the covenant requirements provide useful information to investors or others in enhancing an understanding of our future prospects.
- **Default Provisions.** The Credit Agreement provides for customary events of default, including events of default based on non-payment of amounts due under the Credit Agreement, defaults on other debt, misrepresentations, covenant breaches, changes of control, insolvency, bankruptcy and the occurrence of a material adverse effect on the Company. Upon an event of default resulting from a voluntary or involuntary proceeding for bankruptcy, insolvency or receivership, the amounts outstanding under the Credit Agreement will become immediately due and payable and the Lender’s commitments will be automatically terminated. Upon the occurrence and continuation of any other event of default, the Lender may accelerate payment of all obligations and terminate the Lender’s commitments under the Credit Agreement. Upon an acceleration of payment following an event of default occurring prior to September 4, 2021, the amounts due and payable by us will include a prepayment premium on accelerated principal in the amount described under “—Optional Prepayment” above.

In connection with entering into the Credit Agreement, on September 3, 2019, we issued to the Lender a seven-year warrant, or the Warrant, to purchase up to 550,000 shares of our common stock at a per-share exercise price of \$5.22. The Warrant is exercisable for cash or on a net, or “cashless,” basis, and the exercise price of the Warrant is subject to price-based, weighted-average antidilution adjustments for one year after issuance.

**Equity and Equity-Related Securities.** We did not raise additional capital from a public offering of Common Stock in 2019.

**Research and Development Awards.** We frequently seek research and development programs that may be awarded by government, non-governmental organizations, and non-profit entities, including private foundations.

Since 2015 we have earned over \$12.2 million of funding from some of the world's leading health organizations, which has helped us accelerate the expansion of our pipeline of infectious disease tests. Our collaborators have included Bill & Melinda Gates Foundation, The Paul G. Allen Family Foundation, FIOCRUZ and FIND, as well as U.S. government agencies such as CDC, BARDA and the U.S. Department of Agriculture. See "Item 1. Business—Products" above. During the year ended December 31, 2019, we recognized grant revenue totaling \$1.4 million from government, non-governmental organizations, and non-profit entities.

**Working Capital.** The following table sets forth selected working capital information:

	<b>December 31, 2019</b>
	<i>(in thousands)</i>
Cash and cash equivalents	\$ 18,271
Accounts receivable, net	3,661
Inventories, net	9,598
Prepaid expenses and other current assets	693
Total current assets	<u>32,223</u>
Less: Total current liabilities	<u>(6,442)</u>
<b>Working capital</b>	<b><u>\$ 25,781</u></b>

Our cash and cash equivalents at December 31, 2019 were unrestricted and held for working capital purposes. We currently intend to retain all available funds and any future earnings for use in the operation of our business and do not anticipate paying any cash dividends. We have not entered into, and do not expect to enter into, investments for trading or speculative purposes. Our accounts receivable and inventory balances fluctuate from period to period, which affects our cash flow from operating activities. Fluctuations vary depending on cash collections, client mix, and the timing of shipment of our products and the invoicing of our research and development activities.

#### *Uses of Funds*

**Cash Flow Used in Operating Activities.** Our operations used \$9.1 million of cash during the year ended December 31, 2019, primarily due to the net loss adjusted for non-cash items of \$10.6 million, a \$3.8 million decrease in accounts receivable related to favorable collections timing, and a \$1.5 million increase in inventory related to supply chain timelines.

**Acquisition.** In November 2019, we acquired all of the equity interests of Orangelife for a purchase price net of cash acquired of \$100,000 in cash, and 153,707 common shares, with an additional 316,456 common shares that would be deliverable as an earnout, based on the achievement of certain milestones between 2020 and 2022.

**Capital Expenditures.** During the year ended December 31, 2019, we advanced our plan to invest in automated manufacturing equipment, facilities, and other fixed assets. Our capital expenditures totaled \$3.5 million in 2019.

#### **Effects of Inflation**

Inflation and changing prices have not had a material effect on our business, and we do not expect that they will materially affect our business in the foreseeable future. Any impact of inflation on cost of revenue and operating expenses, especially employee compensation costs, may not be readily recoverable in the price of our product offerings.

## Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K under the Securities Exchange Act of 1934.

## Significant Accounting Policies and Critical Accounting Estimates

Our significant accounting policies are described in Note 3 – Significant Accounting Policies to the audited consolidated financial statements included herein. Certain of our accounting policies require the application of significant judgment by management in selecting the appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. These judgments are based on our historical experience, terms of existing contracts, our evaluation of trends in the industry, information provided by our customers and information available from other outside sources, as appropriate. We consider an accounting estimate to be critical if:

- It requires us to make assumptions about matters that were uncertain at the time we were making the estimate, and
- Changes in the estimate or different estimates that we could have selected would have had a material impact on our financial condition or results of operations.

The following listing is not intended to be a comprehensive list of all of our accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by accounting principles generally accepted in the United States, with no need for management's judgment in their application. There are also areas in which management's judgment in selecting any viable alternative would not produce a materially different result.

### *Revenue Recognition*

We recognize revenue for product sales in accordance with FASB ASC 606, *Revenue from Contracts with Customers*. Revenues from product sales are recognized when the customer obtains control of our product, which occurs at a point in time, typically upon tendering to the customer. We expense incremental costs of obtaining a contract as and when incurred because the expected amortization period of the asset that it would have recognized is one year or less or the amount is immaterial. Freight and distribution activities on products are performed after the customer obtains control of the goods. We have made an accounting policy election to account for shipping and handling activities that occur either when or after goods are tendered to the customer as a fulfillment activity, and therefore recognizes freight and distribution expenses in Cost of Product Sales. The Company excludes certain taxes from the transaction price (e.g., sales, value added and some excise taxes).

For certain contracts, we recognize revenue from research and development, milestone and grant revenues 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, we recognize revenue by defining milestones at the inception of the agreement and applying judgement and estimates in recognizing revenue for relevant contracts.

### *Stock-Based Compensation*

We recognize the fair value of equity-based awards as compensation expense in our consolidated statement of operations. The fair value of restricted stock and restricted stock unit awards are their fair value on the date of grant. The fair value of our stock option awards was estimated using a Black-Scholes option valuation model. This valuation model's computations incorporate highly subjective assumptions, such as the expected stock price volatility and the estimated life of each award. The fair value of equity-based awards, after considering the effect of expected forfeitures, is then amortized, generally on a straight-line basis, over the related vesting period of the option.

### *Research and Development Costs*

Research and development activities consist primarily of new product development, continuing engineering for existing products, and regulatory and clinical trial costs. Costs related to research and development efforts on existing or potential products are expensed/accrued as incurred.

### *Inventories*

Inventories are stated at the lower of cost and net realizable value, using the first-in, first-out method, or FIFO, to determine cost. Our policy is to periodically evaluate the market value of the inventory and the stage of product life cycle, and record a reserve for any inventory considered slow moving or obsolete. For example, each additional 1% of obsolete inventory would reduce such inventory by approximately \$95,980.

### *Accounts Receivable*

Our policy is to review our accounts receivable on a periodic basis, no less frequently than monthly. On a quarterly basis an analysis is made of the adequacy of our allowance for doubtful accounts and adjustments are made accordingly. The current allowance is approximately 0.6% of accounts receivable. For example, each additional 1% of accounts receivable that becomes uncollectible would reduce such balance of accounts receivable by approximately \$36,613.

### *Acquisitions*

In accordance with accounting guidance for the provisions in FASB ASC 805, *Business Combinations*, we allocate the purchase price of an acquired business to its identifiable assets and liabilities based on estimated fair values. The excess of the purchase price over the amount allocated to the assets and liabilities, if any, is recorded as goodwill. In addition, an acquisition may include a contingent consideration component. The fair value of the contingent consideration is estimated as of the date of the acquisition and is recorded as part of the purchase price. This estimate is updated in future periods and any changes in the estimate, which are not considered an adjustment to the purchase price, are recorded in our consolidated statements of operations.

We use all available information to estimate fair values. We typically engage outside appraisal firms to assist in the fair value determination of identifiable intangible assets and any other significant assets or liabilities. We may adjust the preliminary purchase price allocation, if necessary, up to one year after the acquisition closing date if we obtain more information regarding asset valuations and liabilities assumed that materially differs from the information available during the time of close.

Our purchase price allocation methodology contains uncertainties because it requires management to make assumptions and to apply judgment to estimate the fair value of acquired assets and liabilities. Management estimates the fair value of assets and liabilities based upon quoted market prices, the carrying value of the acquired assets and widely accepted valuation techniques, including discounted cash flows and market multiple analyses. Unanticipated events or circumstances may occur which could affect the accuracy of our fair value estimates, including assumptions regarding industry economic factors and business strategies.

Other estimates used in determining fair value include, but are not limited to, future cash flows or income related to intangibles, market rate assumptions, actuarial assumptions for benefit plans and appropriate discount rates. Our estimates of fair value are based upon assumptions believed to be reasonable, but that are inherently uncertain, and therefore, may not be realized. Accordingly, there can be no assurance that the estimates, assumptions, and values reflected in the valuations will be realized, and actual results could vary materially.

## Goodwill and Intangible Assets

We periodically review goodwill for impairment indicators. We review goodwill for impairment annually in the fourth quarter or more frequently if events or changes in circumstances indicate that goodwill might be impaired. We perform the goodwill impairment review at the reporting unit level. We perform a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount. If not, no further goodwill impairment testing is performed. If so, we perform the step discussed hereafter. Our qualitative assessment involves significant estimates, assumptions, and judgments, including, macroeconomic conditions, industry and market conditions, our financial performance, reporting unit specific events and changes in our share price.

If the fair value of the reporting unit is *greater* than its carrying amount, goodwill is not considered to be impaired. We would recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, provided the impairment charge does not exceed the total amount of goodwill allocated to the reporting unit.

## Income Taxes

Income taxes are accounted for under FASB ASC 740, *Income Taxes*, authoritative guidance, which we refer to as the Guidance and which requires the asset and liability method of accounting for deferred income taxes. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities. Deferred tax assets or liabilities at the end of each period are determined using the tax rate expected to be in effect when taxes are actually paid or recovered.

The Guidance also requires that a valuation allowance be established when it is more likely than not that all or a portion of a deferred tax asset will not be realized. A review of all available positive and negative evidence needs to be considered, including a company's current and past performance, the market environment in which the company operates, length of carryback and carryforward periods and existing contracts that will result in future profits.

The Guidance also prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the consolidated financial statements tax positions taken or expected to be taken on a tax return, including a decision whether to file or not to file in a particular jurisdiction.

## Recently Issued Accounting Pronouncements

Refer to Note 3 – Significant Accounting Policies to the audited consolidated financial statements included herein for a complete description of recent accounting standards which we have not yet been required to implement which may be applicable to our operations. Additionally, the significant accounting standards that have been adopted during the year ended December 31, 2019 are described.

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The Consolidated Financial Statements and schedules that constitute Item 8 are attached at the end of this report. An index to the Consolidated Financial Statements and schedules is also included on page F-1 of this report.

### **ITEM 9A. Controls and Procedures**

#### *Evaluation of Disclosure Controls and Procedures*

Our management, with the participation of our Interim Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures, as defined by Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of December 31, 2019. Based on the evaluation of our disclosure controls and procedures, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2019 at the reasonable assurance level.

#### *Management's Report on Internal Control Over Financial Reporting*

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer and effected by the board of directors, management and other personnel 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 and includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made in accordance with authorizations of management and directors of the company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. As a result, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our Interim Chief Executive Officer and Chief Financial Officer, our management evaluated the effectiveness of our internal control over financial reporting as of December 31, 2019. In making their assessment of internal control over financial reporting, our management used the criteria described in the 2013 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Our evaluation included documenting, evaluating and testing of the design and operating effectiveness of our internal control over financial reporting. Based on this evaluation, we concluded that our controls over financial reporting were effective as of December 31, 2019.

#### *Previously Identified Material Weaknesses in Internal Control Over Financial Reporting*

None.

#### *Changes in Internal Control over Financial Reporting*

There were no changes in our internal control over financial reporting identified in management's evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Securities Exchange Act of 1934 during the period covered by this Annual Report on Form 10-K that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **Report of Independent Registered Public Accounting Firm**

Shareholders and Board of Directors  
Chembio Diagnostics, Inc.  
Hauppauge, New York

### **Opinion on Internal Control over Financial Reporting**

We have audited Chembio Diagnostics, Inc.'s (the "Company's") internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company and subsidiaries as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive loss, changes in stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2019, and the related notes and our report dated March 13, 2020 expressed an unqualified opinion thereon.

### **Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Item 9A, Management's Report on Internal Control over Financial Reporting". Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of internal control over financial reporting in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### **Definition and Limitations of Internal Control over Financial Reporting**

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ BDO USA, LLP

Melville, NY  
March 13, 2020

## PART III

### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required in response to this Item 10 is incorporated herein by reference to our Definitive Proxy Statement to be filed with the SEC pursuant to Regulation 14A of the Exchange Act not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

### ITEM 11. EXECUTIVE COMPENSATION

The information required in response to this Item 11 is incorporated herein by reference to our Definitive Proxy Statement to be filed with the SEC pursuant to Regulation 14A of the Exchange Act not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required in response to this Item 12 is incorporated herein by reference to our Definitive Proxy Statement to be filed with the SEC pursuant to Regulation 14A of the Exchange Act not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information required in response to this Item 13 is incorporated herein by reference to our Definitive Proxy Statement to be filed with the SEC pursuant to Regulation 14A of the Exchange Act not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

### ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required in response to this Item 14 is incorporated herein by reference to our Definitive Proxy Statement to be filed with the SEC pursuant to Regulation 14A of the Exchange Act not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

(a) See “Item 8. Financial Statements and Supplementary Data – Index to Consolidated Financial Statements” above.

(b) Exhibits

<b>Exhibit No.</b>	<b>Description</b>
3.1	<a href="#">Articles of Incorporation, as amended, of Chembio Diagnostics, Inc.</a>
3.2	<a href="#">Amended and Restated Bylaws, of Chembio Diagnostics, Inc.</a>
4.1	<a href="#">Warrant to Purchase Common Stock dated as of September 3, 2019, issued by Chembio Diagnostics, Inc. to Perceptive Credit Holdings II, LP</a>
10.1(a)*	<a href="#">2008 Stock Incentive Plan, as amended</a>
10.1(b)*	<a href="#">Form of Option for 2008 Stock Incentive Plan</a>
10.2(a)*	<a href="#">2014 Stock Incentive Plan</a>
10.2(b)*	<a href="#">Form of Option for 2014 Stock Incentive Plan</a>
10.3*	<a href="#">2019 Omnibus Incentive Plan</a>
10.4*	<a href="#">Restated Annual Incentive Bonus Plan of Chembio Diagnostics, Inc., adopted as of March 15, 2019</a>
10.5*	<a href="#">Letter agreement dated January 17, 2020, between Chembio Diagnostics, Inc. and Gail S. Page</a>
10.6(a)*	<a href="#">Employment Agreement dated March 5, 2016 between Chembio Diagnostics, Inc. and Javan Esfandiari</a>
10.6(b)*	<a href="#">Amendment No. 1 dated March 20, 2019 between Chembio Diagnostics, Inc. and Javan Esfandiari, amending the Employment Agreement dated March 5, 2016</a>
10.7*	<a href="#">Employment Agreement dated September 14, 2017 between Chembio Diagnostics, Inc. and Sharon Klugewicz</a>
10.8(a)*	<a href="#">Employment Agreement dated December 18, 2017 between Chembio Diagnostics, Inc. and Neil A. Goldman</a>
10.8(b)*	<a href="#">Amendment No. 1 dated January 21, 2019 between Chembio Diagnostics, Inc. and Neil A. Goldman, amending Employment Agreement dated December 18, 2017</a>
10.9*	<a href="#">Offer Letter dated October 19, 2016 between Worldwide Workplace Ireland and Robert Passas, with respect to employment by Chembio Diagnostics Systems, Inc.</a>
10.10	<a href="#">Separation and Release Agreement, dated January 7, 2020, between Chembio Diagnostics, Inc. and John J. Sperzel III</a>
10.11(a)	<a href="#">Lease Agreement, dated February 15, 2017, between Horseblock Associates and Chembio Diagnostics, Inc. with respect to 3661 Horseblock Road, Medford, New York, as amended</a>
10.11(b)	<a href="#">Agreement of Sublease dated February 5, 2019 between Chembio Diagnostic Systems Inc., as sublessor, and Reliance Communications of New Jersey, LLC, as sublessee, with respect to 3661 Horseblock Road, Medford, New York, as amended</a>
10.12	<a href="#">Lease Agreement, dated February 4, 2013, between Sherwood Corporate Center LLC and Chembio Diagnostics, Inc. with respect to 91-1A Colin Drive, Holbrook, New York, as amended on September 19, 2017</a>
10.13	<a href="#">Lease Agreement dated February 5, 2019 between Myra Properties, LLC, as lessor, and Chembio Diagnostic Systems Inc., as lessee, with respect to 555 Wireless Boulevard, Hauppauge, New York.</a>
10.14†	<a href="#">Credit Agreement and Guaranty dated as of September 3, 2019, among Chembio Diagnostics, Inc., as the Borrower, the Guarantors from time to time party thereto, and Perceptive Credit Holdings II, LP and its successors and assigns party thereto, as Administrative Agent and as a Lender</a>
14.1	<a href="#">Ethics Policy</a>
21.1	<a href="#">List of Subsidiaries of Chembio Diagnostics, Inc.</a>
23.1	<a href="#">Consent of BDO USA, LLP, Independent Registered Public Accounting Firm</a>
31.1	<a href="#">Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
31.2	<a href="#">Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
32.1	<a href="#">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</a>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Definition Linkbase Document
101.LAB	XBRL Taxonomy Label Linkbase Document
101.PRE	XBRL Taxonomy Presentation Linkbase Document

\* Indicates management contract or compensatory plan.

† Certain exhibits and schedules have been omitted pursuant to Item 601(a)(5) of Regulation S-K. We hereby undertake to furnish copies of the omitted exhibits and schedules upon request by the Securities and Exchange Commission, provided that we may request confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934 for the exhibits and schedules so furnished.

## SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHEMBIO DIAGNOSTICS, INC.

March 13, 2020

By /s/ Gail S. Page  
Gail S. Page  
Interim Chief Executive Officer

In accordance with the requirements of the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signatures</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Gail S. Page</u> Gail S. Page	Interim Chief Executive Officer and Director (Principal Executive Officer)	March 13, 2020
<u>/s/ Neil A. Goldman</u> Neil A. Goldman	Executive Vice President and Chief Financial Officer (Principal Financial & Accounting Officer)	March 13, 2020
<u>/s/ Katherine L. Davis</u> Katherine L. Davis	Chair of the Board	March 13, 2020
<u>/s/ Mary Lake Polan</u> Mary Lake Polan	Director	March 13, 2020
<u>/s/ John G. Potthoff</u> John G. Potthoff	Director	March 13, 2020

**CHEMBIO DIAGNOSTICS, INC. AND SUBSIDIARIES**

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## **Report of Independent Registered Public Accounting Firm**

Shareholders and Board of Directors  
Chembio Diagnostics, Inc.  
Hauppauge, New York

### **Opinion on the Consolidated Financial Statements**

We have audited the accompanying consolidated balance sheets of Chembio Diagnostics, Inc. (the “Company”) and subsidiaries as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive loss, changes in stockholders’ equity, and cash flows the years then ended, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at December 31, 2019 and 2018, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) and our report dated March 13, 2020 expressed an unqualified opinion thereon.

### **Change in Accounting Principle**

On January 1, 2019, the Company changed its method of accounting for leases due to the adoption of Accounting Standards Codification Topic 842, Leases. The effects of the adoption are described in Note 3 to the consolidated financial statements.

### **Basis for Opinion**

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BDO USA, LLP

We have served as the Company’s auditor since 2011.

Melville, NY  
March 13, 2020

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

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
<b>- ASSETS -</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 18,271,352	\$ 12,524,551
Accounts receivable, net of allowance for doubtful accounts of \$62,000 and \$42,000 at December 31, 2019 and 2018, respectively	3,661,325	7,373,971
Inventories, net	9,598,030	7,851,222
Prepaid expenses and other current assets	693,013	702,010
<b>TOTAL CURRENT ASSETS</b>	<b>32,223,720</b>	<b>28,451,754</b>
<b>FIXED ASSETS:</b>		
Property, plant and equipment, net	5,933,569	2,873,920
Finance lease right-of-use assets, net	210,350	-
<b>OTHER ASSETS:</b>		
Operating right-of-use assets, net	7,030,744	-
Intangible assets, net	3,914,352	3,884,831
Goodwill	5,872,690	4,983,127
Deposits and other assets	543,539	717,551
<b>TOTAL ASSETS</b>	<b>\$ 55,728,964</b>	<b>\$ 40,911,183</b>
<b>- LIABILITIES AND STOCKHOLDERS' EQUITY -</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued liabilities	\$ 5,526,243	\$ 5,888,681
Deferred revenue	125,000	422,905
Note payable	180,249	207,694
Finance lease liabilities	41,894	-
Operating lease liabilities	568,294	-
<b>TOTAL CURRENT LIABILITIES</b>	<b>6,441,680</b>	<b>6,519,280</b>
<b>OTHER LIABILITIES:</b>		
Long-term operating lease liabilities	6,969,603	-
Long-term finance lease liabilities	171,953	-
Note payable	-	171,821
Long-term debt net of debt discount and issuance costs	17,644,149	-
Deferred tax liability	466,326	892,308
<b>TOTAL LIABILITIES</b>	<b>31,693,711</b>	<b>7,583,409</b>
<b>COMMITMENTS AND CONTINGENCIES (Note 12)</b>		
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock – 10,000,000 shares authorized, none outstanding	-	-
Common stock - \$.01 par value; 100,000,000 shares authorized, 17,733,617 and 17,166,459 shares issued and outstanding at December 31, 2019 and 2018, respectively	177,335	171,664
Additional paid-in capital	95,433,077	90,953,788
Accumulated deficit	(71,585,003)	(57,909,874)
Accumulated other comprehensive income	9,844	112,196
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>24,035,253</b>	<b>33,327,774</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 55,728,964</b>	<b>\$ 40,911,183</b>

*See accompanying notes to consolidated financial statements*

**CHEMBIO DIAGNOSTICS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	<b>For the years ended</b>	
	<b><u>December 31, 2019</u></b>	<b><u>December 31, 2018</u></b>
<b>REVENUES:</b>		
Net product sales	\$ 28,844,997	\$ 27,913,209
R&D and grant revenue	4,680,282	5,719,458
License and royalty revenue	938,753	948,773
<b>TOTAL REVENUES</b>	<b><u>34,464,032</u></b>	<b><u>34,581,440</u></b>
<b>COSTS AND EXPENSES:</b>		
Cost of product sales	22,394,317	22,599,432
Research and development expenses	8,538,416	8,526,256
Selling, general and administrative expenses	16,138,424	11,100,775
Acquisition costs	721,465	337,645
	<u>47,792,622</u>	<u>42,564,108</u>
<b>LOSS FROM OPERATIONS</b>	<b><u>(13,328,590)</u></b>	<b><u>(7,982,668)</u></b>
<b>OTHER (EXPENSE) INCOME:</b>		
Interest (expense) income, net	(846,831)	49,498
<b>LOSS BEFORE INCOME TAX BENEFIT</b>	<b>(14,175,421)</b>	<b>(7,933,170)</b>
Income tax benefit	(500,292)	(67,521)
<b>NET LOSS</b>	<b><u>\$ (13,675,129)</u></b>	<b><u>\$ (7,865,649)</u></b>
<b>Basic loss per share</b>	<b><u>\$ (0.81)</u></b>	<b><u>\$ (0.54)</u></b>
<b>Diluted loss per share</b>	<b><u>\$ (0.81)</u></b>	<b><u>\$ (0.54)</u></b>
<b>Weighted average number of shares outstanding, basic</b>	<b><u>16,954,142</u></b>	<b><u>14,432,505</u></b>
<b>Weighted average number of shares outstanding, diluted</b>	<b><u>16,954,142</u></b>	<b><u>14,432,505</u></b>

*See accompanying notes to consolidated financial statements*

**CHEMBIO DIAGNOSTICS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

	<b>For the years ended</b>	
	<b><u>December 31, 2019</u></b>	<b><u>December 31, 2018</u></b>
Net loss	\$ (13,675,129)	\$ (7,865,649)
Other comprehensive loss:		
Foreign currency translation adjustments	(102,352)	(66,752)
<b>COMPREHENSIVE LOSS</b>	<b><u>\$ (13,777,481)</u></b>	<b><u>\$ (7,932,401)</u></b>

*See accompanying notes to consolidated financial statements*

**CHEMBIO DIAGNOSTICS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2019, AND 2018**

	Common Stock		Additional Paid-in-Capital Amount	Accumulated Deficit Amount	AOCI Amount	Total Amount
	Shares	Amount				
<b>Balance at December 31, 2017</b>	12,318,570	\$ 123,185	\$ 62,821,288	\$ (50,044,225)	\$ 178,948	\$ 13,079,196
<b>Common Stock:</b>						
New stock from offerings	4,509,760	45,098	27,431,162	-	-	27,476,260
Restricted stock issued	266,839	2,668	(2,668)	-	-	-
Restricted stock compensation	-	-	281,249	-	-	281,249
<b>Options:</b>						
Exercised	71,290	713	71,201	-	-	71,914
Stock option compensation	-	-	351,556	-	-	351,556
<b>Comprehensive loss</b>	-	-	-	-	(66,752)	(66,752)
<b>Net loss</b>	-	-	-	(7,865,649)	-	(7,865,649)
<b>Balance at December 31, 2018</b>	<b>17,166,459</b>	<b>\$ 171,664</b>	<b>\$ 90,953,788</b>	<b>\$ (57,909,874)</b>	<b>\$ 112,196</b>	<b>\$ 33,327,774</b>
<b>Common Stock:</b>						
Restricted stock issued	381,908	3,819	(128,081)	-	-	(124,262)
Restricted stock compensation	-	-	1,394,812	-	-	1,394,812
Issuance of common stock for business acquired	153,707	1,537	441,754	-	-	443,291
<b>Options:</b>						
Exercised	31,543	315	32,171	-	-	32,486
Stock option compensation	-	-	261,088	-	-	261,088
<b>Warrants and Other:</b>						
Warrant on Term Debt	-	-	1,196,093	-	-	1,196,093
Contingent Earnout for business acquired	-	-	1,281,452	-	-	1,281,452
<b>Comprehensive loss</b>	-	-	-	-	(102,352)	(102,352)
<b>Net loss</b>	-	-	-	(13,675,129)	-	(13,675,129)
<b>Balance at December 31, 2019</b>	<b>17,733,617</b>	<b>\$ 177,335</b>	<b>\$ 95,433,077</b>	<b>\$ (71,585,003)</b>	<b>\$ 9,844</b>	<b>\$ 24,035,253</b>

*See accompanying notes to consolidated financial statements*

**CHEMBIO DIAGNOSTICS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED**

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers and grants	\$ 37,930,172	\$ 29,804,273
Cash paid to suppliers and employees	(45,655,562)	(41,624,299)
Cash paid for operating and finance leases	(640,844)	-
Interest and taxes, net	(689,272)	38,585
<b>Net cash used in operating activities</b>	<b>(9,055,506)</b>	<b>(11,781,441)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of businesses, net of cash acquired	(100,000)	(5,491,204)
Acquisition of and deposits on fixed assets	(3,502,540)	(1,467,192)
Patent Application Costs	(297,006)	-
Working capital adjustments related to business combination	145,760	-
<b>Net cash used in investing activities</b>	<b>(3,753,786)</b>	<b>(6,958,396)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from option exercises	32,486	71,914
Principal payments for finance leases	(19,875)	-
Payments on debt issuance costs	(186,313)	-
Payments on note payable	(181,822)	(64,481)
Proceeds from issuance of long-term debt, net	18,850,000	-
Proceeds from sale of common stock, net	-	27,476,260
<b>Net cash provided by financing activities</b>	<b>18,494,476</b>	<b>27,483,693</b>
Effect of exchange rate changes on cash	61,617	(9,607)
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>5,746,801</b>	<b>8,734,249</b>
Cash and cash equivalents - beginning of the period	12,524,551	3,790,302
<b>Cash and cash equivalents - end of the period</b>	<b>\$ 18,271,352</b>	<b>\$ 12,524,551</b>
<b>RECONCILIATION OF NET LOSS TO NET CASH USED IN OPERATING ACTIVITIES:</b>		
<b>Net Loss</b>	<b>\$ (13,675,129)</b>	<b>\$ (7,865,649)</b>
Adjustments:		
Depreciation and amortization	1,916,194	902,505
Share based compensation	1,655,900	632,805
Benefit from deferred tax liability	(513,715)	(78,432)
Provision for doubtful accounts	20,000	-
Changes in assets and liabilities, net of effects from acquisitions:		
Accounts receivable	3,764,045	(5,150,072)
Inventories	(1,457,612)	(3,077,104)
Prepaid expenses and other current assets	64,355	(118,293)
Deposits and other assets	(90,624)	-
Accounts payable and accrued liabilities	(441,015)	2,599,894
Deferred revenue	(297,905)	372,905
<b>Net cash used in operating activities</b>	<b>\$ (9,055,506)</b>	<b>\$ (11,781,441)</b>
<b>Supplemental disclosures for non-cash investing and financing activities:</b>		
Deposits on manufacturing equipment transferred to fixed assets	\$ 430,000	\$ 257,455
Deposits and other assets transferred to intangible assets	-	118,899
Seller-financed equipment purchases	-	326,110
Issuance of common stock for net assets of business acquired	443,291	-
Contingent liability earnout	1,225,000	-

*See accompanying notes to consolidated financial statements*

## NOTE 1 — DESCRIPTION OF BUSINESS:

Chembio Diagnostics, Inc. and its subsidiaries (collectively, the “Company” or “Chembio”), develop, manufacture, and commercialize point-of-care diagnostic tests that are used to detect and diagnose diseases. The Company is pursuing three corporate priorities: (1) expand its commercialization, (2) advance its research and development pipeline, and (3) prepare for future growth.

All products that are currently being developed are based on the Company’s patented DPP® technology, a novel point-of-care diagnostic platform that offers certain customer advantages as compared to traditional lateral flow technology.

The Company’s product commercialization and product development efforts are focused on infectious disease testing and technology collaborations. In infectious disease, the Company is commercializing tests for HIV and Syphilis, Zika virus, and developing tests for malaria, dengue virus, chikungunya virus, ebola, lassa, Marburg, leptospirosis, *Rickettsia typhi*, *Burkholderia pseudomallei*, and *Orientia tsutsugamushi*, individually or as part of fever panel tests. Through technology collaborations, the Company is developing tests for concussion, bovine tuberculosis, a rare disease in collaboration with Takeda Pharmaceutical, and a biomarker development project in collaboration with AstraZeneca.

Large and growing markets have been established for these kinds of tests, initially in high prevalence regions where they are indispensable for large scale prevention and treatment programs. More generally, the Company believes there is and will continue to be a growing demand for diagnostic products that can provide accurate, actionable diagnostic information in a rapid, cost-effective manner at the point of care.

The Company’s products are sold to medical laboratories and hospitals, governmental and public health entities, non-governmental organizations, medical professionals and retail establishments, both domestically and internationally, under the Company’s STAT PAK®, SURE CHECK®, STAT-VIEW® or DPP® registered trademarks, or under the private labels of the Company’s marketing partners.

The Company routinely enters into arrangements with governmental and non-governmental organizations for the funding of certain research and development efforts.

## NOTE 2 — ACQUISITIONS:

### Orangelife

On November 25, 2019, pursuant to a quote purchase agreement, the Company acquired all of the outstanding shares of Orangelife Comercio e Industria Ltda., or Orangelife, a privately-held Brazilian company, which is an original equipment manufacturer of point-of-care tests approved by the Brazilian Health Surveillance Agency (Agência Nacional de Vigilância Sanitária, or ANVISA) for infectious diseases that include HIV, Hepatitis C, Zika, Chikungunya, and Dengue Fever. Orangelife tests are manufactured in its Rio de Janeiro facility, which is ISO-certified and approved by ANVISA to produce Class II/III/IV medical devices. The purchase price includes the following consideration:

- \$150,000 in cash and 153,707 shares of our common stock.
- Issuance of 316,456 shares of our common stock to Dr. Manco Collovati, the founder and former CEO of Orangelife, based on the transfer and approval of certain of our product registration in Brazil prior to November 25, 2022. All of the shares may be deliverable in the event of change in control of our company. The number of shares issued is subjected to adjustments based upon Orangelife’s working capital at closing. The fair value of the shares on the date of the acquisition are recorded in equity.

The purchase consideration is subject to routine post-closing adjustments. The acquisition of Orangelife will allow us to expand our commercial presence by offering our products to the state, private, and pharmacy markets in Brazil, in addition to providing local support to our long time customer Bio-Manguinhos, the subsidiary of the Oswaldo Cruz Foundation (Fiocruz) that oversees development and production of vaccines, diagnostics, and biopharmaceuticals, primarily to meet the demands of Brazil’s national public health system. The results of Orangelife’s operations have been reflected in the consolidated financial statements since November 25, 2019.

The acquisition was accounted for using the purchase method of accounting. The following table summarizes the allocation of the purchase price to the estimated fair values of the assets acquired and liabilities assumed on the closing date of November 25, 2019:

	<b>Amount</b>
Net current assets	\$ 320,293
Property, plant and equipment and other assets	226,035
Inventory	289,205
Goodwill	986,058
Deferred tax liability	(50,000)
Other intangible assets (estimated useful life):	
Trade name (0.5 years)	5,000
Customer contracts / relationships (5 years)	195,000
Total consideration	<u>\$ 1,971,591</u>

The Company calculated the fair value of the fixed assets based on the net book value of Orangelife as that approximates fair value. The trade name, customer contracts/relationships and contingent earnouts were based on discounted cash flows using management estimates.

As a result of the consideration paid exceeding the fair value of the net assets acquired, goodwill in the amount of \$986,058 was recorded in connection with this acquisition, none of which will be deductible for tax purposes. In addition, the Company recorded \$200,000 in intangible assets associated with the addition of Orangelife's trade name and customer base. The Consolidated Statements of Operations for the year ended December 31, 2019 include \$325,853 of transaction costs related to the Orangelife acquisition.

The following represents pro forma operating results for the year ended December 31, 2019 as if the operations of Orangelife had been included in the Company's Consolidated Statements of Operations as of January 1, 2019. This pro forma financial information is unaudited and presented for illustrative purposes only and is not necessarily indicative of the operating results that would have occurred if the acquisition of Orangelife and the other transactions contemplated by this acquisition had been completed as of January 1, 2019, nor is it necessarily indicative of the future operating results of Chembio Diagnostics and Orangelife on a combined and consolidated basis.

	<b>Unaudited Proforma December 31, 2019</b>
Total revenues	<u>\$ 35,157,248</u>
Net loss	<u>\$ (13,654,001)</u>
Net loss per common share	<u>\$ (0.80)</u>
Diluted net loss per common share	<u>\$ (0.80)</u>

opTricon

On November 6, 2018, pursuant to a share purchase agreement, the Company acquired all of the outstanding shares of opTricon GmbH (“opTricon”), a privately-held Germany based developer and manufacturer of handheld analyzers for rapid diagnostic tests, for \$5.5 million in cash, subject to routine post-closing adjustments. Since 2015, the Company and opTricon have been parties to an agreement under which the Company has collaborated in developing its DPP Micro Reader, a handheld, battery-operated analyzer that uses an innovative image sensor to provide, when combined with the Company’s DPP tests, a quantitative interpretation of diagnostic results. The Company purchased opTricon because it believes it will enable it to promote DPP tests and DPP Micro Readers more actively across global markets. The results of opTricon operations have been reflected in the consolidated financial statements since November 6, 2018.

As a result of the consideration paid exceeding the fair value of the net assets acquired, goodwill in the amount of \$3,290,888 was recorded in connection with this acquisition, none of which will be deductible for tax purposes. In addition, the Company recorded \$2,260,000 in intangible assets associated with the addition of opTricon’s developed technology and customer base. The Consolidated Statements of Operations for the year ended December 31, 2019 and 2018 includes \$395,612 and \$337,645 of transaction costs related to the opTricon acquisition, respectively.

The acquisition was accounted for using the purchase method of accounting. The following table summarizes the allocation of the purchase price to the estimated fair values of the assets acquired and liabilities assumed on the closing date of November 6, 2018:

	<u>Amount</u>
Net current assets	\$ 404,204
Property, plant and equipment	125,000
Goodwill	3,383,112
Deferred tax liability	(681,112)
Other intangible assets (estimated useful life):	
Developed technology (7 years)	1,900,000
Customer contracts / relationships (10 years)	360,000
Total consideration	<u>\$ 5,491,204</u>

The Company calculated the fair value of the fixed assets based on the net book value of opTricon as that approximates fair value. The developed technology and customer contracts/relationships were based on discounted cash flows using management estimates.

The following represents unaudited pro forma operating results for the year ended December 31, 2018 as if the operations of opTricon had been included in the Company’s Consolidated Statements of Operations as of January 1, 2018:

	<u>Proforma</u> <u>December 31, 2018</u>
Total revenues	<u>\$ 36,614,995</u>
Net loss	<u>\$ (8,394,074)</u>
Net loss per common share	<u>\$ (0.58)</u>
Diluted net loss per common share	<u>\$ (0.58)</u>

The pro forma financial information includes business combination accounting effects from the acquisition including amortization charges from acquired intangible assets of opTricon approximately \$351,000 for the year ended December 31, 2018. The unaudited pro forma information as presented above is for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of fiscal 2018. Included in the proforma table above are opTricon’s net revenues and pre-tax loss for the year ended December 31, 2018 which were approximately \$2,214,000 and \$213,000, respectively. opTricon’s results of operations from the date of acquisition through December 31, 2018 are immaterial to the Company’s Consolidated Statements of Operations.

### **NOTE 3 — SIGNIFICANT ACCOUNTING POLICIES:**

#### ***(a) Principles of Consolidation:***

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany transactions and balances are eliminated in consolidation.

#### ***(b) Use of Estimates:***

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make assumptions and estimates that affect the amounts reported in the consolidated financial statements and accompanying notes. Judgments and estimates of uncertainties are required in applying the Company's accounting policies in certain areas. Generally, matters subject to estimation and judgment include accounts receivable realization, inventory obsolescence, asset impairments, recognition of revenue pursuant to milestones, useful lives of intangible and fixed assets, stock-based compensation, and deferred tax asset valuation allowances. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may be based upon amounts that differ from those estimates.

#### ***(c) Fair Value of Financial Instruments:***

The carrying value for cash and cash equivalents, accounts receivable, and accounts payable, approximate fair value due to the immediate or short-term maturity of these financial instruments. Included in cash and cash equivalents is \$16.0 million and \$4.7 million as of December 31, 2019 and 2018, respectively, of money market funds that are Level 1 fair value measurements under the hierarchy. The fair value of the Company's notes payable approximates the recorded value as the rate is based upon the current rates offered to the Company for similar financial instruments.

Fair value measurements of all financial assets and liabilities that are being measured and reported on a fair value basis are required to be classified and disclosed in one of the following three categories:

- Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2: Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability; and
- Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

#### ***(d) Cash and Cash Equivalents:***

Cash and cash equivalents are defined as short-term, highly liquid investments with original maturities of three months or less.

**(e) Concentrations of Credit Risk:**

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of temporary cash investments and trade receivables. The Company places its temporary cash instruments with well-known financial institutions and, at times, may maintain balances in excess of the FDIC insurance limit. The Company monitors the credit ratings of the financial institutions to mitigate this risk. Concentration of credit risk with respect to trade receivables is principally mitigated by the Company's ability to obtain letters of credit from certain foreign customers and its diverse customer base, both in number of customers and geographic locations.

**(f) Inventories:**

Inventories, consisting of material, labor and manufacturing overhead, are stated at the lower of cost and net realizable value. Cost is determined on the first-in, first-out method. The Company's policy is to periodically evaluate the market value of the inventory and the stage of product life cycle, and record a write-down for any inventory considered slow moving or obsolete.

**(g) Fixed Assets:**

Fixed assets are stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, which range from three to seven years. Leasehold improvements are amortized over the useful life of the asset or the lease term, whichever is shorter. Deposits paid for fixed assets are capitalized and not depreciated until the related asset is placed in service.

**(h) License Agreements:**

The Company records up-front payments related to license agreements as prepaids and amortizes them over their respective economic life. As of December 31, 2019 and 2018, total prepaids were \$100,000 and \$100,000, respectively.

Amortization expenses for the licenses above for the years ended December 31, 2019, and 2018 were \$0, and \$0, respectively.

**(i) Valuation of Long-Lived Assets and Intangible Assets:**

Long-lived assets to be held and used are analyzed for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. The Company evaluates at each balance sheet date whether events and circumstances have occurred that indicate possible impairment. If there are indications of impairment, the Company uses future undiscounted cash flows of the related asset or asset grouping over the remaining life in measuring whether the assets are recoverable. In the event such cash flows are not expected to be sufficient to recover the recorded asset values, the assets are written down to their estimated fair value. No impairment of long-lived tangible and intangible assets was recorded for the years ended December 31, 2019 and 2018.

**(j) Revenue Recognition:**

In May 2014, the Financial Accounting Standards Board ("FASB") issued converged guidance on recognizing revenue in contracts with customers, Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*. The intent of the new standard is to improve financial reporting and comparability of revenue globally. The core principle of the standard is for a company to recognize revenue in a manner that depicts the transfer of goods or services to customers in an amount that reflects the consideration which the company expects to receive in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price, and in certain circumstances, allowing estimates of variable consideration to be recognized before contingencies are resolved. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

The new revenue standards became effective for the Company on January 1, 2018 and were adopted using the modified retrospective method. The adoption of the new revenue standards as of January 1, 2018 did not change the Company's revenue recognition as its revenues continue to be recognized when the customer takes control of its product. As the Company did not identify any material accounting changes that impacted the amount of reported revenues with respect to its product revenue, license and royalty revenue, and R&D, milestone and grant revenues, no adjustment to retained earnings was required upon adoption.

The Company adopted the standards to contracts that were not completed at the date of initial application (January 1, 2018).

Under the new revenue standards, the Company recognizes revenues when its customer obtains control of promised goods or services, in an amount that reflects the consideration which the Company expects to receive in exchange for those goods or services. The Company recognizes revenues following the five-step model prescribed under ASU No. 2014-09: (i) identify contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenues when (or as) the Company satisfies the performance obligation.

### *Product Revenues*

Revenues from product sales are recognized and commissions are accrued when the customer obtains control of the Company's product, which occurs at a point in time, typically upon tendering to the customer. The Company expenses incremental costs of obtaining a contract as and when incurred because the expected amortization period of the asset that it would have recognized is one year or less or the amount is immaterial. Freight and distribution activities on products are performed after the customer obtains control of the goods. The Company has made an accounting policy election to account for shipping and handling activities that occur either when or after goods are tendered to the customer as a fulfillment activity, and therefore recognizes freight and distribution expenses in Cost of Product Sales. The Company excludes certain taxes from the transaction price (e.g., sales, value added and some excise taxes).

Our contracts with customers often include promises to transfer products or services to a customer. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require judgment. Typical products sold are diagnostic tests and typical services performed are R&D feasibility studies. Revenues from sale of products are recognized point-in-time and revenues from R&D feasibility studies are recognized ratably, over the period of the agreement.

Judgement is required to determine the stand-alone selling price ("SSP") for each distinct performance obligation. SSP is directly observable and we can use a range of amounts to estimate SSP, as we sell products and services separately, and can determine whether there is a discount to be allocated based on the relative SSP of the various products and services, for the various geographies. The Company currently does not have agreements in which multiple performance obligations are sold combined.

The Company's payment terms vary by the type and location of the Company's customer and products or services offered. Payment terms differ by jurisdiction and customer but payment is generally required in a term ranging from 30 to 60 days from date of shipment or satisfaction of the performance obligation.

### *Reserves for Discounts and Allowances*

Revenues from product sales are recorded net of reserves established for applicable discounts and allowances that are offered within contracts with the Company's customers. The Company's process for estimating reserves established for these variable consideration components does not differ materially from its historical practices.

Product revenue reserves, which are classified as a reduction in product revenues, are generally related to discounts. Estimates of variable consideration and the determination of whether to include estimated amounts in the transaction price are based on all information (historical, current and forecasted) that is reasonably available to the Company, taking into consideration the type of customer, the type of transaction and the specific facts and circumstances of each arrangement. The transaction price, which includes variable consideration reflecting the impact of discounts and allowances, may be subject to constraint and is included in the net sales price only to the extent that it is probable that a significant reversal of the amount of the cumulative revenues recognized will not occur in a future period. Actual amounts may ultimately differ from the Company's estimates. If actual results vary, the Company adjusts these estimates, which could have an effect on earnings in the period of adjustment.

### *Royalty Revenues*

The Company receives royalty revenues on sales by its licensee of products covered under patents that it owns. The Company does not have future performance obligations under this license arrangement. The Company records these revenues based on estimates of the sales that occurred during the relevant period as a component of license and royalty revenues. The relevant period estimates of sales are based on interim data provided by the licensee and analysis of historical royalties that have been paid to the Company, adjusted for any changes in facts and circumstances, as appropriate. Differences between actual and estimated royalty revenues are adjusted for in the period in which they become known, typically the following quarter. Historically, adjustments have not been material when compared to actual amounts paid by licensee.

### *R&D and grant revenue*

All such contracts are evaluated under the five-step model described above. For certain contracts that represent grants where the funder does not meet the definition of a customer, the Company recognizes revenue when earned in accordance with ASC 958. Such contracts are further described under *Disaggregation of Revenue*, below. Grants are invoiced and revenue is recognized ratably as that is the depiction of the timing of the transfer of services. Performance obligation is the feasibility study which encompasses various phases of product development processes: design feasibility & planning, product development & design optimization, design verification, design validation & process validation, and pivotal studies.

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. This ASU clarifies the guidance presented in Topic 958, "Not-for-Profit Entities," of the FASB's Accounting Standards Codification (ASC) for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made.

## Disaggregation of Revenue

The following tables disaggregate Total Revenues for the year ended December 31, 2019, by type of transaction and by geography:

	<b>Exchange Transactions</b>	<b>Non-Exchange Transactions</b>	<b>Total</b>
Net product sales	\$ 28,844,997	\$ –	\$ 28,844,997
R&D, milestone and grant revenue	3,321,031	1,359,251	4,680,282
License and royalty revenue	938,753	–	938,753
	<u>\$ 33,104,781</u>	<u>\$ 1,359,251</u>	<u>\$ 34,464,032</u>

Exchange transactions are recognized in accordance with ASC 606, while non-exchange transactions are recognized in accordance with ASU No. 2018-08.

	<b>Total</b>
Africa	\$ 7,564,360
Asia	888,800
Europe & Middle East	6,498,995
Latin America	11,808,768
United States	7,703,109
	<u>\$ 34,464,032</u>

The following tables disaggregate Total Revenues for the year ended December 31, 2018, by type of transaction and by geography:

	<b>Exchange Transactions</b>	<b>Non-Exchange Transactions</b>	<b>Total</b>
Net product sales	\$ 27,913,209	\$ –	\$ 27,913,209
R&D, milestone and grant revenue	2,687,210	3,032,248	5,719,458
License and royalty revenue	948,773	–	948,773
	<u>\$ 34,581,440</u>	<u>\$ 3,032,248</u>	<u>\$ 34,581,440</u>

Exchange transactions are recognized in accordance with ASC 606, while non-exchange transactions are recognized in accordance with ASU No. 2018-08.

	<b>Total</b>
Africa	\$ 8,838,632
Asia	1,404,982
Europe & Middle East	4,895,273
Latin America	12,546,083
United States	6,896,470
	<u>\$ 34,581,440</u>

## Contract Liabilities

Deferred revenue relates to payments received in advance of performance under the contract. Deferred revenue is recognized as revenue as (or when) the Company performs under the contract. At December 31, 2018, the Company reported \$422,905 in deferred revenue of which \$422,905 was earned and recognized as R&D, milestone and grant revenue during the year ended December 31, 2019. At December 31, 2019, the Company reported \$125,000 in deferred revenue which is expected to be recognized during the first quarter of 2020.

In April 2017, the Company entered into a \$1.1 million agreement with FIND to develop a simple, point-of-care fever panel assay that can identify multiple life-threatening acute febrile illnesses common in the Asia Pacific region. The Company earned \$0.2 million and \$1.1 million for the year ended December 31, 2019, and from inception through December 31, 2019, respectively as R&D, milestone and grant revenue in the Company's Consolidated Statements of Operations.

In August 2016, the Company was awarded a grant of \$5.9 million from BARDA, which is part of the U.S. Department of Health And Human Resources to develop a rapid Zika virus assay. The Company earned \$0.6 million and \$5.9 million for the year ended December 31, 2019 and from inception through December 31, 2019, respectively, as R&D, milestone and grant revenue in the Company's Consolidated Statements of Operations.

**(k) Research and Development:**

Research and development (R&D) costs are expensed as incurred. Advance payments for goods and services that will be used in future research and development activities are expensed when the activity has been performed or when the goods have been received rather than when the payment is made.

**(l) Stock-Based Compensation:**

The fair value of restricted stock and restricted stock unit awards are their fair value on the date of grant. Stock-based compensation expense for stock options is calculated using the Black-Scholes valuation model based on awards ultimately expected to vest together with the fair value of restricted stock and restricted stock unit awards, are, reduced for actual forfeitures, and, expensed on a straight-line basis over the requisite service period of the grant. During 2018, the Company adopted ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting".

**(m) Income Taxes:**

The Company accounts for income taxes under an asset and liability approach that recognizes deferred tax assets and liabilities based on the difference between the financial statement carrying amounts and the tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse.

The Company follows a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return. The guidance relates to, among other things, classification, accounting for interest and penalties associated with tax positions, and disclosure requirements. Any interest and penalties accrued related to uncertain tax positions are recorded in tax expense.

The Company assesses the realizability of its net deferred tax assets on an annual basis. If, after considering all relevant positive and negative evidence, it is more likely than not that some portion or all of the net deferred tax assets will not be realized, the Company will reduce the net deferred tax assets by a valuation allowance. The realization of net deferred tax assets is dependent on several factors, including the generation of sufficient taxable income prior to the expiration of net operating loss carryforwards.

**(n) Loss Per Share:**

Basic loss per share is computed by dividing net loss attributable to common stockholders by the weighted-average number of common shares outstanding for the period including outstanding restricted stock that by its terms is includible in the calculation. Diluted loss per share for the years ended December 31, 2019, and 2018 reflects the potential dilution from the exercise or conversion of other securities into common stock, if dilutive.

There were 666,197, and 732,906 options outstanding as of December 31, 2019 and 2018, respectively, which were not included in the calculation of diluted income per share for the years ended because their effect would have been anti-dilutive.

(o) **Goodwill and Intangible Assets:**

Goodwill represents the excess of the purchase price the Company paid over the fair value of the net tangible and identifiable intangible assets acquired in the Company's acquisition of opTricon in November 2018, Chembio Diagnostics Malaysia in January 2017 and Orangelife in November 2019. Goodwill is not amortized but rather is tested annually as of the first day of the fiscal fourth quarter, or sooner if the Company believes that indicators of impairment exist. The Company makes a qualitative evaluation about the likelihood of goodwill impairment, which is based on a number of applicable factors. If the Company concludes that it is more likely than not that the carrying value of the applicable reporting unit is greater than its fair value, then it would recognize an impairment charge for the amount by which the carrying value exceeds the reporting unit's fair value, provided the impairment charge does not exceed the total amount of goodwill allocated to the reporting unit.

For the year ended December 31, 2019 and 2018, there was no impairment of goodwill and other intangible assets.

Following is a table that reflects changes in Goodwill:

Beginning balance January 1, 2019	\$ 4,983,127
Acquisition of Orangelife	986,058
Chembio Diagnostics GmbH measurement period adjustment	(99,648)
Changes in foreign currency exchange rate	3,153
Balance at December 31, 2019	<u>\$ 5,872,690</u>

Intangible assets consist of the following at:

	Weighted Average Remaining Life	December 31, 2019			December 31, 2018		
		Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Intellectual property	6	\$ 1,418,681	\$ 299,232	\$ 1,119,449	\$ 1,089,688	\$ 173,633	\$ 916,055
Developed technology	6	1,922,682	266,550	1,656,132	1,910,315	-	1,910,315
Customer contracts/relationships	7	1,325,521	270,902	1,054,619	1,121,600	151,929	969,671
Trade names	8	114,946	30,794	84,152	108,521	19,731	88,790
		<u>\$ 4,781,830</u>	<u>\$ 867,478</u>	<u>\$ 3,914,352</u>	<u>\$ 4,230,124</u>	<u>\$ 345,293</u>	<u>\$ 3,884,831</u>

Amortization expense for the year ended December 31, 2019 and 2018 was \$515,263 and \$233,734, respectively, and is recorded within COGS, R&D and Selling, General and Administrative expenses. Amortization expense, subject to changes in currency exchange rates, is expected to be approximately \$590,000 per year from 2020 through 2024, and total \$1 million for all of the years thereafter.

**(p) Allowance for Doubtful Accounts:**

The Company records allowances for doubtful accounts for the estimated probable losses on uncollectible accounts receivable. The allowance is based upon the credit worthiness of the Company's customers, the Company's historical experience, the age of the receivable and current market and economic conditions. Receivables are written off against these allowances in the period they are determined to be uncollectible.

**(q) Acquisition Costs:**

Acquisition costs include period expenses, primarily professional services, related to acquisition activities.

**(r) Foreign Currency Translation:**

The functional currency of a foreign subsidiary is the local currency. Assets and liabilities of foreign subsidiaries that use a currency other than U.S. dollars as their functional currency are translated to U.S. dollars at end of period currency exchange rates. The consolidated statements of operations of foreign subsidiaries are translated to U.S. dollars at average period currency exchange rates. The effect of translation for foreign subsidiaries is generally reported in other comprehensive income. Foreign transaction gains/losses are immaterial.

**(s) Recent Accounting Pronouncements Affecting the Company:**

In February 2016, the FASB issued ASU No. 2016-02, *Leases* ("ASU 2016-02"). ASU 2016-02 requires the entity to recognize the assets and liabilities for the rights and obligations created by leased assets. Leases will be classified as either finance or operating, with classification affecting expense recognition in the income statement. In July 2018 the FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases*, and ASU 2018-11, *Leases (Topic 842) Targeted Improvements*, which provide supplemental adoption guidance and clarification to ASU 2016-02, and must be adopted concurrently with the adoption of ASU 2016-02, cumulatively referred to as "Topic 842". Topic 842 was effective for the Company in the first quarter of 2019, with early adoption permitted, and was applied using either a modified retrospective approach, or an optional transition method which allows an entity to apply the new standard at the adoption date with a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.

As further discussed on Note 12(c) – Leases, the Company adopted Topic 842 on January 1, 2019 under the optional transition method and elected the short-term lease exception and available practical expedients. Under the transition method, the Company did not adjust its comparative period financial information or make the new required lease disclosures for periods before the effective date. The impact of adoption of right-of-use assets and liabilities on January 1, 2019 was \$0.8 million, and \$0.8 million, respectively.

In March 2016, the FASB issued authoritative guidance under ASU 2016-09, *Compensation-Stock Compensation (Topic 718) Improvements to Employee Share-Based Payment Accounting*. ASU 2016-09 provides for simplification of several aspects of the accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. The Company adopted ASU 2016-09 on January 1, 2017. As the Company has a full valuation allowance against its U.S. net deferred tax assets, the adoption of this standard for recognition of the tax effect of deductions for employee share awards in excess of compensation costs ("windfall") did not have a material impact on its consolidated financial statements and related disclosures. See Note 8 – Income Taxes, for additional information. Should the full valuation allowance be reversed in future periods, the adoption of this new guidance could introduce more volatility in the calculation of the Company's effective tax rate, depending on the Company's share price at exercise or vesting of share-based awards as compared to grant date. The other provisions of ASU 2016-09 did not have a material impact on the Company's consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which provides guidance related to cash flows presentation. The Company adopted ASU 2016-15 in the first quarter of 2018. The guidance in ASU 2016-15 is generally consistent with the Company's current cash flow classifications, and did not have a material impact on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which requires an entity to no longer perform a hypothetical purchase price allocation to measure goodwill impairment. Instead, impairment will be measured using the difference between the carrying amount and the fair value of the reporting unit. This update will be effective for annual and interim periods in fiscal years beginning after December 15, 2019. Early adoption is permitted. The Company adopted ASU 2017-04 in the fourth quarter of 2017. The adoption of this standard did not have a material impact on the Company's consolidated financial statements and related disclosures.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting*, to provide clarity to which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The Company adopted ASU 2017-09 in the first quarter of 2018. Adoption did not have a material effect on the Company's consolidated financial statements.

In July 2017, the FASB issued ASU 2017-11, *Accounting for Certain Financial Instruments with Down Round Features and Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception*. Part I of this ASU addresses the complexity of accounting for certain financial instruments with down round features. Per the ASU, a freestanding equity-linked financial instrument (or embedded conversion option) no longer would be accounted for as a derivative liability at fair value as a result of the existence of a down round feature. The ASU is effective for public entities for fiscal years beginning after December 15, 2018 and the Company adopted it effective January 1, 2019. This ASU is applicable to the stock warrants issued as part of the Credit Agreement, as further discussed in Note 14 – Warrants.

In July 2018, the FASB issued ASU 2018-08 *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* to clarify the accounting guidance related to contributions made or received. This guidance primarily affects not-for-profit entities, although it also applies to businesses to the extent that they make or receive contributions, including grants. ASU 2018-08 clarifies and improves the scope and accounting guidance for both contributions received and made in order to assist entities in evaluating if those transactions should be accounted for as contributions under the scope of Topic 958, or as an exchange transaction subject to other guidance. Public entities are required to apply the amendments on contributions received and contributions made to annual periods beginning after June 15, 2018, and December 15, 2018, respectively, each including interim periods within those annual periods. Early adoption is permitted, and the Company adopted ASU 2018-08 effective as of January 1, 2018. The impact of adoption was immaterial.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. This standard simplifies the accounting for income taxes by eliminating certain exceptions to the guidance in Topic 740 related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The new guidance also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill and allocating consolidated income taxes to separate financial statements of entities not subject to income tax. ASU 2019-12 is effective for fiscal years beginning after December 15, 2020, with early adoption permitted. Upon adoption, the Company must apply certain aspects of this standard retrospectively for all periods presented while other aspects are applied on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. The Company is currently evaluating the impact of this new standard on its consolidated financial statements.

In June 2016, the FASB issued a new standard to replace the incurred loss impairment methodology under current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. We will be required to use a forward-looking expected credit loss model for accounts receivables, loans, and other financial instruments. Credit losses relating to available-for-sale debt securities will also be recorded through an allowance for credit losses rather than as a reduction in the amortized cost basis of the securities. The standard will be effective for us beginning July 1, 2020, with early adoption permitted beginning July 1, 2019. Adoption of the standard will be applied using a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the effective date to align our credit loss methodology with the new standard. We are currently evaluating the impact of this standard in our consolidated financial statements, including accounting policies, processes, and systems.

**NOTE 4 — INVENTORIES:**

Inventories consist of the following at December 31, 2019:

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Raw Materials	\$ 2,901,319	\$ 2,803,677
Work in Process	793,343	263,043
Finished Goods	5,903,368	4,784,502
	<u>\$ 9,598,030</u>	<u>\$ 7,851,222</u>

**NOTE 5 — FIXED ASSETS:**

Fixed assets consist of the following at December 31, 2019:

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Machinery and Equipment	\$ 7,955,511	\$ 6,070,137
Furniture and Fixtures	21,477	35,287
Computer Equipment	416,359	435,348
Leasehold Improvements	3,038,469	2,334,512
Enterprise Business Systems	1,830,925	462,420
Less: Accumulated Depreciation and Amortization	(7,329,173)	(6,463,784)
	<u>\$ 5,933,569</u>	<u>\$ 2,873,920</u>

Depreciation expense for the 2019 and 2018 years totaled \$933,558 and \$634,261, respectively.

As of December 31, 2019 and 2018, the Company has purchased manufacturing equipment that is not yet in use and therefore has not been depreciated, aggregating \$1,400,181 and \$428,859, respectively.

**NOTE 6 — ACCOUNTS PAYABLE AND ACCRUED LIABILITIES:**

Accounts payable and accrued liabilities consist of the following at December 31, 2019:

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Accounts Payable - suppliers	\$ 3,144,098	\$ 3,622,765
Accrued Commissions & Royalties	931,760	867,344
Accrued Payroll	231,753	48,867
Accrued Vacation	410,199	264,789
Accrued Bonuses	215,000	494,318
Accrued Expenses - Other	593,433	590,598
	<u>\$ 5,526,243</u>	<u>\$ 5,888,681</u>

**NOTE 7 — DEFERRED RESEARCH AND DEVELOPMENT REVENUE:**

The Company recognizes income from R&D milestones when those milestones are reached and non-milestone contracts and grants when earned. These projects are invoiced after expenses are incurred. Any projects or grants funded in advance are deferred until earned. As of December 31, 2019 and 2018, there were \$125,000 and \$422,905 unearned advanced revenues, respectively.

**NOTE 8 — INCOME TAXES:**

The components of (loss) before income taxes consisted of the following:

	<b>Year Ending December 31,</b>	
	<b>2019</b>	<b>2018</b>
United States operations	\$ (12,504,780)	\$ (7,137,428)
International operations	(1,670,641)	(795,742)
(Loss) before taxes	<u>\$ (14,175,421)</u>	<u>\$ (7,933,170)</u>

The (benefit from) provision for income taxes for the years ended December 31, 2019 and 2018 is comprised of the following:

	<b>Year Ending December 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Current</b>		
Federal	\$ —	\$ —
State	9,790	10,911
Foreign	3,633	—
Total current (benefit) provision	<u>13,423</u>	<u>10,911</u>
<b>Deferred</b>		
Federal	—	—
State	—	—
Foreign	(513,715)	(78,435)
Total deferred (benefit) provision	<u>(513,715)</u>	<u>(78,435)</u>
Total (benefit) provision	<u>\$ (500,292)</u>	<u>\$ (67,521)</u>

A reconciliation of the Federal statutory rate to the effective rate applicable to loss before income taxes is as follows:

	<b>Year Ending December 31,</b>	
	<b>2019</b>	<b>2018</b>
Federal income tax at statutory rates	21.00%	21.00%
State income taxes, net of federal benefit	(0.05)%	(0.10)%
Nondeductible expenses	(1.00)%	(1.58)%
Foreign rate differential	0.45%	0.36%
Change in valuation allowance	(17.51)%	(18.44)%
Other	0.64%	(0.39)%
Income tax benefit	<u>3.53%</u>	<u>0.85%</u>

In January 2018, the FASB released guidance on the accounting for tax on the global intangible low-taxed income (“GILTI”) provisions of the Tax Act. The GILTI provisions impose a tax on foreign income in excess of a deemed return on tangible assets of foreign corporations. The guidance allows companies to make an accounting policy election to either (1) account for GILTI as a component of tax expense in the period in which they are subject to the rules (the period cost method), or (ii) account for GILTI in the Company’s measurement of deferred taxes (the deferred method). After completing the analysis of the GILTI provisions, the Company elected to account for GILTI using the period cost method.

The Company had an ownership change as described in Internal Revenue Code Sec. 382 during 2004 (“2004 change”). As a result, the Company’s net operating losses prior to the 2004 change of \$5,832,516 were subject to an annual limitation of \$150,608 and for the first five (5) years are entitled to a BIG (Built-In-Gains) of \$488,207 per year. These net operating losses expire in 2020 through 2024.

The Company had a second ownership change during 2006 (“2006 change”). The net operating losses incurred between the 2004 change and the 2006 change of \$8,586,861 were subject to an annual limitation of \$1,111,831 and for the first five (5) years are entitled to a BIG of \$1,756,842 per year. These net operating losses expire in 2024 through 2026.

After applying the above limitations, at December 31, 2019, the Company has post-change net operating loss carry-forwards of approximately \$27,235,494 which expire between 2020 and 2037 and \$16,242,683 which do not expire. In addition the Company has research and development tax credit carryforwards of approximately \$1,679,495 for the year ended December 31, 2019, which expire between 2020 and 2036.

The Company has state net operating loss carryforwards of approximately \$1,912,798 which generally expire between 2035 and 2039. The Company has foreign net operating loss carryforwards of approximately \$3,355,645 which generally expire between 2025 and 2026.

	2019	2018
Inventory reserves	\$ 196,193	\$ 204,206
Accrued expenses	105,323	175,168
Net operating loss carry-forwards	10,079,317	7,122,576
Research and development credit	1,679,495	1,696,870
Stock-based compensation	581,053	215,797
Lease obligations	1,646,584	–
Depreciation	44,993	139,362
Total deferred tax assets	<u>14,332,958</u>	<u>9,553,979</u>
Right-of-use assets	(1,538,129)	–
Intangibles	(921,807)	(968,849)
Total deferred tax liabilities	<u>(2,459,936)</u>	<u>(968,849)</u>
Net deferred tax assets before valuation allowance	<u>11,873,022</u>	<u>8,585,130</u>
Less valuation allowances	<u>(12,339,348)</u>	<u>(9,477,438)</u>
Net noncurrent deferred tax liabilities	<u>\$ (466,326)</u>	<u>\$ (892,308)</u>

The Company does not provide for U.S. income taxes on unremitted earnings of foreign subsidiaries as its present intention is to reinvest the unremitted earnings in the Company’s foreign operations. At December 31, 2019 there were no unremitted earnings of foreign subsidiaries.

Interest and penalties, if any, related to income tax liabilities are included in income tax expense. As of December 31, 2019, the Company does not have a liability for uncertain tax positions.

The Company files Federal and state income tax returns, Chembio Germany files in Germany, Chembio Brazil files in Brazil and Chembio Malaysia files in Malaysia and has been on tax holiday which expired on December 31, 2018. With few exceptions, tax years for fiscal 2016 through 2019 are open and potentially subject to examination by federal, state and foreign taxing authorities.

## **NOTE 9 — STOCKHOLDERS' EQUITY:**

### *(a) Common Stock*

During 2019, options to purchase 54,343 shares of the Company's common stock were exercised for 31,543 shares of common stock at exercise prices ranging from \$3.48 to \$4.35. During 2018, options to purchase 144,947 shares of the Company's common stock were exercised for 71,290 shares of common stock at exercise prices ranging from \$3.48 to \$5.64 by surrendering options and shares of common stock already owned.

In November 2018, the Company closed on an underwritten public offering of 2,726,000 shares of its common stock, including the underwriter's exercise of its overallotment of 355,565 shares, at \$6.75 per share. The net proceeds of the offering, after deducting the underwriter's discounts and other offering expenses payable by the Company, was approximately \$16.5 million.

In February 2018, the Company closed on an underwritten registered public offering of 1,783,760 shares of its common stock at \$6.75 per share. The net proceeds of the offering, after deducting the underwriter's discounts and other offering expenses payable by the Company, was approximately \$10.9 million.

### *(b) Preferred Stock*

The Company has 10,000,000 shares of preferred stock authorized and none outstanding. These shares can become issuable upon an approved resolution by the board of directors and the filing of a Certificate of Designation with the state of Nevada.

### *(c) Options, Restricted Stock, and Restricted Stock Units*

The Board of Directors or its Compensation Committee may issue options, restricted stock, and restricted stock units pursuant to employee stock incentive plans that have been approved by the Company's stockholders.

### *(d) Warrants*

As of December 31, 2019, the Company has 550,000 warrants outstanding to purchase shares of common stock as further discussed in Note 14 – Warrants.

## **NOTE 10 — EQUITY INCENTIVE PLANS:**

Effective June 3, 2008, the Company's stockholders voted to approve the 2008 Stock Incentive Plan ("SIP"), with 625,000 shares of common stock available to be issued. At the Annual Stockholder Meeting on September 22, 2011 the Company's stockholders voted to approve an increase to the shares of common stock issuable under the SIP by 125,000 to 750,000. Under the terms of the SIP, which expired during 2018, the Board of Directors or its Compensation Committee had the discretion to select the persons to whom awards were to be granted. Awards could be stock options, restricted stock and/or restricted stock units ("Equity Award Units"). The awards became vested at such times and under such conditions as determined by the Board or its Compensation Committee. Cumulatively through December 31, 2019, there were 0 options exercised, and at December 31, 2019, 0 options were outstanding and no Equity Award Units were available to be issued under the SIP.

Effective June 19, 2014, the Company's stockholders voted to approve the 2014 Stock Incentive Plan ("SIP14"), with 800,000 shares of common stock available to be issued. Under the terms of the SIP14, the Board or its Compensation Committee has the discretion to select the persons to whom awards are to be granted. Awards can be in the form of Equity Award Units. The awards become vested at such times and under such conditions as determined by the Board or its Compensation Committee. Cumulatively through December 31, 2019, there were 54,343 options exercised, and at December 31, 2019, 642,625 options were outstanding and 148,667 Equity Award Units were still available to be issued under the SIP14.

Effective June 18, 2019, the Company's stockholders voted to approve the 2019 Omnibus Incentive Plan ("2019 Plan"), with 2,400,000 shares of common stock available to be issued. In addition, shares of Common Stock underlying any outstanding award granted under the 2019 Plan that, following the effective date of the 2019 Plan, expires, or is terminated, surrendered or forfeited for any reason without issuance of such shares shall be available for the grant of new awards under the 2019 Plan. Under the terms of the 2019 Plan, the Board or its Compensation Committee has the discretion to select the persons to whom awards are to be granted. Awards can be in the form of options, stock appreciation rights, restricted stock, restricted stock unit, or other stock-based award under the 2019 Plan (collectively, 2019 Equity Units). The awards become vested at such times and under such conditions as determined by the Board or its Compensation Committee. Cumulatively through December 31, 2019, there were 375,000 2019 Equity Units awarded under the 2019 Plan, and 2,025,000 2019 Equity Units available to be awarded.

The Company's results for the years ended December 31, 2019 and 2018 include stock-based compensation expense totaling \$1,655,900 and \$632,805, respectively. Such amounts have been included in the Consolidated Statements of Operations within cost of product sales (\$10,806 and \$25,615, respectively), research and development (\$228,597 and \$78,831, respectively) and selling, general and administrative expenses (\$1,416,497 and \$528,360, respectively).

Stock option compensation expense in the years ended December 31, 2019 and 2018 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. The stock compensation expense were \$261,088 and \$351,556 in December 31, 2019 and 2018, respectively.

No stock options were issued during 2019. The weighted average estimated fair value of stock options granted in the year ended December 31, 2018 was \$3.76 per share. 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 historical volatility of the Company's stock and other contributing factors. The expected term is based on the Company's historical experience with similar type options.

The weighted-average assumptions made in calculating the fair values of options are as follows for the respective years ended December 31:

	<u>2019</u>	<u>2018</u>
<b>Expected term (in years)</b>	n/a	4.96
<b>Expected volatility</b>	n/a	39.91%
<b>Expected dividend yield</b>	n/a	n/a
<b>Risk-free interest rate</b>	n/a	2.70%

The following table provides stock option activity for the years ended December 31, 2019 and 2018:

	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
<b>Outstanding at December 31, 2017</b>	810,670	\$ 5.18	3.69 years	\$ 2,477,853
Granted	93,750	9.80		
Exercised	144,947	4.83		523,327
Forfeited/expired/cancelled	47,505	8.82		
<b>Outstanding at December 31, 2018</b>	<u>711,968</u>	<u>\$ 5.62</u>	3.33 years	<u>\$ 687,364</u>
<b>Exercisable at December 31, 2018</b>	<u>396,799</u>	<u>\$ 4.70</u>	2.66 years	<u>\$ 568,956</u>
<b>Outstanding at December 31, 2018</b>	711,968	\$ 5.62	3.33 years	\$ 687,364
Granted	–	\$ 0.00		–
Exercised	54,343	\$ 3.60		172,242
Forfeited/expired/cancelled	15,000	\$ 5.68		–
<b>Outstanding at December 31, 2019</b>	<u>642,625</u>	<u>\$ 5.79</u>	2.57 years	<u>\$ 285,925</u>
<b>Exercisable at December 31, 2019</b>	<u>493,958</u>	<u>\$ 5.22</u>	2.20 years	<u>\$ 285,925</u>

The following table summarizes information about stock options outstanding at December 31, 2019:

Range of Exercise Prices	Stock Options Outstanding				Stock Options Exercisable		
	Shares Outstanding	Average Remaining Contract Life (Year)	Weighted Average Exercise Price	Aggregate Intrinsic Value	Shares Exercisable	Weighted Average Exercise Price	Aggregate Intrinsic Value
1 to 2.79999	–	–	\$ –	\$ –	–	\$ –	\$ –
2.8 to 4.59999	250,000	1.20	3.42	285,925	250,000	3.42	285,925
4.6 to 6.39999	137,875	2.44	5.87	–	87,125	5.89	–
6.4 to 8.19999	207,875	4.05	7.31	–	138,083	7.22	–
8.2 to 12	46,875	3.60	11.45	–	18,750	11.45	–
Total	<u>642,625</u>	<u>2.57</u>	<u>\$ 5.79</u>	<u>\$ 285,925</u>	<u>493,958</u>	<u>\$ 5.22</u>	<u>\$ 285,925</u>

The average remaining contract life for the shares exercisable is 2.2 years, as of December 31, 2019.

As of December 31, 2019, there was \$432,746 of net unrecognized compensation cost related to stock options that are not vested, which is expected to be recognized over a weighted average period of approximately 2.00 years. The total fair value of shares vested during the year ended December 31, 2019, was \$469,032.

The following table summarizes information about restricted stock and restricted stock units outstanding as of December 31, 2019:

	Number of Shares & Units	Weighted Average Grant Date Fair Value
<b>Unvested at December 31, 2018</b>	287,564	\$ 9.65
Granted	375,000	5.80
Vested	(116,578)	9.65
Forfeited/expired/cancelled	—	—
<b>Unvested at December 31, 2019</b>	<u>545,986</u>	<u>7.47</u>

As of December 31, 2019, there was \$3,273,929 of net unrecognized compensation cost related to restricted stock and restricted stock units that are not vested, which is expected to be recognized over a weighted average period of approximately 1.4 years. Stock based compensation cost related to restricted stock and restricted stock units recognized during the years ended December 31, 2019 and 2018 was \$1,394,814 and \$281,249, respectively.

**NOTE 11 — GEOGRAPHIC INFORMATION AND ECONOMIC DEPENDENCY:**

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

	Year Ending December 31,	
	2019	2018
Africa	\$ 7,564,360	\$ 8,838,632
Asia	888,800	1,404,982
Europe & Middle East	3,781,761	2,208,063
Latin America	11,808,767	12,546,083
United States	4,801,309	2,915,449
	<u>\$ 28,844,997</u>	<u>\$ 27,913,209</u>

Long-lived assets by geographic area are as follows:

	2019	2018
Asia	\$ 393,299	\$ 466,185
Europe & Middle East	165,029	123,752
Latin America	60,527	—
United States	5,314,715	2,283,983
	<u>\$ 5,933,569</u>	<u>\$ 2,873,920</u>

**NOTE 12 — COMMITMENTS, CONTINGENCIES AND CONCENTRATIONS:**

a) *Employment Contracts:*

The Company has multi-year contracts with two key employees. The contracts call for salaries presently aggregating \$730,000 per year, and they expire in March 2020 and December 2021. The following table is a schedule of future minimum salary commitments:

2020	\$ 365,000
2021	365,000

Chembio’s President & CEO, the key employee whose agreement was set to expire in March 2020, resigned effective as of January 3, 2020.

b) *Pension Plan:*

The Company has a 401(k) plan established for its employees whereby it matches 40% of the first 5% (or 2% of salary) that an employee contributes to the plan. Matching contribution expenses totaled \$93,892 and \$94,544 for the years ended December 31, 2019 and 2018, respectively.

c) *Leases:*

Chembio's leases have historically been limited to its facilities in New York, Germany, Malaysia & Brazil. As of December 31, 2019, the Company was a party to eight leases. One of the leases is subject to a sublease for the remainder of its term, as further described below.

The Company's leases generally include optional renewal periods. Upon entering into a new lease, the Company evaluates the leasehold improvements and regulatory requirements related to its operations in that location. To the extent that the initial lease term of the related lease is less than the useful life of the leasehold improvements and potential regulatory costs associated with moving the facility, the Company concludes that it is reasonably certain that a renewal option will be exercised, and thus that renewal period is included in the lease term and the related payments are reflected in the right-of-use ("ROU") asset and lease liability. In January 2019 the Company recognized \$0.8 million and \$0.8 million of right-of-use assets and liabilities, respectively. During 2019, the Company entered into a new lease agreement for its new headquarter location in Hauppauge, NY. The right-of-use asset acquired in exchange for right-of-use liabilities was approximately \$6.5 million.

The Company's leases generally include fixed rental payments with defined annual increases. While certain of the Company's leases are gross leases, the majority of the Company's leases are net leases in which the Company makes separate payments to the lessor based on the lessor's property and casualty insurance costs, the property taxes assessed on the property, and a portion of the common area maintenance where applicable. The Company has elected the practical expedient not to separate lease and nonlease components for all of the Company's facility leases. The Company has also elected the practical expedient for short-term lease exception for all of its facility leases.

The components of lease expense were as follows:

	<b>Year Ended December 31, 2019</b>
Operating lease expense	<b>\$ 1,655,573</b>
Finance lease cost	
Amortization of right-of-use assets	\$ 23,372
Interest on lease liabilities	7,892
Total finance lease expense	<b>\$ 31,265</b>

Rent expense was \$653,155 for the year ended December 31, 2018.

Supplemental cash flow and other information related to leases were as follows:

	<b>Year Ended December 31, 2019</b>
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows for operating leases	\$ 632,952
Operating cash flows for finance leases	7,892
Financing cash flows for finance leases	19,875
Right-of-use assets obtained in exchange for lease obligations:	
Operating leases	\$ 7,030,744
Finance leases	210,350

Supplemental balance sheet information related to leases was as follows:

	<b>December 31, 2019</b>
<b>Operating Leases</b>	
Operating lease right-of-use assets	\$ 7,030,744
	-
Current portion of operating lease liability	568,294
Operating lease liabilities	6,969,603
Total operating lease liabilities	\$ 7,537,897
<b>Finance Leases</b>	
Finance lease right of use asset	\$ 233,722
Accumulated depreciation	(23,372)
Finance lease right of use asset, net	\$ 210,350
	-
Current portion of finance lease liability	41,894
Finance lease liability	171,953
Total finance lease liabilities	\$ 213,847
<b>Weighted Average Remaining Lease Term</b>	
Operating leases	9.3 years
Finance leases	4.8 years
<b>Weighted Average Discount Rate</b>	
Operating leases	8.67%
Finance leases	7.00%

During 2019, the Company executed an operating sublease related to its former Holbrook, New York facility. The sublease runs conterminously with the base lease in Holbrook, for which the Company remains primarily responsible. In addition, the Company entered into a finance lease agreement relating to office furniture in June 2019. The Company recognized the corresponding lease asset and liability effective June 30, 2019 and recorded related depreciation starting on July 1, 2019. Monthly payments towards this lease commenced in July 2019.

At the time of the initial assessment, the Company did not have an established incremental borrowing rate and the interest rates implicit in each of the leases were not readily determinable, therefore the Company used an interest rate based on the market place for public debt. In September 2019, the Company entered into a credit agreement for a \$20 million term loan as described on Note 13 - Long Term Debt.

Maturities of lease liabilities as of December 31, 2019 were as follows.

	<b>Operating Leases</b>	<b>Finance Leases</b>
2020	\$ 1,205,161	\$ 55,536
2021	1,209,787	55,536
2022	1,057,757	55,536
2023	1,026,272	55,536
2024	1,018,875	27,767
Thereafter	5,773,887	-
Total lease payments	\$ 11,291,739	\$ 249,911
Less: imputed interest	(3,753,842)	(36,064)
Total	\$ 7,537,897	\$ 213,847

As previously disclosed in the Company's 2018 Annual Report on Form 10-K, and under the previous lease accounting standard, future minimum lease payments for operating leases having initial or remaining non-cancellable lease terms in excess of one year would have been as follows for the years ending December 31:

2019	\$	384,308
2020		88,576
2021		—
	\$	<u>472,884</u>

d) *Economic Dependency:*

Customers are considered major customers when net sales exceed 10% of the Company's total net sales for period or outstanding trade receivables exceed 10% of accounts receivable. The Company had the following major customers for the respective periods:

	For the years ended				Accounts Receivable	
	December 31, 2019		December 31, 2018		December 31, 2019	December 31, 2018
	Net Sales	% of Net Sales	Net Sales	% of Net Sales		
Customer 1	\$ 11,263,573	39%	\$ 11,333,767	33%	\$ 941,962	\$ 3,499,340
Customer 2	5,782,543	20%	4,346,640	13%	16,033	1,033,824

The following table delineates purchases the Company had with vendors in excess of 10% of total purchases for the periods indicated:

	For the years ended				Accounts Payable	
	December 31, 2019		December 31, 2018		December 31, 2019	December 31, 2018
	Purchases	% of Purc.	Purchases	% of Purc.		
Vendor 1	*	*	1,646,614	16%	*	164,312

In the tables above, an asterisk (\*) indicates that purchases from the vendor did not exceed 10% for the period indicated.

The Company purchases materials pursuant to intellectual property rights agreements that 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.

e) *Litigation:*

From time to time, the Company is involved in certain legal actions arising in the ordinary course of business. The outcomes of such actions, either individually or in the aggregate, are not expected to have a material adverse effect on the Company's future financial position or results of operations.

f) *Governmental Regulation:*

All of the Company's existing and proposed diagnostic products are regulated by the U.S. Food and Drug Administration, U.S. 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 regulatory review. After marketing approval has been granted, Chembio must continue to comply with governmental regulations. Failure to comply with applicable requirements can lead to sanctions, including withdrawal of products from the market, recalls, refusal to authorize government contracts, product seizures, civil money penalties, injunctions, and criminal prosecution.

**NOTE 13 — LONG-TERM DEBT:**

In September 2017, the Company entered into an agreement with an equipment vendor to purchase automated assembly equipment for approximately \$660,000. The terms call for payments of 30% down, 60% at time of factory acceptance testing and 10% after delivery. The vendor agreed to lend the Company 15%, 40%, and 10%, of each originally scheduled payment, respectively. The Company paid interest at an annual rate of 12% until delivery. Beginning in September 2018, the Company began making monthly payments of principal and interest of approximately \$20,150, at an annual rate of 12% over a twenty-four month period. The remaining balance was entirely short-term as of December 31, 2019.

On September 3, 2019, the Company entered into a Credit Agreement and Guaranty (the "Credit Agreement") with Perceptive Credit Holdings II, LP (the "Lender"). The Credit Agreement provides for a \$20,000,000 senior secured term loan credit facility, which was drawn in full on September 4, 2019. Under the terms of the Credit Agreement, the Company may use the proceeds (i) for general working capital purposes and other permitted corporate purposes, (ii) to refinance certain of the Company's existing indebtedness and (iii) to pay fees, costs and expenses incurred in connection with the Credit Agreement, including the Lender's closing cost amount of \$550,000, which was netted from the proceeds, and a financing fee of \$600,000 (3.0% of gross proceeds) payable to Craig-Hallum Capital Group LLC, the Company's financial advisor for the financing.

Principal outstanding under the Credit Agreement bears interest at a rate per annum equal to the sum of (a) the greater of the one-month London Interbank Offered Rate and 2.5% plus (b) 8.75%. At any time at which an event of default has occurred and is continuing, the interest rate will increase by 4.0%. Accrued interest is payable on a monthly basis. On December 31, 2019 the interest rate was 11.25%.

No principal repayments are due under the Credit Agreement prior to September 30, 2022, unless the Company elects to prepay principal or principal is accelerated pursuant to an event of default identified in the Credit Agreement. Principal installments in the amount of \$300,000 are payable on the last day of each of the eleven months from September 2022 through July 2023, and all remaining principal is payable at maturity on September 3, 2023. The Company may prepay outstanding principal from time to time, subject to payment of a premium on the prepaid principal amount equal to 10% through September 3, 2020, 8% from September 4, 2020 through September 3, 2021, and 4% from September 4, 2021 through September 3, 2022. No premium will be due with respect to any prepayment made on or after September 4, 2022.

As of December 31, 2019, the loan balance, net of unamortized discounts and debt issuance costs, was \$17.6 million, and the company was in compliance with its loan covenants. Our obligations under the Credit Agreement are secured by a first priority, perfected lien on substantially all of our property and assets, including our equity interests in our subsidiaries.

**NOTE 14 — WARRANTS:**

In connection with entering into the Credit Agreement, on September 3, 2019, the Company issued to the Lender a seven-year warrant (the “Warrant”) to purchase up to 550,000 shares of the Company’s common stock at a per-share exercise price of \$5.22. The Warrant is exercisable for cash or on a net, or “cashless,” basis, and the exercise price of the Warrant is subject to price-based, weighted-average antidilution adjustments for one year after issuance.

The Warrant was evaluated by the Company and classified to stockholder’s equity. Its fair value was estimated using a Black-Scholes option-pricing model using the assumptions below.

Stock price on issuance date	\$	5.40
Strike Price	\$	5.22
Risk-free interest rate		1.45%
Volatility		43.65%
Expected life		7 years

The fair value of the Warrant was determined to be approximately \$1.4 million at \$2.49 per share.

As of December 31, 2019, the balance recorded in the Company’s Stockholders’ Equity for the Warrants, net of allocated issuance costs, was \$1.2 million.

As of December 31, 2019, no warrants were exercised and no warrants have expired.

**CHEMBIO DIAGNOSTICS, INC.**  
**2019 OMNIBUS INCENTIVE PLAN**

Chembio Diagnostics, Inc., a Nevada corporation, sets forth herein the terms of its 2019 Omnibus Incentive Plan, as follows:

**1. PURPOSE**

The Plan is intended to enhance the Company's and its Affiliates' (as defined herein) ability to attract and retain highly qualified officers, Non-Employee Directors (as defined herein), key employees, consultants and advisors, and to motivate such officers, Non-Employee Directors, key employees, consultants and advisors to serve the Company and its Affiliates and to expend maximum effort to improve the business results and earnings of the Company, by providing to such persons an opportunity to acquire or increase a direct proprietary interest in the operations and future success of the Company. To this end, the Plan provides for the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, unrestricted stock, other stock-based awards and cash awards. Any of these awards may, but need not, be made as performance incentives to reward attainment of performance goals in accordance with the terms hereof. Stock options granted under the Plan may be non-qualified stock options or incentive stock options, as provided herein. Upon becoming effective, the Plan replaces, and no further awards shall be made under, the Predecessor Plan (as defined herein).

**2. DEFINITIONS**

For purposes of interpreting the Plan and related documents (including Award Agreements), the following definitions shall apply:

**2.1** "*Affiliate*" means any company or other trade or business that "controls," is "controlled by" or is "under common control" with the Company within the meaning of Rule 405 of Regulation C under the Securities Act, including, without limitation, any Subsidiary.

**2.2** "*Award*" means a grant of an Option, Stock Appreciation Right, Restricted Stock, Restricted Stock Unit, or Other Stock-based Award under the Plan.

**2.3** "*Award Agreement*" means a written agreement between the Company and a Grantee, or notice from the Company or an Affiliate to a Grantee that evidences and sets forth the terms and conditions of an Award.

**2.4** "*Beneficial Owner*" means "Beneficial Owner" as defined in Rule 13d-3 and Rule 13d-5 under the Exchange Act; except that, in calculating the beneficial ownership of any particular Person, such Person shall be deemed to have beneficial ownership of all securities that such Person has the right to acquire by conversion or exercise of other securities, whether such right is currently exercisable or is exercisable only after the passage of time. The term "Beneficial Ownership" has a corresponding meaning.

**2.5** "*Board*" means the Board of Directors of the Company.

**2.6** "*Change in Control*" shall have the meaning set forth in **Section 14.3.2**.

**2.7** "*Code*" means the Internal Revenue Code of 1986, as now in effect or as hereafter amended. References to the Code shall include the valid and binding governmental regulations, court decisions and other regulatory and judicial authority issued or rendered thereunder.

**2.8** "*Committee*" means the Compensation Committee of the Board or any committee or other person or persons designated by the Board to administer the Plan. The Board will cause the Committee to satisfy the applicable requirements of any stock exchange on which the Common Stock may then be listed. For purposes of Awards to Grantees who are subject to Section 16 of the Exchange Act, Committee means all of the members of the Committee who are "non-employee directors" within the meaning of Rule 16b-3 adopted under the Exchange Act. All references in the Plan to the Board shall mean such Committee or the Board.

- 2.9 “*Company*” means Chembio Diagnostics, Inc., a Nevada corporation, or any successor corporation.
- 2.10 “*Common Stock*” or “*Stock*” means a share of common stock of the Company, par value \$2.00 per share.
- 2.11 “*Corporate Transaction*” means a reorganization, merger, statutory share exchange, consolidation, sale of all or substantially all of the Company’s assets, or the acquisition of assets or stock of another entity by the Company, or other corporate transaction involving the Company or any of its Subsidiaries.
- 2.12 “*Effective Date*” means June 18, 2019, the date the Plan was approved by the Company’s stockholders.
- 2.13 “*Exchange Act*” means the Securities Exchange Act of 1934, as now in effect or as hereafter amended.
- 2.14 “*Fair Market Value*” of a share of Common Stock as of a particular date means (i) if the Common Stock is listed on a national securities exchange, the closing or last price of the Common Stock on the composite tape or other comparable reporting system for the applicable date, or if the applicable date is not a trading day, the trading day immediately preceding the applicable date, or (ii) if the shares of Common Stock are not then listed on a national securities exchange, the closing or last price of the Common Stock quoted by an established quotation service for over-the-counter securities, or (iii) if the shares of Common Stock are not then listed on a national securities exchange or quoted by an established quotation service for over-the-counter securities, the value of such shares is not otherwise determinable, such value as determined by the Board in good faith in its sole discretion.
- 2.15 “*Family Member*” means a person who is a spouse, former spouse, child, stepchild, grandchild, parent, stepparent, grandparent, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother, sister, brother-in-law, or sister-in-law, including adoptive relationships, of the applicable individual, any person sharing the applicable individual’s household (other than a tenant or employee), a trust in which any one or more of these persons have more than fifty percent of the beneficial interest, a foundation in which any one or more of these persons (or the applicable individual) control the management of assets, and any other entity in which one or more of these persons (or the applicable individual) own more than fifty percent of the voting interests.
- 2.16 “*Grant Date*” means, as determined by the Board, the latest to occur of (i) the date as of which the Board approves an Award, (ii) the date on which the recipient of an Award first becomes eligible to receive an Award under **Section 6** hereof, or (iii) such other date as may be specified by the Board in the Award Agreement.
- 2.17 “*Grantee*” means a person who receives or holds an Award under the Plan.
- 2.18 “*Incentive Stock Option*” means an “incentive stock option” within the meaning of Section 422 of the Code, or the corresponding provision of any subsequently enacted tax statute, as amended from time to time.
- 2.19 “*Non-Employee Director*” means a member of the Board who is not an officer or employee of the Company or any Subsidiary.
- 2.20 “*Non-qualified Stock Option*” means an Option that is not an Incentive Stock Option.
- 2.21 “*Option*” means an option to purchase one or more shares of Stock pursuant to the Plan.

- 2.22 “*Option Price*” means the exercise price for each share of Stock subject to an Option.
- 2.23 “*Other Stock-based Awards*” means Awards consisting of Stock units, or other Awards, valued in whole or in part by reference to, or otherwise based on, Common Stock, other than Options, Stock Appreciation Rights, Restricted Stock, and Restricted Stock Units.
- 2.24 “*Person*” means an individual, entity or group within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act.
- 2.25 “*Plan*” means this Chembio Diagnostics, Inc. 2019 Omnibus Incentive Plan, as amended from time to time.
- 2.26 “*Predecessor Plan*” means the Chembio Diagnostics, Inc. 2014 Stock Incentive Plan.
- 2.27 “*Purchase Price*” means the purchase price for each share of Stock pursuant to a grant of Restricted Stock.
- 2.28 “*Restricted Period*” shall have the meaning set forth in **Section 10.1** hereof.
- 2.29 “*Restricted Stock*” means shares of Stock, awarded to a Grantee pursuant to **Section 10** hereof.
- 2.30 “*Restricted Stock Unit*” means a bookkeeping entry representing the equivalent of shares of Stock, awarded to a Grantee pursuant to **Section 10** hereof.
- 2.31 “*SAR Exercise Price*” means the per share exercise price of a SAR granted to a Grantee under **Section 9** hereof.
- 2.32 “*SEC*” means the United States Securities and Exchange Commission.
- 2.33 “*Section 409A*” means Section 409A of the Code.
- 2.34 “*Securities Act*” means the Securities Act of 1933, as now in effect or as hereafter amended.
- 2.35 “*Separation from Service*” means a termination of Service by a Service Provider, as determined by the Board, which determination shall be final, binding and conclusive; provided if any Award governed by Section 409A is to be distributed on a Separation from Service, then the definition of Separation from Service for such purposes shall comply with the definition provided in Section 409A.
- 2.36 “*Service*” means service as a Service Provider to the Company or an Affiliate. Unless otherwise stated in the applicable Award Agreement, a Grantee’s change in position or duties shall not result in interrupted or terminated Service, so long as such Grantee continues to be a Service Provider to the Company or an Affiliate.
- 2.37 “*Service Provider*” means an employee, officer, Non-Employee Director, consultant or advisor of the Company or an Affiliate.
- 2.38 “*Stock Appreciation Right*” or “*SAR*” means a right granted to a Grantee under **Section 9** hereof.
- 2.39 “*Subsidiary*” means any “subsidiary corporation” of the Company within the meaning of Section 424(f) of the Code.
- 2.40 “*Substitute Award*” means any Award granted in assumption of or in substitution for an award of a company or business acquired by the Company or a Subsidiary or with which the Company or an Affiliate combines.

**2.41** “*Ten Percent Stockholder*” means an individual who owns more than ten percent (10%) of the total combined voting power of all classes of outstanding stock of the Company, its parent or any of its Subsidiaries. In determining stock ownership, the attribution rules of Section 424(d) of the Code shall be applied.

**2.42** “*Termination Date*” means the date that is ten (10) years after the Effective Date, unless the Plan is earlier terminated by the Board under **Section 5.2** hereof.

### **3. ADMINISTRATION OF THE PLAN**

#### **3.1 General.**

The Board shall have such powers and authorities related to the administration of the Plan as are consistent with the Company’s certificate of incorporation and bylaws and applicable law. The Board shall have the power and authority to delegate its responsibilities hereunder to the Committee, which shall have full authority to act in accordance with its charter, and with respect to the authority of the Board to act hereunder, all references to the Board shall be deemed to include a reference to the Committee, to the extent such power or responsibilities have been delegated. Except as otherwise may be required by applicable law, regulatory requirement or the certificate of incorporation or the bylaws of the Company, the Board shall have full power and authority to take all actions and to make all determinations required or provided for under the Plan, any Award or any Award Agreement, and shall have full power and authority to take all such other actions and make all such other determinations not inconsistent with the specific terms and provisions of the Plan that the Board deems to be necessary or appropriate to the administration of the Plan. The Committee shall administer the Plan; provided that, the Board shall retain the right to exercise the authority of the Committee to the extent consistent with applicable law and the applicable requirements of any securities exchange on which the Common Stock may then be listed. The interpretation and construction by the Board of any provision of the Plan, any Award or any Award Agreement shall be final, binding and conclusive. Without limitation, the Board shall have full and final authority, subject to the other terms and conditions of the Plan, to:

(i) designate Grantees;

(ii) determine the type or types of Awards to be made to a Grantee;

(iii) determine the number of shares of Stock to be subject to an Award;

(iv) establish the terms and conditions of each Award (including, but not limited to, the Option Price of any Option, the nature and duration of any restriction or condition (or provision for lapse thereof) relating to the vesting, exercise, transfer, or forfeiture of an Award or the shares of Stock subject thereto, and any terms or conditions that may be necessary to qualify Options as Incentive Stock Options);

(v) prescribe the form of each Award Agreement; and

(vi) amend, modify, or supplement the terms of any outstanding Award including the authority, in order to effectuate the purposes of the Plan, to modify Awards to foreign nationals or individuals who are employed outside the United States to recognize differences in local law, tax policy, or custom.

To the extent permitted by applicable law, the Board may delegate its authority as identified herein to any individual or committee of individuals (who need not be directors), including without limitation the authority to make Awards to Grantees who are not subject to Section 16 of the Exchange Act or who are not Covered Employees. To the extent that the Board delegates its authority to make Awards as provided by this **Section 3.1**, all references in the Plan to the Board’s authority to make Awards and determinations with respect thereto shall be deemed to include the Board’s delegate. Any such delegate shall serve at the pleasure of, and may be removed at any time by the Board.

### **3.2 No Repricing.**

Notwithstanding any provision herein to the contrary, the repricing of Options or SARs is prohibited without prior approval of the Company's stockholders. For this purpose, a "repricing" means any of the following (or any other action that has the same effect as any of the following): (i) changing the terms of an Option or SAR to lower its Option Price or SAR Exercise Price; (ii) any other action that is treated as a "repricing" under generally accepted accounting principles; and (iii) repurchasing for cash or canceling an Option or SAR at a time when its Option Price or SAR Exercise Price is greater than the Fair Market Value of the underlying shares in exchange for another Award, unless the cancellation and exchange occurs in connection with a change in capitalization or similar change under **Section 14**. A cancellation and exchange under clause (iii) would be considered a "repricing" regardless of whether it is treated as a "repricing" under generally accepted accounting principles and regardless of whether it is voluntary on the part of the Grantee.

### **3.3 Clawbacks.**

Awards shall be subject to the requirements of (i) Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (regarding recovery of erroneously awarded compensation) and any implementing rules and regulations thereunder, (ii) similar rules under the laws of any other jurisdiction, (iii) any compensation recovery policies adopted by the Company to implement any such requirements or (iv) any other compensation recovery policies as may be adopted from time to time by the Company, all to the extent determined by the Committee in its discretion to be applicable to a Grantee.

### **3.4 Minimum Vesting Conditions.**

Notwithstanding any other provision of the Plan to the contrary, equity-based Awards granted under the Plan shall vest no earlier than the first anniversary of the date the Award is granted, excluding, for this purpose, any (i) Substitute Awards, (ii) shares delivered in lieu of fully vested cash incentive compensation under any applicable plan or program of the Company, and (iii) Awards to Non-Employee Directors that vest on the earlier of the one-year anniversary of the date of grant or the next annual meeting of stockholders (provided that such vesting period under this clause (iii) may not be less than 50 weeks after grant); provided, that, the Board may grant equity-based Awards without regard to the foregoing minimum vesting requirement with respect to a maximum of five percent (5%) of the available share reserve authorized for issuance under the Plan pursuant to **Section 4.1** (subject to adjustment under **Section 14**); and, provided further, for the avoidance of doubt, that the foregoing restriction does not apply to the Board's discretion to provide for accelerated exercisability or vesting of any Award, including in cases of retirement, death, disability or a Change in Control, in the terms of the Award or otherwise.

### **3.5 Deferral Arrangement.**

The Board may permit or require the deferral of any Award payment into a deferred compensation arrangement, subject to such rules and procedures as it may establish and in accordance with Section 409A, which may include provisions for the payment or crediting of interest or dividend equivalents, including converting such credits into deferred Stock units.

### **3.6 No Liability.**

No member of the Board or of the Committee shall be liable for any action or determination made in good faith with respect to the Plan, any Award or Award Agreement.

### **3.7 Book Entry.**

Notwithstanding any other provision of this Plan to the contrary, the Company may elect to satisfy any requirement under this Plan for the delivery of stock certificates through the use of book-entry.

## **4. STOCK SUBJECT TO THE PLAN**

### **4.1 Authorized Number of Shares**

Subject to adjustment under **Section 14**, the total number of shares of Common Stock authorized to be awarded under the Plan shall not exceed 2,400,000. In addition, shares of Common Stock underlying any outstanding award granted under the Predecessor Plan that, following the Effective Date, expires, or is terminated, surrendered or forfeited for any reason without issuance of such shares shall be available for the grant of new Awards under this Plan. As provided in **Section 1**, no new awards shall be granted under the Predecessor Plan following the Effective Date. Shares issued under the Plan may consist in whole or in part of authorized but unissued shares, treasury shares, or shares purchased on the open market or otherwise, all as determined by the Company from time to time.

### **4.2 Share Counting**

#### **4.2.1 General**

Each share of Common Stock granted in connection with an Award shall be counted as one share against the limit in **Section 4.1**, subject to the provisions of this **Section 4.2**.

#### **4.2.2 Cash-Settled Awards**

Any Award settled in cash shall not be counted as shares of Common Stock for any purpose under this Plan.

#### **4.2.3 Expired or Terminated Awards**

If any Award under the Plan expires, or is terminated, surrendered or forfeited, in whole or in part, without issuance or delivery of vested shares, the unissued or surrendered Common Stock covered by such Award shall again be available for the grant of Awards under the Plan.

#### **4.2.4 Payment of Option Price or Tax Withholding in Shares**

The full number of shares of Common Stock with respect to which an Option or SAR is granted shall count against the aggregate number of shares available for grant under the Plan. Accordingly, if in accordance with the terms of the Plan, a Grantee pays the Option Price for an Option by either tendering previously owned shares or having the Company withhold shares, then such shares surrendered to pay the Option Price shall continue to count against the aggregate number of shares available for grant under the Plan set forth in **Section 4.1** above. In addition, if in accordance with the terms of the Plan, a Grantee satisfies any tax withholding requirement with respect to any taxable event arising as a result of this Plan for any Award (including Restricted Stock and Restricted Stock Units) by either tendering previously owned shares or having the Company withhold shares, then such shares surrendered to satisfy such tax withholding requirements shall continue to count against the aggregate number of shares available for grant under the Plan set forth in **Section 4.1** above. Any shares of Common Stock repurchased by the Company with cash proceeds from the exercise of Options shall not be added back to the pool of shares available for grant under the Plan set forth in **Section 4.1** above.

#### **4.2.5 Substitute Awards**

In the case of any Substitute Award, such Substitute Award shall not be counted against the number of shares reserved under the Plan.

### **4.3 Award Limits**

#### **4.3.1 Incentive Stock Options.**

Subject to adjustment under **Section 14**, 2,400,000 shares of Common Stock available for issuance under the Plan shall be available for issuance under Incentive Stock Options.

## **5. EFFECTIVE DATE, DURATION, AND AMENDMENTS**

### **5.1 Term.**

The Plan shall be effective as of the Effective Date, provided that it has been approved by the Company's stockholders. The Plan shall terminate automatically on the ten (10) year anniversary of the Effective Date and may be terminated on any earlier date as provided in **Section 5.2**.

### **5.2 Amendment and Termination of the Plan.**

The Board may, at any time and from time to time, amend, suspend, or terminate the Plan as to any Awards which have not been made. An amendment shall be contingent on approval of the Company's stockholders to the extent stated by the Board, required by applicable law or required by applicable stock exchange listing requirements. Notwithstanding the foregoing, any amendment to **Section 3.2** shall be contingent upon the approval of the Company's stockholders. No Awards shall be made after the Termination Date. The applicable terms of the Plan, and any terms and conditions applicable to Awards granted prior to the Termination Date shall survive the termination of the Plan and continue to apply to such Awards. No amendment, suspension, or termination of the Plan shall, without the consent of the Grantee, materially impair rights or obligations under any Award theretofore awarded.

## **6. AWARD ELIGIBILITY AND LIMITATIONS**

### **6.1 Service Providers.**

Subject to this **Section 6.1**, Awards may be made to any Service Provider, including any Service Provider who is an officer, Non-Employee Director, consultant or advisor of the Company or of any Affiliate, as the Board shall determine and designate from time to time in its discretion.

### **6.2 Successive Awards.**

An eligible person may receive more than one Award, subject to such restrictions as are provided herein.

### **6.3 Stand-Alone, Additional, Tandem, and Substitute Awards.**

Awards may, in the discretion of the Board, be granted either alone or in addition to, in tandem with, or in substitution or exchange for, any other Award or any award granted under another plan of the Company, any Affiliate, or any business entity to be acquired by the Company or an Affiliate, or any other right of a Grantee to receive payment from the Company or any Affiliate. Such additional, tandem, and substitute or exchange Awards may be granted at any time. If an Award is granted in substitution or exchange for another Award, the Board shall have the right to require the surrender of such other Award in consideration for the grant of the new Award. Subject to **Section 3.2**, the Board shall have the right, in its discretion, to make Awards in substitution or exchange for any other award under another plan of the Company, any Affiliate, or any business entity to be acquired by the Company or an Affiliate. In addition, Awards may be granted in lieu of cash compensation, including in lieu of cash amounts payable under other plans of the Company or any Affiliate, in which the value of Stock subject to the Award is equivalent in value to the cash compensation (for example, Restricted Stock Units or Restricted Stock).

## **7. AWARD AGREEMENT**

Each Award shall be evidenced by an Award Agreement, in such form or forms as the Board shall from time to time determine, consistent with the terms of the Plan. Without limiting the foregoing, an Award Agreement may be provided in the form of a notice which provides that acceptance of the Award constitutes acceptance of all terms of the Plan and the notice. Award Agreements granted from time to time or at the same time need not contain similar provisions but shall be consistent with the terms of the Plan. Each Award Agreement evidencing an Award of Options shall specify whether such Options are intended to be Non-qualified Stock Options or Incentive Stock Options, and in the absence of such specification such options shall be deemed Non-qualified Stock Options.

## **8. TERMS AND CONDITIONS OF OPTIONS**

### **8.1 Option Price.**

The Option Price of each Option shall be fixed by the Board and stated in the related Award Agreement. The Option Price of each Option (except those that constitute Substitute Awards) shall be at least the Fair Market Value on the Grant Date of a share of Stock; *provided, however*, that in the event that a Grantee is a Ten Percent Stockholder as of the Grant Date, the Option Price of an Option granted to such Grantee that is intended to be an Incentive Stock Option shall be not less than 110 percent of the Fair Market Value of a share of Stock on the Grant Date. In no case shall the Option Price of any Option be less than the par value of a share of Stock.

### **8.2 Vesting.**

Subject to **Section 8.3** hereof, each Option shall become exercisable at such times and under such conditions (including, without limitation, performance requirements) as shall be determined by the Board and stated in the Award Agreement.

### **8.3 Term.**

Each Option shall terminate, and all rights to purchase shares of Stock thereunder shall cease, upon the expiration of ten (10) years from the Grant Date, or under such circumstances and on such date prior thereto as is set forth in the Plan or as may be fixed by the Board and stated in the related Award Agreement; *provided, however*, that in the event that the Grantee is a Ten Percent Stockholder, an Option granted to such Grantee that is intended to be an Incentive Stock Option at the Grant Date shall not be exercisable after the expiration of five (5) years from its Grant Date.

### **8.4 Limitations on Exercise of Option.**

Notwithstanding any other provision of the Plan, in no event may any Option be exercised, in whole or in part, (i) prior to the date the Plan is approved by the stockholders of the Company as provided herein or (ii) after the occurrence of an event which results in termination of the Option.

### **8.5 Method of Exercise.**

An Option that is exercisable may be exercised by the Grantee's delivery of a notice of exercise to the Company, setting forth the number of shares of Stock with respect to which the Option is to be exercised, accompanied by full payment for the shares. To be effective, notice of exercise must be made in accordance with procedures established by the Company from time to time.

### **8.6 Rights of Holders of Options.**

Unless otherwise stated in the related Award Agreement, an individual holding or exercising an Option shall have none of the rights of a stockholder (for example, the right to receive cash or dividend payments or distributions attributable to the subject shares of Stock or to direct the voting of the subject shares of Stock) until the shares of Stock covered thereby are fully paid and issued to her/him. Except as provided in **Section 14** hereof or the related Award Agreement, no adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date of such issuance.

### **8.7 Delivery of Stock Certificates.**

Promptly after the exercise of an Option by a Grantee and the payment in full of the Option Price, such Grantee shall be entitled, subject to any transaction fees, as required, to the issuance of a stock certificate or certificates evidencing his or her ownership of the shares of Stock subject to the Option.

### **8.8 Limitations on Incentive Stock Options.**

An Option shall constitute an Incentive Stock Option only (i) if the Grantee of such Option is an employee of the Company or any Subsidiary of the Company; (ii) to the extent specifically provided in the related Award Agreement; and (iii) to the extent that the aggregate Fair Market Value (determined at the time the Option is granted) of the shares of Stock with respect to which all Incentive Stock Options held by such Grantee become exercisable for the first time during any calendar year (under the Plan and all other plans of the Grantee's employer and its Affiliates) does not exceed \$100,000. This limitation shall be applied by taking Options into account in the order in which they were granted.

## **9. TERMS AND CONDITIONS OF STOCK APPRECIATION RIGHTS**

### **9.1 Right to Payment.**

A SAR shall confer on the Grantee a right to receive, upon exercise thereof, the excess of (i) the Fair Market Value of one share of Stock on the date of exercise over (ii) the SAR Exercise Price, as determined by the Board. The Award Agreement for a SAR (except those that constitute Substitute Awards) shall specify the SAR Exercise Price, which shall be fixed on the Grant Date as not less than the Fair Market Value of a share of Stock on that date. SARs may be granted alone or in conjunction with all or part of an Option or at any subsequent time during the term of such Option or in conjunction with all or part of any other Award. A SAR granted in tandem with an outstanding Option following the Grant Date of such Option shall have a grant price that is equal to the Option Price; *provided, however*, that the SAR's grant price may not be less than the Fair Market Value of a share of Stock on the Grant Date of the SAR to the extent required by Section 409A.

### **9.2 Other Terms.**

The Board shall determine at the Grant Date, the time or times at which and the circumstances under which a SAR may be exercised in whole or in part (including based on achievement of performance goals and/or future service requirements), the time or times at which SARs shall cease to be or become exercisable following Separation from Service or upon other conditions, the method of exercise, whether or not a SAR shall be in tandem or in combination with any other Award, and any other terms and conditions of any SAR.

### **9.3 Term of SARs.**

The term of a SAR granted under the Plan shall be determined by the Board, in its sole discretion; *provided, however*, that such term shall not exceed ten (10) years.

### **9.4 Payment of SAR Amount.**

Upon exercise of a SAR, a Grantee shall be entitled to receive payment from the Company (in cash or Stock, as determined by the Board) in an amount determined by multiplying:

- (i) the difference between the Fair Market Value of a share of Stock on the date of exercise over the SAR Exercise Price; by

(ii) the number of shares of Stock with respect to which the SAR is exercised.

## **10. TERMS AND CONDITIONS OF RESTRICTED STOCK AND RESTRICTED STOCK UNITS**

### **10.1 Restrictions.**

At the time of grant, the Board may, in its sole discretion, establish a period of time (a “**Restricted Period**”) and any additional restrictions including the satisfaction of corporate or individual performance objectives applicable to an Award of Restricted Stock or Restricted Stock Units as determined by the Board. Each Award of Restricted Stock or Restricted Stock Units may be subject to a different Restricted Period and additional restrictions. Neither Restricted Stock nor Restricted Stock Units may be sold, transferred, assigned, pledged or otherwise encumbered or disposed of during the Restricted Period or prior to the satisfaction of any other applicable restrictions.

### **10.2 Restricted Stock Certificates.**

The Company shall issue stock, in the name of each Grantee to whom Restricted Stock has been granted, stock certificates or other evidence of ownership representing the total number of shares of Restricted Stock granted to the Grantee, as soon as reasonably practicable after the Grant Date. The Board may provide in an Award Agreement that either (i) the Secretary of the Company shall hold such certificates for the Grantee’s benefit until such time as the Restricted Stock is forfeited to the Company or the restrictions lapse, or (ii) such certificates shall be delivered to the Grantee; *provided, however*, that such certificates shall bear a legend or legends that comply with the applicable securities laws and regulations and make appropriate reference to the restrictions imposed under the Plan and the Award Agreement.

### **10.3 Rights of Holders of Restricted Stock.**

Unless the Board otherwise provides in an Award Agreement and subject to **Section 16.12**, holders of Restricted Stock shall have rights as stockholders of the Company, including voting and dividend rights.

### **10.4 Rights of Holders of Restricted Stock Units.**

#### **10.4.1 Settlement of Restricted Stock Units.**

Restricted Stock Units may be settled in cash or Stock, as determined by the Board and set forth in the Award Agreement. The Award Agreement shall also set forth whether the Restricted Stock Units shall be settled (i) within the time period specified for “short term deferrals” under Section 409A or (ii) otherwise within the requirements of Section 409A, in which case the Award Agreement shall specify upon which events such Restricted Stock Units shall be settled.

#### **10.4.2 Voting and Dividend Rights.**

Unless otherwise stated in the applicable Award Agreement and subject to **Section 16.12**, holders of Restricted Stock Units shall not have rights as stockholders of the Company, including no voting or dividend or dividend equivalents rights.

#### **10.4.3 Creditor’s Rights.**

A holder of Restricted Stock Units shall have no rights other than those of a general creditor of the Company. Restricted Stock Units represent an unfunded and unsecured obligation of the Company, subject to the terms and conditions of the applicable Award Agreement.

### **10.5 Purchase of Restricted Stock.**

The Grantee shall be required, to the extent required by applicable law, to purchase the Restricted Stock from the Company at a Purchase Price equal to the greater of (i) the aggregate par value of the shares of Stock represented by such Restricted Stock or (ii) the Purchase Price, if any, specified in the related Award Agreement. If specified in the Award Agreement, the Purchase Price may be deemed paid by Services already rendered. The Purchase Price shall be payable in a form described in **Section 11** or, in the discretion of the Board, in consideration for past Services rendered.

### **10.6 Delivery of Stock.**

Upon the expiration or termination of any Restricted Period and the satisfaction of any other conditions prescribed by the Board, the restrictions applicable to shares of Restricted Stock or Restricted Stock Units settled in Stock shall lapse, and, unless otherwise provided in the Award Agreement, a stock certificate for such shares shall be delivered, free of all such restrictions, to the Grantee or the Grantee's beneficiary or estate, as the case may be.

## **11. FORM OF PAYMENT FOR OPTIONS AND RESTRICTED STOCK**

### **11.1 General Rule.**

Payment of the Option Price for the shares purchased pursuant to the exercise of an Option or the Purchase Price for Restricted Stock shall be made in cash or in cash equivalents acceptable to the Company, except as provided in this **Section 11**.

### **11.2 Surrender of Stock.**

To the extent the Award Agreement so provides, payment of the Option Price for shares purchased pursuant to the exercise of an Option or the Purchase Price for Restricted Stock may be made all or in part through the tender to the Company of shares of Stock, which shares shall be valued, for purposes of determining the extent to which the Option Price or Purchase Price for Restricted Stock has been paid thereby, at their Fair Market Value on the date of exercise or surrender. Notwithstanding the foregoing, in the case of an Incentive Stock Option, the right to make payment in the form of already owned shares of Stock may be authorized only at the time of grant.

### **11.3 Cashless Exercise.**

With respect to an Option only (and not with respect to Restricted Stock), to the extent permitted by law and to the extent the Award Agreement so provides, payment of the Option Price may be made all or in part by delivery (on a form acceptable to the Company) of an irrevocable direction to a licensed securities broker acceptable to the Company to sell shares of Stock and to deliver all or part of the sales proceeds to the Company in payment of the Option Price and any withholding taxes described in **Section 16.3**.

### **11.4 Other Forms of Payment.**

To the extent the Award Agreement so provides, payment of the Option Price or the Purchase Price for Restricted Stock may be made in any other form that is consistent with applicable laws, regulations and rules, including, but not limited to, the Company's withholding of shares of Stock otherwise due to the exercising Grantee.

## **12. OTHER STOCK-BASED AWARDS**

### **12.1 Grant of Other Stock-based Awards.**

Other Stock-based Awards may be granted either alone or in addition to or in conjunction with other Awards under the Plan. Other Stock-based Awards may be granted in lieu of other cash or other compensation to which a Service Provider is entitled from the Company or may be used in the settlement of amounts payable in shares of Common Stock under any other compensation plan or arrangement of the Company. Subject to the provisions of the Plan, the Committee shall have the sole and complete authority to determine the persons to whom and the time or times at which such Awards shall be made, the number of shares of Common Stock to be granted pursuant to such Awards, and all other conditions of such Awards. Unless the Committee determines otherwise, any such Award shall be confirmed by an Award Agreement, which shall contain such provisions as the Committee determines to be necessary or appropriate to carry out the intent of this Plan with respect to such Award.

## **12.2 Terms of Other Stock-based Awards.**

Any Common Stock subject to Awards made under this **Section 12** may not be sold, assigned, transferred, pledged or otherwise encumbered prior to the date on which the shares are issued, or, if later, the date on which any applicable restriction, performance or deferral period lapses.

## **13. REQUIREMENTS OF LAW**

### **13.1 General.**

The Company shall not be required to sell or issue any shares of Stock under any Award if the sale or issuance of such shares would constitute a violation by the Grantee, any other individual exercising an Option, or the Company of any provision of any law or regulation of any governmental authority, including without limitation any federal or state securities laws or regulations. If at any time the Company shall determine, in its discretion, that the listing, registration or qualification of any shares subject to an Award upon any securities exchange or under any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the issuance or purchase of shares hereunder, no shares of Stock may be issued or sold to the Grantee or any other individual exercising an Option pursuant to such Award unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Company, and any delay caused thereby shall in no way affect the date of termination of the Award. Specifically, in connection with the Securities Act, upon the exercise of any Option or the delivery of any shares of Stock underlying an Award, unless a registration statement under such Act is in effect with respect to the shares of Stock covered by such Award, the Company shall not be required to sell or issue such shares unless the Board has received evidence satisfactory to it that the Grantee or any other individual exercising an Option may acquire such shares pursuant to an exemption from registration under the Securities Act. Any determination in this connection by the Board shall be final, binding, and conclusive. The Company may, but shall in no event be obligated to, register any securities covered hereby pursuant to the Securities Act. The Company shall not be obligated to take any affirmative action in order to cause the exercise of an Option or the issuance of shares of Stock pursuant to the Plan to comply with any law or regulation of any governmental authority. As to any jurisdiction that expressly imposes the requirement that an Option shall not be exercisable until the shares of Stock covered by such Option are registered or are exempt from registration, the exercise of such Option (under circumstances in which the laws of such jurisdiction apply) shall be deemed conditioned upon the effectiveness of such registration or the availability of such an exemption.

### **13.2 Rule 16b-3.**

During any time when the Company has a class of equity security registered under Section 12 of the Exchange Act, it is the intent of the Company that Awards and the exercise of Options granted to officers and directors hereunder will qualify for the exemption provided by Rule 16b-3 under the Exchange Act. To the extent that any provision of the Plan or action by the Board or Committee does not comply with the requirements of Rule 16b-3, it shall be deemed inoperative to the extent permitted by law and deemed advisable by the Board, and shall not affect the validity of the Plan. In the event that Rule 16b-3 is revised or replaced, the Board may exercise its discretion to modify this Plan in any respect necessary to satisfy the requirements of, or to take advantage of any features of, the revised exemption or its replacement.

## **14. EFFECT OF CHANGES IN CAPITALIZATION**

### **14.1 Changes in Stock.**

If (i) the number of outstanding shares of Stock is increased or decreased or the shares of Stock are changed into or exchanged for a different number or kind of shares or other securities of the Company on account of any recapitalization, reclassification, stock split, reverse split, combination of shares, exchange of shares, stock dividend or other distribution payable in capital stock, or other increase or decrease in such shares effected without receipt of consideration by the Company occurring after the Effective Date or (ii) there occurs any spin-off, split-up, extraordinary cash dividend or other distribution of assets by the Company, the number and kinds of shares for which grants of Awards may be made under the Plan (including the per-Grantee maximums set forth in **Section 4**) shall be equitably adjusted by the Company; provided that any such adjustment shall comply with Section 409A. In addition, in the event of any such increase or decrease in the number of outstanding shares or other transaction described in clause (ii) above, the number and kind of shares for which Awards are outstanding and the Option Price per share of outstanding Options and SAR Exercise Price per share of outstanding SARs shall be equitably adjusted; provided that any such adjustment shall comply with Section 409A.

### **14.2 Effect of Certain Transactions.**

Except as otherwise provided in an Award Agreement and subject to the provisions of **Section 14.3**, in the event of a Corporate Transaction, the Plan and the Awards issued hereunder shall continue in effect in accordance with their respective terms, except that following a Corporate Transaction either (i) each outstanding Award shall be treated as provided for in the agreement entered into in connection with the Corporate Transaction or (ii) if not so provided in such agreement, each Grantee shall be entitled to receive in respect of each share of Common Stock subject to any outstanding Awards, upon exercise or payment or transfer in respect of any Award, the same number and kind of stock, securities, cash, property or other consideration that each holder of a share of Common Stock was entitled to receive in the Corporate Transaction in respect of a share of Common stock; *provided, however*, that, unless otherwise determined by the Committee, such stock, securities, cash, property or other consideration shall remain subject to all of the conditions, restrictions and performance criteria which were applicable to the Awards prior to such Corporate Transaction. Without limiting the generality of the foregoing, the treatment of outstanding Options and SARs pursuant to this **Section 14.2** in connection with a Corporate Transaction in which the consideration paid or distributed to the Company's stockholders is not entirely shares of common stock of the acquiring or resulting corporation may include the cancellation of outstanding Options and SARs upon consummation of the Corporate Transaction as long as, at the election of the Committee, (i) the holders of affected Options and SARs have been given a period of at least fifteen days prior to the date of the consummation of the Corporate Transaction to exercise the Options or SARs (to the extent otherwise exercisable) or (ii) the holders of the affected Options and SARs are paid (in cash or cash equivalents) in respect of each Share covered by the Option or SAR being canceled an amount equal to the excess, if any, of the per share price paid or distributed to stockholders in the Corporate Transaction (the value of any non-cash consideration to be determined by the Committee in its sole discretion) over the Option Price or SAR Exercise Price, as applicable. For avoidance of doubt, (1) the cancellation of Options and SARs pursuant to clause (ii) of the preceding sentence may be effected notwithstanding anything to the contrary contained in this Plan or any Award Agreement and (2) if the amount determined pursuant to clause (ii) of the preceding sentence is zero or less, the affected Option or SAR may be cancelled without any payment therefore. The treatment of any Award as provided in this **Section 14.2** shall be conclusively presumed to be appropriate for purposes of **Section 14.1**.

### **14.3 Change in Control**

#### **14.3.1 Consequences of a Change in Control**

In the event of a Change in Control of the Company, the Board, in its discretion, may, at any time an Award is granted, or at any time thereafter, (i) accelerate the time period relating to the exercise or vesting of the Award; or (ii) take one or more of the following actions, which may vary among individual Grantees: (A) provide for the purchase of the Award for an amount of cash or other property that could have been received upon the exercise or vesting of the Award (less any applicable Option Price or SAR Exercise Price in the cash of Options and SARs); (B) adjust the terms of the Awards in a manner determined by the Board to reflect the Change in Control; (C) cause the Awards to be assumed, or new rights substituted therefor, by another entity, through the continuance of the Plan and the assumption of outstanding Awards, or the substitution for such Awards of comparable value covering shares of a successor corporation, with appropriate adjustments as to the number and kind of shares and exercise prices, in which event the Plan and such Awards, or the new options and rights substituted therefor, shall continue in the manner and under the terms so provided; (D) accelerate the time at which Options or SARs then outstanding may be exercised so that such Options and SARs may be exercised for a limited period of time on or before a specified date fixed by the Board, after which specified date, all unexercised Options and SARs shall terminate; or (E) make such other provision as the Board may consider equitable.

### **14.3.2 Change in Control Defined**

Except as may otherwise be defined in an Award Agreement, a “*Change in Control*” shall mean the occurrence of any of the following events: (i) the acquisition, directly or indirectly, by any Person or group (within the meaning of Section 13(d)(3) of the Exchange Act) of the Beneficial Ownership of more than fifty percent of the outstanding securities of the Company; (ii) a merger or consolidation in which the Company is not the surviving entity, except for a transaction the principal purpose of which is to change the state in which the Company is incorporated; (iii) the sale, transfer or other disposition of all or substantially all of the assets of the Company; (iv) a complete liquidation or dissolution of the Company; or (v) any reverse merger in which the Company is the surviving entity but in which securities possessing more than fifty percent of the total combined voting power of the Company’s outstanding securities are transferred to a Person or Persons different from the Persons holding those securities immediately prior to such merger.

Notwithstanding the foregoing, if it is determined that an Award hereunder is subject to the requirements of Section 409A and payable upon a Change in Control, the Company will not be deemed to have undergone a Change in Control unless the Company is deemed to have undergone a “change in control event” pursuant to the definition of such term in Section 409A.

### **14.4 Adjustments**

Adjustments under this **Section 14** related to shares of Stock or securities of the Company shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. No fractional shares or other securities shall be issued pursuant to any such adjustment, and any fractions resulting from any such adjustment shall be eliminated in each case by rounding downward to the nearest whole share.

### **15. NO LIMITATIONS ON COMPANY**

The making of Awards pursuant to the Plan shall not affect or limit in any way the right or power of the Company to make adjustments, reclassifications, reorganizations, or changes of its capital or business structure or to merge, consolidate, dissolve, or liquidate, or to sell or transfer all or any part of its business or assets.

### **16. TERMS APPLICABLE GENERALLY TO AWARDS GRANTED UNDER THE PLAN**

#### **16.1 Disclaimer of Rights.**

No provision in the Plan or in any Award Agreement shall be construed to confer upon any individual the right to remain in the employ or service of the Company or any Affiliate, or to interfere in any way with any contractual or other right or authority of the Company either to increase or decrease the compensation or other payments to any individual at any time, or to terminate any employment or other relationship between any individual and the Company. In addition, notwithstanding anything contained in the Plan to the contrary, unless otherwise stated in the applicable Award Agreement, no Award granted under the Plan shall be affected by any change of duties or position of the Grantee, so long as such Grantee continues to be a Service Provider. The obligation of the Company to pay any benefits pursuant to this Plan shall be interpreted as a contractual obligation to pay only those amounts described herein, in the manner and under the conditions prescribed herein. The Plan shall in no way be interpreted to require the Company to transfer any amounts to a third party trustee or otherwise hold any amounts in trust or escrow for payment to any Grantee or beneficiary under the terms of the Plan.

### **16.2 Nonexclusivity of the Plan.**

Neither the adoption of the Plan nor the submission of the Plan to the stockholders of the Company for approval shall be construed as creating any limitations upon the right and authority of the Board to adopt such other incentive compensation arrangements (which arrangements may be applicable either generally to a class or classes of individuals or specifically to a particular individual or particular individuals), including, without limitation, the granting of stock options as the Board in its discretion determines desirable.

### **16.3 Withholding Taxes.**

The Company or an Affiliate, as the case may be, shall have the right to deduct from payments of any kind otherwise due to a Grantee any federal, state, or local taxes of any kind required by law to be withheld (i) with respect to the vesting of or other lapse of restrictions applicable to an Award, (ii) upon the issuance of any shares of Stock upon the exercise of an Option or SAR, or (iii) otherwise due in connection with an Award. At the time of such vesting, lapse, or exercise, the Grantee shall pay to the Company or the Affiliate, as the case may be, any amount that the Company or the Affiliate may reasonably determine to be necessary to satisfy such withholding obligation. Subject to the prior approval of the Company or the Affiliate, which may be withheld by the Company or the Affiliate, as the case may be, in its sole discretion, the Grantee may elect to satisfy such obligations, or the Company may require such obligations (up to maximum statutory rates) to be satisfied, in whole or in part, (i) by causing the Company or the Affiliate to withhold the number of shares of Stock otherwise issuable to the Grantee as may be necessary to satisfy such withholding obligation or (ii) by delivering to the Company or the Affiliate shares of Stock already owned by the Grantee. The shares of Stock so delivered or withheld shall have an aggregate Fair Market Value equal to such withholding obligations (up to maximum statutory rates). The Fair Market Value of the shares of Stock used to satisfy such withholding obligation shall be determined by the Company or the Affiliate as of the date that the amount of tax to be withheld is to be determined. A Grantee who has made an election pursuant to this **Section 16.3** may satisfy his or her withholding obligation only with shares of Stock that are not subject to any repurchase, forfeiture, unfulfilled vesting, or other similar requirements.

### **16.4 Captions.**

The use of captions in this Plan or any Award Agreement is for the convenience of reference only and shall not affect the meaning of any provision of the Plan or any Award Agreement.

### **16.5 Other Provisions.**

Each Award Agreement may contain such other terms and conditions not inconsistent with the Plan as may be determined by the Board, in its sole discretion. In the event of any conflict between the terms of an employment agreement and the Plan, the terms of the employment agreement govern.

### **16.6 Number and Gender.**

With respect to words used in this Plan, the singular form shall include the plural form, the masculine gender shall include the feminine gender, etc., as the context requires.

### **16.7 Severability.**

If any provision of the Plan or any Award Agreement shall be determined to be illegal or unenforceable by any court of law in any jurisdiction, the remaining provisions hereof and thereof shall be severable and enforceable in accordance with their terms, and all provisions shall remain enforceable in any other jurisdiction.

## **16.8 Governing Law.**

The Plan shall be governed by and construed in accordance with the laws of the State of Nevada without giving effect to the principles of conflicts of law, and applicable Federal law.

## **16.9 Section 409A.**

The Plan is intended to comply with Section 409A to the extent subject thereto, and, accordingly, to the maximum extent permitted, the Plan shall be interpreted and administered to be in compliance therewith. Any payments described in the Plan that are due within the “short-term deferral period” as defined in Section 409A shall not be treated as deferred compensation unless applicable laws require otherwise. Notwithstanding anything to the contrary in the Plan, to the extent required to avoid accelerated taxation and tax penalties under Section 409A, amounts that would otherwise be payable and benefits that would otherwise be provided pursuant to the Plan during the six (6) month period immediately following the Grantee’s Separation from Service shall instead be paid on the first payroll date after the six-month anniversary of the Grantee’s Separation from Service (or the Grantee’s death, if earlier). Notwithstanding the foregoing, neither the Company nor the Committee shall have any obligation to take any action to prevent the assessment of any excise tax or penalty on any Grantee under Section 409A and neither the Company nor the Committee will have any liability to any Grantee for such tax or penalty.

## **16.10 Separation from Service.**

The Board shall determine the effect of a Separation from Service upon Awards, and such effect shall be set forth in the appropriate Award Agreement. Without limiting the foregoing, the Board may provide in the Award Agreements at the time of grant, or any time thereafter with the consent of the Grantee, the actions that will be taken upon the occurrence of a Separation from Service, including, but not limited to, accelerated vesting or termination, depending upon the circumstances surrounding the Separation from Service.

## **16.11 Transferability of Awards.**

### **16.11.1 Transfers in General.**

Except as provided in **Section 16.11.2**, no Award shall be assignable or transferable by the Grantee to whom it is granted, other than by will or the laws of descent and distribution, and, during the lifetime of the Grantee, only the Grantee personally (or the Grantee’s personal representative) may exercise rights under the Plan.

### **16.11.2 Family Transfers.**

If authorized in the applicable Award Agreement, a Grantee may transfer, not for value, all or part of an Award (other than Incentive Stock Options) to any Family Member. For the purpose of this **Section 16.11.2**, a “not for value” transfer is a transfer which is (i) a gift, (ii) a transfer under a domestic relations order in settlement of marital property rights; or (iii) a transfer to an entity in which more than fifty percent of the voting interests are owned by Family Members (or the Grantee) in exchange for an interest in that entity. Following a transfer under this **Section 16.11.2**, any such Award shall continue to be subject to the same terms and conditions as were applicable immediately prior to transfer. Subsequent transfers of transferred Awards are prohibited except to Family Members of the original Grantee in accordance with this **Section 16.11.2** or by will or the laws of descent and distribution.

## **16.12 Dividends and Dividend Equivalent Rights.**

If specified in the Award Agreement, the recipient of an Award (other than Options or SARs) may be entitled to receive dividends or dividend equivalents with respect to the Common Stock or other securities covered by an Award. The terms and conditions of a dividend equivalent right may be set forth in the Award Agreement. Dividend equivalents credited to a Grantee may be reinvested in additional shares of Stock or other securities of the Company at a price per unit equal to the Fair Market Value of a share of Stock on the date that such dividend was paid to stockholders, as determined in the sole discretion of the Committee. Notwithstanding any provision herein to the contrary, in no event will dividends or dividend equivalents vest or otherwise be paid out prior to the time that the underlying Award (or portion thereof) has vested and, accordingly, will be subject to cancellation and forfeiture if such Award does not vest (including both time-based and performance-based Awards).

**The Plan was adopted by the Board of Directors on April 29, 2019.**

**CHEMBIO DIAGNOSTICS, INC.**

**Subsidiaries of the Registrant**

<b><u>Name of Subsidiary</u></b>	<b><u>Jurisdiction of Incorporation</u></b>
Chembio Diagnostic Systems Inc.	Delaware
Chembio Diagnostics Malaysia Sdn. Bhd.	Malaysia
opTricon GmbH	Germany
Brillant 3006, GmbH	Germany
Orangelife Comercio e Industria Ltda.	Brazil

**Consent of Independent Registered Public Accounting Firm**

Chembio Diagnostics, Inc.  
Hauppauge, New York

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-227398 and No. 333-215813) and Form S-8 (No. 333-151785 and No. 333-203633) of Chembio Diagnostics, Inc. of our reports dated March 13, 2020, relating to the consolidated financial statements and the effectiveness of Chembio Diagnostics, Inc.'s internal control over financial reporting, which appear in this Form 10-K.

/s/ BDO USA, LLP  
Melville, NY  
March 13, 2020

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**CERTIFICATION**

I, Gail S. Page, certify that:

1. I have reviewed this Form 10-K 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 13a15(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: March 13, 2020

/s/ Gail S. Page  
Gail S. Page  
President & Interim Chief Executive Officer

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**CERTIFICATION**

I, Neil A. Goldman, certify that:

1. I have reviewed this Form 10-K 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 13a15(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: March 13, 2020

/s/ Neil A. Goldman

Neil A. Goldman

Executive Vice President & Chief Financial Officer

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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 Annual Report on Form 10-K (the "Report") of Chembio Diagnostics, Inc. (the "Company") for the year ended December 31, 2019, each of the undersigned Gail S. Page, the President & Interim Chief Executive Officer of the Company, and Neil A. Goldman, the Executive Vice President & 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 undersigned's knowledge and belief:

- (1) This Form 10-K for the year ended December 31, 2019 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-K for the year ended December 31, 2019 fairly presents, in all material respects, the financial condition and results of operations of Chembio Diagnostics, Inc. for the periods presented therein.

Dated: March 13, 2020

/s/ Gail S. Page

Gail S. Page

President & Interim Chief Executive Officer

Dated: March 13, 2020

/s/ Neil A. Goldman

Neil A. Goldman

Executive Vice President & Chief Financial Officer

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