

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): March 24, 2006



(Exact name of registrant as specified in its charter)

Nevada	333-85787	88-0425691
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

3661 Horseblock Road, Medford, NY 11763
(Address of principal executive offices) (Zip Code)

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

N/A
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

ITEM 1.01. Entry into a Material Definitive Agreement

Series B Transaction

On March 30, 2006, Chembio Diagnostics, Inc. (the Company) issued to Crestview Capital Master, LLC (“Crestview”) 20 shares (face amount \$1,000,000) of the Company’s 9% Series B Convertible Preferred Stock (the “Series B Preferred”) together with warrants to purchase a total of 1,557,377 shares of Company’s common stock (“Common Stock”) at an exercise price of \$0.61 per share for a period of five years. The Company agreed to issue, and Crestview agreed to purchase for \$1,000,000, the securities described above pursuant to the terms of a Securities Purchase Agreement dated January 26, 2005 (the “Agreement”) by and among the Company, Crestview, and various purchasers. This transaction represents the second closing under the Agreement, and was triggered upon the Company’s achieving, as of the fourth fiscal quarter of 2005, certain financial milestones.

Pursuant to the terms of the Agreement, the Company agreed to sell a maximum of \$6,000,000 of its Series B Preferred together with warrants to purchase 9,344,337 shares of the Common Stock in two closings (the “Series B Offering”). At the first closing, which occurred on January 28, 2005, the Company received \$5,047,500 from the purchasers and issued to the purchasers a total of 100.95 shares of its Series B Preferred together with warrants to purchase 7,860,860 shares of Common Stock. The Agreement also provided that, upon the Company’s achievement of certain financial milestones as of any fiscal quarter of 2005, the Company would be obligated to sell to Crestview, and Crestview would be obligated to purchase, a total of 20 shares of the Series P Preferred and warrants to purchase 1,557,377 shares of the Company’s common stock at a second closing.

The Company agreed to include (piggyback) the resale of the Common Stock underlying the Series B Preferred and warrants purchased by Crestview in the second closing in its next registration statement and Crestview agreed to waive any other registration rights associated with these securities.

The proceeds from the sale of the securities at the second closing will be used primarily for general corporate purposes including for sales and marketing, research and development, and intellectual property, and also for working capital, investor relations, and capital expenditures.

Midtown Partners & Co., LLC (“Midtown”) acted as the placement agent for the Series B Offering. As compensation for services rendered to the Company by Midtown for the second closing, the Company agreed to issued to Midtown two shares (face amount \$100,000) of its Series B Preferred and warrants to purchase a total of 155,738 shares of its Common Stock at an exercise price of \$.061 per share for a period of five years.

The Company relied on Section 4(2) of the Securities Act of 1933 and Rule 506 promulgated thereunder as the basis for its exemption from registration of this issuance. It is the Company’s understanding that each of Crestview and Midtown is an accredited investor as defined under Rule 501 promulgated under the Securities Act of 1933. The Company did not engage in any public advertising or general solicitation in connection with the issuances of these securities.

Issuance of Stock Options to Officers

On March 24, 2006, the Board granted options to purchase 50,000 shares of common stock under the Plan to Avi Pelossof, a Vice President of the Company, at an exercise price of \$.62 share until March 24, 2011. One-half of these options are currently exercisable, and the other one-half vest on January 1, 2007. On March 24, 2006, the Board also granted options to purchase 37,500 shares of common stock under the Plan to Richard Larkin, the Chief Financial Officer of the Company, at an exercise price of \$.62 per share until March 24, 2011. One-half of these options are currently exercisable, and the other one-half vest on January 1, 2007.

The Company relied on Section 4(2) of the Securities Act of 1933 and Rule 506 promulgated thereunder as the basis for its exemption from registration of this issuance. Executive officers of the Company are considered to be “accredited investors” when purchasing securities issued by the Company.

ITEM 2.02 RESULTS OF OPERATIONS AND FINANCIAL CONDITION

On March 31, 2006, the Company issued a press release reporting its results for fourth fiscal quarter and full fiscal year ended December 31, 2005. The press release is filed herewith as Exhibit 99.1 and is incorporated herein by reference.

This information shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing.

ITEM 3.02 UNREGISTERED SALES OF EQUITY SECURITIES.

To the extent applicable, the contents of Item 1.01 above are incorporated into this Item 3.02 by reference.

Pursuant to the terms of the Series B Preferred , the holders of the Series B Preferred are entitled to receive cumulative dividends at the rate per share (as a percentage of the stated value per share) of 9% per annum (subject to adjustment), payable semiannually on July 1 and January 1. The form of dividend payments to each holder shall be made at the sole election of the Company, in cash or shares of Series B Preferred which shall be valued for such purpose at their stated value; provided, however, that any holder of a majority of the issued and outstanding Series B Preferred at any dividend payment date may elect whether to receive such dividend in cash or in shares of Series B Preferred in its sole discretion. In January 2006, the Company issued 1.79797 shares of Series B Preferred to its holders, which is valued at approximately \$89,898.50.

Because these dividend shares were issued pursuant to the terms of the Series B Preferred designations, the Company believes that the issuances are part of the Series B Offering and do not constitute new sales at this time; however, the Company believes that the issuances of these shares, if deemed to be sales, would be exempt from registration under Section 4(2) of the Securities Act of 1933 and Rule 506 promulgated thereunder. It is the Company’s understanding that each of the holders of the Series B Preferred is an accredited investor and the Company did not engage in any public advertising or general solicitation in connection with the issuances of these securities

ITEM 7.01. REGULATION FD DISCLOSURES

On March 27, 2006 the Registrant issued the press release titled “Chembio Appoints Distributor and Receives Approval for its Rapid HIV Tests in Kenya” included herein as Exhibit 99.1.

ITEM 9.01. FINANCIAL STATEMENTS AND EXHIBITS

(c) Exhibits.

- 3.1 Certificate of Designation of Preferences, Rights and Limitations of Series B 9% Convertible Preferred Stock of the Registrant. (1)
- 4.2 Form of Common Stock Warrant issued pursuant to the Securities Purchase Agreement. (1)
- 4.3 Registration Rights Agreement, dated as of January 26, 2005, by and among the Registrant and the Purchasers listed therein. (1)
- 10.1 Securities Purchase Agreement (the “Securities Purchase Agreement”), dated as of January 26, 2005, by and among the Registrant and the Purchasers listed therein. (1)
- 10.2 [Letter Agreement dated March 29, 2006 by and between the Company and Crestview Capital Master, LLC.](#)
- 10.3 [Form of Stock Option Agreement \(Incentive\) under 1999 Equity Incentive Plan.](#)
- 10.4 [Form of Stock Option Agreement \(Non-Qualified\) under 1999 Equity Incentive Plan.](#)
- 99.1 Press release titled "[Chembio Reports Fourth Quarter and Full-Year 2005 Results](#)" issued on March 31, 2006.
- 99.2 Press Release titled "[Chembio Appoints Distributor and Receives Approval for its Rapid HIV Tests in Kenya](#)" issued on March 27, 2006.

(1) Incorporated by reference from the Company’s Current Report on Form8-K, filed with the SEC on January 31, 2005.

SIGNATURES

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

Date: April 3, 2006

CHEMBIO DIAGNOSTICS, INC.

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

[CHEMBIO LETTERHEAD]

March 28, 2006

Mr. Robert Hoyt
Crestview Capital Master, LLC

Re: Securities Purchase Agreement dated as of January 26, 2005 among Chembio Diagnostics, Inc. ("Chembio"), Crestview Capital Master, LLC ("Crestview"), and other purchasers (the "Agreement")

Dear Bob:

The purpose of this letter is to confirm our understandings regarding the purchase by Crestview of additional securities of Chembio pursuant to the Agreement. Capitalized terms in this letter that are not otherwise defined herein have the same meanings given to such terms in the Agreement. A First Closing was held in 2005 in which Crestview purchased \$3,000,000 of Preferred Stock and Warrants. Pursuant to Section 2.1(b) of the Agreement, Crestview is obligated to purchase an additional \$1,000,000 of Preferred Stock and Warrants in a Second Closing upon notice from Chembio that Chembio, as of any fiscal quarter of 2005: (1) achieved at least \$5,000,000 in aggregate contract revenues; and (2) has annualized growth profits of at least \$2,250,000. This will confirm that Chembio and Crestview have agreed that these conditions have been satisfied and that Crestview is aware of the rationale used by Chembio in the calculations as set forth in Exhibit A.

The shares of Common Stock underlying the Preferred Stock and the Warrants to be issued to you in connection with this transaction are entitled to registration rights pursuant to a Registration Rights Agreement entered into in connection with the Agreement. In connection with this Second Closing, and in order to avoid a costly and detrimental expense at this time, we ask that you waive all registration rights relating to the securities purchased in this Second Closing. We plan to complete a new round of financing within the next few months, and we will include (piggyback) the resale of the Common Stock underlying the Preferred Stock and Warrants purchased by you in the Second Closing in our next registration statement.

In connection with this Second Closing, you also confirm that Crestview has had the opportunity to: (i) discuss Chembio's business, management and financial affairs with management of Chembio; (2) ask questions of, and receive answers from, management of Chembio regarding the terms and conditions of this investment; and (3) review all reports filed by Chembio with the SEC since January 2005.

We also appreciate your agreement to close this transaction on March 29, 2006. Upon receipt of a signed copy of this letter from Crestview and a wire payment to us in the amount of \$1,000,000 (wire instructions are attached in Schedule A), we will cause to be registered in the name of Crestview and delivered to Crestview: (1) a stock certificate representing 20 shares of Preferred Stock, and (2) a warrant certificate in the form set forth in the Agreement, representing a warrant to purchase 1,557,377 shares of Common Stock at an exercise price of \$.61 per share for a period of five years.

Should you have any questions regarding this matter, please contact us. We appreciate your cooperation in promptly completing this transaction.

Very Truly Yours,

CHEMBIO DIAGNOSTICS, INC.

By: _____
Richard J. Larkin, Chief Financial Officer

AGREED AND ACKNOWLEDGED:

CRESTVIEW CAPITAL MASTER, LLC

By: _____
Robert Hoyt, Authorized Signatory

Dated as of March 28, 2006

CHEMBIO DIAGNOSTIC SYSTEMS, INC.
STOCK OPTION AGREEMENT
(Incentive Option)

THIS STOCK OPTION AGREEMENT (the "Agreement") is made and entered into as of the ____ day of _____ 1999 by and between Chembio Diagnostic Systems, Inc., a Delaware corporation (the "Company"), and _____ (the "Optionee").

WITNESSETH:

WHEREAS, the Optionee has received an incentive stock option to purchase shares of the Company's Common Stock pursuant to the Company's 1999 Stock Option Plan (the "Plan") in order to provide the Optionee with an opportunity for investment in the Company and additional incentive to pursue the success of the Company, and this option is to be for the number of shares, at the price per share and on the terms set forth in this Agreement;

WHEREAS, the Company intends that the stock option granted pursuant to this Agreement qualify as an incentive stock option pursuant to Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"); and

WHEREAS, the Optionee desires to receive an option on the terms and conditions set forth in this Agreement.

NOW, THEREFORE, the parties agree as follows:

1. Grant Of Option. The Company hereby grants to the Optionee, as a matter of separate agreement and not in lieu of salary or any other compensation for services, the right and option (the "Option") to purchase all or any part of an aggregate of _____ shares of the authorized and unissued \$.001 par value common stock of the Company (the "Option Shares") pursuant to the terms and conditions set forth in this Agreement.

2. Option Price. At any time when shares are to be purchased pursuant to the Option, the purchase price for each Option Share shall be \$_____ (the "Option Price").

3. Exercise Period.

(a) No portion of the Option may be exercised on or before the third anniversary of the date of this Agreement (the "Trigger Date"). After the Trigger Date, the Option shall be exercisable only as follows: (i) 25 percent of the Option shall become and remain exercisable at such time that the Fair Market Value, as determined in accordance with the Plan, of all outstanding shares of Common Stock of the Company (the "Stock Valuation") first equals or exceeds \$5 million; (ii) an additional 35 percent of the Option shall become and remain exercisable at such time that the Stock Valuation first equals or exceeds \$10 million; and (iii) the remaining 40 percent of the Option shall become and remain exercisable at such time that the Stock Valuation first equals or exceeds \$12.5 million.

(b) The period for exercise of the Option shall terminate at 5:00 p.m., Denver, Colorado time on _____, 200__, unless terminated earlier as provided in this Agreement, which date is the seventh anniversary of the date of this Agreement.

4. Exercise Of Option.

(a) The Option may be exercised in whole or in part by delivering to the Treasurer of the Company (i) a Notice And Agreement Of Exercise Of Option, substantially in the form attached hereto as Exhibit A, specifying the number of Option Shares with respect to which the Option is exercised, and (ii) full payment of the Option Price for such shares. Payment in cash shall be made by certified check or cleared funds. The Option may not be exercised in part unless the purchase price for the Option Shares purchased is at least \$1,000 or unless the entire remaining portion of the Option is being exercised.

(b) Promptly upon receipt of the Notice And Agreement Of Exercise Of Option together with the full payment of the Option Price, the Company shall deliver to the Optionee a properly executed certificate or certificates representing the Option Shares being purchased.

(c) During the lifetime of the Optionee, the Option shall be exercisable only by the Optionee; provided, however, that in the event of the legal disability of an Optionee, the guardian or personal representative of the Optionee may exercise the Option if such guardian or personal representative obtains a ruling from the Internal Revenue Service or an opinion of counsel to the effect that neither the grant nor the exercise of such power is violative of Section 422(b)(5), or its successor provision, of the Internal Revenue Code of 1986, as amended (the "Code"). Any opinion of counsel must be acceptable to the Option Committee both with respect to the counsel rendering the opinion and with respect to the form of opinion.

(d) If for any reason other than the termination of Optionee's employment by the Company for cause or other than the termination of Optionee's employment by Optionee's resignation or other voluntary act, the Optionee ceases to be employed by the Company, any Option held by the Optionee at the time the Optionee's employment ceases may be exercised within three months after the date his employment ceases, but only to the extent that (i) the Option was exercisable according to its terms on the date of termination of the Optionee's employment, and (ii) the period for exercise of the Option, as defined in Section 3 of this Agreement, has not terminated as of the date of exercise. Upon termination of the period ending three months after cessation of the Optionee's employment for any reason other than for cause and other than by Optionee's voluntary act, any unexercised portion of an Option shall expire. If the Optionee ceases to be employed by the Company because of termination by the Optionee by resignation or other voluntary act, any Option held by the Optionee at the time the Optionee's employment ceases shall terminate immediately upon the cessation of employment and all rights to purchase shares pursuant to the Option shall terminate immediately. If the Optionee's employment by the Company is terminated by the Company for cause, any Option held by the Optionee at the time Optionee's employment is terminated shall expire upon delivery to the Optionee of notice of termination, which may be oral or in writing, and all rights to purchase shares pursuant to the Option shall terminate immediately. As used in this Section 4(d), termination "for cause" means a discharge on account of dishonesty, disloyalty or insubordination on the part of the Optionee as determined by the Board Of Directors of the Corporation or a Committee of the Board Of Directors.

5. Withholding Taxes. The Company may take such steps as it deems necessary or appropriate for the withholding of any taxes which the Company is required by any law or regulation or any governmental authority, whether federal, state or local, domestic or foreign, to withhold in connection with the Option including, but not limited to, the withholding of all or any portion of any payment owed by the Company to the Optionee or the withholding of issuance of Option Shares to be issued upon the exercise of the Option.

6. Securities Laws Requirements. The issuance of the Option has not been registered under the 1933 Act, in reliance upon an exemption from registration. In addition, no Option Shares shall be issued unless and until, in the opinion of the Company, there has been full compliance with any applicable registration requirements of the 1933 Act, any applicable listing requirements of any securities exchange on which stock of the same class has been listed, and any other requirements of law or any regulatory bodies having jurisdiction over such issuance and delivery. Optionee hereby acknowledges, represents, warrants and agrees as follows, and, pursuant to the terms of the Notice And Agreement Of Exercise Of Option (Exhibit A) that shall be delivered to the Company upon each exercise of the Option, Optionee shall acknowledge, represent, warrant and agree as follows:

(a) Optionee is acquiring the Option and the Option Shares for investment purposes only and the Option and the Option Shares that Optionee is acquiring will be held by Optionee without sale, transfer or other disposition for an indefinite period unless the transfer of those securities is subsequently registered under the federal securities laws or unless exemptions from registration are available;

(b) Optionee's overall commitment to investments that are not readily marketable is not disproportionate to Optionee's net worth and Optionee's investment in the Option and the Option Shares will not cause such overall commitments to become excessive;

(c) Optionee's financial condition is such that Optionee is under no present or contemplated future need to dispose of any portion of the Option or the Option Shares to satisfy any existing or contemplated undertaking, need or indebtedness;

(d) Optionee has sufficient knowledge and experience in business and financial matters to evaluate, and Optionee has evaluated, the merits and risks of an investment in the Option and the Option Shares;

(e) The address set forth in this Agreement is Optionee's true and correct residence, and Optionee has no present intention of becoming a resident of any other state or jurisdiction;

(f) Optionee confirms that all documents, records and books pertaining to an investment in the Option and the Option Shares have been made available or delivered to Optionee and Optionee has had the opportunity to discuss the acquisition of the Option and the Option Shares with the Company. Optionee also confirms that Optionee has obtained or been given access to all information concerning the Company that Optionee has reasonably requested;

(g) Optionee has had the opportunity to ask questions of, and receive the answers from, the Company concerning the terms of the investment in the Option and the Option Shares and to receive additional information necessary to verify the accuracy of the information delivered to Optionee, to the extent that the Company possesses such information or can acquire it without unreasonable effort or expense;

(h) Optionee understands that the Option has not been, and the Option Shares issuable upon exercise of the Options will not be, registered under the 1933 Act or any state securities laws in reliance on an exemption for private offerings, and no federal or state agency has made any finding or determination as to the fairness of this investment or any recommendation or endorsement of the issuance of the Option or the Option Shares;

(i) The Option and the Option Shares that Optionee is acquiring will be solely for Optionee's own account, for investment, and are not being purchased with a view to or for the resale, distribution, subdivision or fractionalization thereof. Optionee has no agreement or arrangement for any such resale, distribution, subdivision or fractionalization thereof; and

(j) Optionee acknowledges and is aware of the following:

(i) The Company has a history of losses. The Option and the Option Shares constitute a speculative investment and involve a high degree of risk of loss by Optionee of Optionee's total investment in the Option and the Option Shares.

(ii) There are substantial restrictions on the transferability of the Option and the Option Shares. The Option is not transferable except as provided in Section 7 below. The Option Shares cannot be transferred, pledged, hypothecated, sold or otherwise disposed of unless they are registered under the 1933 Act or an exemption from such registration is available and established to the satisfaction of the Company; investors in the Company have no rights to require that the Option Shares be registered; there is no right of presentment of the Option Shares and there is no obligation by the Company to repurchase any of the Option Shares; and, accordingly, Optionee may have to hold the Option Shares indefinitely and it may not be possible for Optionee to liquidate Optionee's investment in the Company;

(iii) Each certificate issued representing the Option Shares shall be imprinted with a legend that sets forth a description of the restrictions on transferability of those securities, which legend will read substantially as follows:

“THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER FEDERAL OR STATE SECURITIES LAWS. THESE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, PLEDGED, OR OTHERWISE DISPOSED OF UNLESS SO REGISTERED OR QUALIFIED OR UNLESS AN EXEMPTION EXISTS, THE AVAILABILITY OF WHICH IS TO BE ESTABLISHED BY AN OPINION OF COUNSEL (WHICH OPINION AND COUNSEL SHALL BOTH BE REASONABLY SATISFACTORY TO THE COMPANY).”

The restrictions described above, or notice thereof may be placed on the certificates representing the Option Shares purchased pursuant to the Option, and the Company may refuse to issue the certificates or to transfer the shares on its books unless it is satisfied that no violation of such restrictions will occur.

7. Transferability Of Option. The Option shall not be transferable except by will or the laws of descent and distribution, and any attempt to do so shall void the Option.

8. Adjustment By Stock Split, Stock Dividend, Etc. If at any time the Company increases or decreases the number of its outstanding shares of common stock, or changes in any way the rights and privileges of such shares, by means of the payment of a stock dividend or the making of any other distribution on such shares payable in its common stock, or through a stock split or subdivision of shares, or a consolidation or combination of shares, or through a reclassification or recapitalization involving its common stock, the numbers, rights and privileges of the shares of common stock included in the Option shall be increased, decreased or changed in like manner as if such shares had been issued and outstanding, fully paid and nonassessable at the time of such occurrence.

9. Business Combinations; Merger Or Consolidation.

(a) Change Of Control; Exercise Of Options. All Options that previously have not become exercisable pursuant to this Agreement shall become exercisable immediately upon the effectuation or other consummation of a Change In Control (as defined below). At the time of the occurrence of any of the events described in the previous sentence, the Company shall give written notice to the Optionee of the occurrence of such event. After receipt of this notice, the Option shall become exercisable immediately, except that this acceleration would not occur with respect to all or a portion of the Option for which the acceleration would result in a violation of Section 16 of the Plan, and the Optionee may exercise any exercisable Options as to the shares covered thereby at any time prior to the later to occur of (A) 30 days after the receipt of that notice, and (B) the consummation of the action described in the foregoing clauses (i), (ii), or (iii) of this Subparagraph 9(a). Notice pursuant to this Subparagraph 9(a) shall be given pursuant to the provisions of Paragraph 13 of this Agreement.

(b) Definitions. For purposes of this Paragraph 9, a "Change In Control" shall mean any of the following events:

(i) An acquisition (other than directly from the Company) of any voting securities of the Company (the "Voting Securities") by any "Person" (as the term person is used for purposes of Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended (the "1934 Act")) immediately after which such Person has "Beneficial Ownership" (within the meaning of Rule 13d-3 promulgated under the 1934 Act) of thirty percent or more of the combined voting power of the Company's then outstanding Voting Securities; *provided, however*, that in determining whether a Change in Control has occurred, Voting Securities which are acquired in a "Non-Control Acquisition" (as hereinafter defined) shall not constitute an acquisition which would cause a Change in Control. A "Non-Control Acquisition" shall mean an acquisition by (1) an employee benefit plan (or a trust forming a part thereof) maintained by (x) the Company or (y) any corporation or other Person of which a majority of its voting power or its equity securities or equity interest is owned directly or indirectly by the Company (a "Subsidiary"), (2) the Company or any Subsidiary, or (3) any Person in connection with a "Non-Control Transaction."

(ii) The individuals who, as of the date hereof, are members of the Board (the “Incumbent Board”), cease for any reason to constitute at least two-thirds of the Board; *provided, however*, that if the election, or nomination for election by the Company’s stockholders, of any new director was approved by a vote of at least two-thirds of the then Incumbent Board or two-thirds of the Voting Securities, such new director shall, for purposes of this Agreement, be considered as a member of the Incumbent Board; *provided, further, however*, that no individual shall be considered a member of the Incumbent Board if such individual initially assumed office as a result of either an actual or threatened “Election Contest” (as described in Rule 14a-11 promulgated under the 1934 Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board (a “Proxy Contest”) including by reason of any agreement intended to avoid or settle any Election Contest or Proxy Contest; or

(iii) Approval by stockholders of the Company of:

(1) A merger, consolidation or reorganization involving the Company, unless

(A) the stockholders of the Company, immediately before such merger, consolidation or reorganization, own, directly or indirectly, immediately following such merger, consolidation or reorganization, at least sixty percent of the combined voting power of the outstanding Voting Securities of the corporation resulting from such merger or consolidation or reorganization (the “Surviving Corporation”) in substantially the same proportion as their ownership of the Voting Securities immediately before such merger, consolidation or reorganization, and

(B) the individuals who were members of the Incumbent Board immediately prior to the execution of the agreement providing for such merger, consolidation or reorganization constitute at least two-thirds of the members of the board of directors of the Surviving Corporation or a corporation beneficially owning, directly or indirectly, a majority of the Voting Securities of the Surviving Corporation, and

(C) no Person (other than the Company, any Subsidiary, any employee benefit plan (or any trust forming a part thereof) maintained by the Company, the Surviving Corporation or any Subsidiary, or any Person who, immediately prior to such merger, consolidation or reorganization had Beneficial Ownership of thirty percent or more of the then outstanding Voting Securities) owns, directly or indirectly, thirty percent or more of the combined voting power of the Surviving Corporation’s then outstanding voting securities, and

(D) a transaction described in clauses (A) through (C) shall herein be referred to as a “Non-Control Transaction”;

(2) A complete liquidation or dissolution of the Company; or

(3) An agreement for the sale or other disposition of all or substantially all of the assets of the Company to any Person (other than a transfer to a Subsidiary).

Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because any Person (the “Subject Person”) acquired Beneficial Ownership of more than the permitted amount of the outstanding Voting Securities as a result of the acquisition of Voting Securities by the Company which, by reducing the number of Voting Securities outstanding, increases the proportional number of shares Beneficially Owned by the Subject Person, provided that if a Change in Control would occur (but for the operation of this sentence) as a result of the acquisition of Voting Securities by the Company, and after such share acquisition by the Company, the Subject Person becomes the Beneficial Owner of any additional Voting Securities which increases the percentage of the then outstanding Voting Securities Beneficially Owned by the Subject Person, then a Change in Control shall occur.

(iv) Notwithstanding anything contained in this Agreement to the contrary, if the Optionee’s employment is terminated prior to a Change in Control and the Optionee reasonably demonstrates that such termination (i) was at the request of a third party who has indicated an intention or taken steps reasonably calculated to effect a Change in Control and who effectuates a Change in Control (a “Third Party”) or (ii) otherwise occurred in connection with, or in anticipation of, a Change in Control which actually occurs, then for all purposes of this Agreement, the date of a Change in Control with respect to the Optionee shall mean the date immediately prior to the date of such termination of the Optionee’s employment.

10. Common Stock To Be Received Upon Exercise. Optionee understands that the Company is under no obligation to register the issuance of the Option Shares, the resale (by directors and officers) of the Option Shares, or the Option Shares, under the Securities Act of 1933, as amended (the “1933 Act”), and that in the absence of any such registration, the Option Shares cannot be sold unless they are sold pursuant to an exemption from registration under the 1933 Act. The Company is under no obligation to comply, or to assist the Optionee in complying, with any exemption from such registration requirement, including supplying the Optionee with any information necessary to permit routine sales of the Stock under Rule 144 of the Securities and Exchange Commission. Optionee also understands that with respect to Rule 144, routine sales of securities made in reliance upon such Rule can be made only in limited amounts in accordance with the terms and conditions of the Rule, and that in cases in which the Rule is inapplicable, compliance with either Regulation A or another disclosure exemption under the 1933 Act will be required. Thus, the Option Shares will have to be held indefinitely in the absence of registration under the 1933 Act or an exemption from registration.

Furthermore, the Optionee fully understands that issuance of the Option Shares may not be registered under the 1933 Act and that if their issuance is not registered, they will be issued in reliance upon an exemption which is available only if Optionee acquires such shares for investment and not with a view to distribution. Optionee is familiar with the phrase “acquired for investment and not with a view to distribution” as it relates to the 1933 Act and the special meaning given to such term in various releases of the Securities And Exchange Commission.

11. Privilege Of Ownership. Optionee shall not have any of the rights of a stockholder with respect to the shares covered by the Option except to the extent that one or more certificates for such shares shall be delivered to him upon exercise of the Option.

12. Relationship To Employment Or Position. Nothing contained in this Agreement (i) shall confer upon the Optionee any right with respect to continuance of Optionee’s employment by, or position or affiliation with, or relationship to, the Company, or (ii) shall interfere in any way with the right of the Company at any time to terminate the Optionee’s employment by, position or affiliation with, or relationship to, the Company.

13. Notices. All notices, requests, demands, directions and other communications (“Notices”) concerning this Agreement shall be in writing and shall be mailed or delivered personally or sent by telecopier or facsimile to the applicable party at the address of such party set forth below in this Section 13. When mailed, each such Notice shall be sent by first class, certified mail, return receipt requested, enclosed in a postage prepaid wrapper, and shall be effective on the fifth business day after it has been deposited in the mail. When delivered personal-ly, each such Notice shall be effective when delivered to the address for the respective party set forth in this Section 13, provided that it is delivered on a business day and further provided that it is delivered prior to 5:00 p.m., local time of the party to whom the notice is being delivered, on that business day; otherwise, each such Notice shall be effective on the first business day occurring after the Notice is delivered. When sent by telecopier or facsimile, each such Notice shall be effective on the day on which it is sent provided that it is sent on a business day and further provided that it is sent prior to 5:00 p.m., local time of the party to whom the Notice is being sent, on that business day; otherwise, each such Notice shall be effective on the first business day occurring after the Notice is sent. Each such Notice shall be addressed to the party to be notified as shown below:

- (a)

if to the Company:

Chembio Diagnostic Systems, Inc.
Attn: Treasurer or President
3361 Horseblock Road
Medford, New York 11763
Facsimile No. (516) 924-6033
- (b)

if to the Optionee:

Facsimile No.:

Either party may change its respective address for purposes of this Section 13 by giving the other party Notice of the new address in the manner set forth above.

14. General Provisions. This instrument (a) contains the entire agreement between the parties, (b) may not be amended nor may any rights hereunder be waived except by an instrument in writing signed by the party sought to be charged with such amendment or waiver, (c) shall be construed in accordance with, and governed by the laws of the State of New York, except where conflicts of law rules require the application of Colorado law, and (d) shall be binding upon and shall inure to the benefit of the parties and their respective personal representatives and assigns, except as above set forth. All pronouns contained herein and any variations thereof shall be deemed to refer to the masculine, feminine or neuter, singular or plural as the identity of the parties hereto may require.

IN WITNESS WHEREOF, the parties have executed this Agreement on the dates set forth below.

CHEMBIO DIAGNOSTIC SYSTEMS, INC.

Date:_____

By:_____

Printed Name And Title

OPTIONEE

Date:_____

[Name]

Address:_____

EXHIBIT A
(To Chembio Diagnostic Systems, Inc.
Stock Option Agreement)

CHEMBIO DIAGNOSTIC SYSTEMS, INC.
NOTICE AND AGREEMENT OF EXERCISE OF OPTION

I hereby exercise my Chembio Diagnostic Systems, Inc. Stock Option dated as of _____, 1998 as to _____ shares of the \$.001 par value common stock (the "Option Shares") of Chembio Diagnostic Systems, Inc. (the "Company") at a purchase price of \$_____ per share. The total exercise price for these Option Shares is \$_____. Enclosed is payment in the form of _____.

Enclosed are the documents and payment specified in Paragraph 4 of my Option Agreement.

I understand that no Option Shares will be issued unless and until, in the opinion of the Company, there has been full compliance with any applicable registration requirements of the Securities Act of 1933, as amended, any applicable listing requirements of any securities exchange on which stock of the same class is then listed, and any other requirements of law or any regulatory bodies having jurisdiction over such issuance and delivery. I hereby acknowledge, represent, warrant and agree, to and with the Company as follows:

- a. The Option Shares I am purchasing are being acquired for my own account for investment purposes only and with no view to their resale or other distribution of any kind, and no other person (except, if I am married, my spouse) will own any interest therein. (Note: This provision to be included only if issuance of Option Shares is not registered at the time of exercise.)
 - b. I will not sell or dispose of my Option Shares in violation of the Securities Act of 1933, as amended, or any other applicable federal or state securities laws.
 - c. I will report all sales of Option Shares to the Company in writing on a form prescribed by the Company.
 - d. I agree that the Company may, without liability for its good faith actions, place legend restrictions upon my Option Shares and issue "stop transfer" instructions requiring compliance with applicable securities laws and the terms of my Option.
 - e. [For officers only.] If and so long as I am subject to reporting requirements under Section 16(a) of the Securities Exchange Act of 1934, as amended (the "1934 Act"), I recognize that any sale by me or my immediate family of the Company's \$.001 par value common stock may create liability for me under Section 16(b) of the 1934 Act ("Section 16(b)"). Therefore, I have consulted with my counsel regarding the application of Section 16(b) to this exercise of my Option.
 - f. [For officers only.] I will consult with my counsel regarding the application of Section 16(b) before I can make any sale of the Company's \$.001 par value common stock, including the Option Shares, and I will furnish the Company with a copy of each Form 4 filed by me and will timely file all reports that I may be required to file under the federal securities laws.
-

The number of Option Shares specified above are to be issued in the name or names set forth below in the left-hand column.

(Print Your Name)

Signature

(Optionee - Print Name of Spouse
if you wish joint registration)

Address

City, State and Zip Code

THE SECURITIES REPRESENTED BY THIS DOCUMENT HAVE NOT BEEN REGISTERED WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “1933 ACT”), AND ARE “RESTRICTED SECURITIES” AS THAT TERM IS DEFINED IN RULE 144 UNDER THE 1933 ACT. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD OR OTHERWISE TRANSFERRED EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE 1933 ACT, OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE 1933 ACT.

CHEMBIO DIAGNOSTICS, INC.

STOCK OPTION AGREEMENT
(Directors’ Non-Qualified Stock Option)

THIS STOCK OPTION AGREEMENT (this “Agreement”) is made and entered into as of the _____ day of _____, _____ by and between Chembio Diagnostics, Inc., a Nevada corporation (the “Company”), and _____ (the “Optionee”).

WITNESSETH:

WHEREAS, the Optionee has received a non-qualified option to purchase shares of the Company’s common stock, par value \$0.01 per share (the “Common Stock”), pursuant to the Company’s 1999 Stock Option Plan (the “Plan”) in order to provide the Optionee with an opportunity for investment in the Company and additional incentive to pursue the success of the Company, and this option is to be for the number of shares, at the price per share and on the other terms and conditions set forth in this Agreement; and

WHEREAS, the Optionee desires to receive an option on the terms and conditions set forth in this Agreement.

NOW, THEREFORE, the parties agree as follows:

1. Grant Of Option. The Company hereby grants to the Optionee the right and option (the “Option”) to purchase all or any part of an aggregate of _____ (_____) shares of the authorized and unissued Common Stock (the “Option Shares”) pursuant to the terms and conditions set forth in this Agreement and the Plan. In the event that the terms and conditions in this Agreement are inconsistent with the terms and conditions in the Plan, the terms and conditions in the Plan shall control.

2. Option Price. At any time that shares are to be purchased pursuant to the Option, the purchase price for each Option Share shall be \$_____ (the “Option Price”), subject to adjustment as provided in this Agreement.

3. Exercise Period. Unless terminated earlier as provided in this Agreement, each portion of the Option will expire and terminate, if not exercised sooner, at 5:00pm, New York City, New York time, on the date hereof. Notwithstanding the foregoing, to the extent not earlier terminated, the Option shall terminate three months after the date the Optionee no longer serves on the Board of Directors of the Company.

4. Vesting of Option. _____ of the Options (the right to purchase _____ Option Shares) shall be immediately exercisable and _____ of the Options shall become exercisable on _____ of each of _____ and _____.

5. Exercise Of Option.

(a) The Option may be exercised in whole or in part by delivering to the Treasurer of the Company (i) a Notice And Agreement Of Exercise Of Option, substantially in the form attached hereto as Exhibit A, specifying the number of Option Shares with respect to which the Option is exercised, and (ii) full payment of the Option Price for such shares. Payment shall be made by certified check or cleared funds. The Option may not be exercised in part unless the purchase price for the Option Shares purchased is at least \$1,000 or unless the entire remaining portion of the Option is being exercised.

(b) Promptly upon receipt of the Notice And Agreement Of Exercise Of Option together with the full payment of the Option Price, the Company shall deliver to the Optionee a properly executed certificate or certificates representing the Option Shares being purchased.

6. Withholding Taxes. The Company may take such steps as it deems necessary or appropriate for the withholding of any taxes which the Company is required by any law or regulation or any governmental authority, whether federal, state or local, domestic or foreign, to withhold in connection with the Option, including, but not limited to, the withholding of all or any portion of any payment owed by the Company to the Optionee or the withholding of issuance of Option Shares to be issued upon the exercise of the Option.

7. Securities Laws Requirements. No Option Shares shall be issued unless and until, in the opinion of the Company, there has been full compliance with, or an exemption from, any applicable registration requirements of the Securities Act of 1933, as amended (the "1933 Act"), any applicable listing requirements of any securities exchange on which stock of the same class has been listed, and any other requirements of law or any regulatory bodies having jurisdiction over such issuance and delivery, or applicable exemptions are available and have been complied with. Pursuant to the terms of the Notice And Agreement Of Exercise Of Option (Exhibit A) that shall be delivered to the Company upon each exercise of the Option, the Optionee shall acknowledge, represent, warrant and agree as follows:

(a) Optionee is acquiring the Option Shares for investment purposes only and the Option Shares that Optionee is acquiring will be held by Optionee without sale, transfer or other disposition for an indefinite period unless the transfer of those securities is subsequently registered under the federal securities laws or unless exemptions from registration are available;

(b) Optionee's overall commitment to investments that are not readily marketable is not disproportionate to Optionee's net worth and Optionee's investment in the Option Shares will not cause such overall commitments to become excessive;

(c) Optionee's financial condition is such that Optionee is under no present or contemplated future need to dispose of any portion of the Option Shares to satisfy any existing or contemplated undertaking, need or indebtedness;

(d) Optionee has sufficient knowledge and experience in business and financial matters to evaluate, and Optionee has evaluated, the merits and risks of an investment in the Option Shares;

(e) The address set forth on the signature page to this Agreement is Optionee's true and correct residence, and Optionee has no present intention of becoming a resident of any other state or jurisdiction;

(f) Optionee confirms that all documents, records and books pertaining to an investment in the Option and the Option Shares that have been requested by Optionee have been made available or delivered to Optionee. Without limiting the foregoing, Optionee has received and reviewed the Company's periodic reports as filed with the Securities and Exchange Commission, and Optionee has had the opportunity to discuss the acquisition of the Option and the Option Shares with the Company, and Optionee has obtained or been given access to all information concerning the Company that Optionee has requested;

(g) Optionee has had the opportunity to ask questions of, and receive the answers from, the Company concerning the terms of the investment in the Option Shares and to receive additional information necessary to verify the accuracy of the information delivered to Optionee, to the extent that the Company possesses such information or can acquire it without unreasonable effort or expense;

(h) Optionee understands that the Options have not been, and the Option Shares issuable upon exercise of the Options will not be, registered under the 1933 Act or any state securities laws in reliance on an exemption for private offerings, and no federal or state agency has made any finding or determination as to the fairness of this investment or any recommendation or endorsement of the sale of the Option Shares;

(i) The Option Shares that Optionee is acquiring will be solely for Optionee's own account, for investment, and are not being purchased with a view to or for the resale, distribution, subdivision or fractionalization thereof. Optionee has no agreement or arrangement for any such resale, distribution, subdivision or fractionalization thereof;

(j) Optionee acknowledges and is aware of the following:

(i) The Company has a history of losses. The Option Shares constitute a speculative investment and involve a high degree of risk of loss by Optionee of Optionee's total investment in the Option Shares.

(ii) There are substantial restrictions on the transferability of the Option Shares. The Option is not transferable except by will or the laws of descent and distribution, and any attempt to do so shall void the Option. The Option Shares cannot be transferred, pledged, hypothecated, sold or otherwise disposed of unless they are registered under the 1933 Act or an exemption from such registration is available and established to the satisfaction of the Company; investors in the Company have no rights to require that the Option Shares be registered; there is no right of presentment of the Option Shares and there is no obligation by the Company to repurchase any of the Option Shares; and, accordingly, Optionee may have to hold the Option Shares indefinitely and it may not be possible for Optionee to liquidate Optionee's investment in the Company.

(iii) Unless the issuance of the Option Shares is registered, each certificate issued representing the Option Shares shall be imprinted with a legend that sets forth a description of the restrictions on transferability of those securities, which legend will read substantially as follows:

“THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “1933 ACT”), AND ARE ‘RESTRICTED SECURITIES’ AS THAT TERM IS DEFINED IN RULE 144 UNDER THE 1933 ACT. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD OR OTHERWISE TRANSFERRED EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE 1933 ACT, OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE 1933 ACT.”

The restrictions described in this Section 6, or notice thereof, may be placed on the certificates representing the Option Shares purchased pursuant to the Option, and the Company may refuse to issue the certificates or to transfer the shares on its books unless it is satisfied that no violation of such restrictions will occur.

8. Adjustment By Stock Split, Stock Dividend, Etc. If at any time the Company increases or decreases the number of its outstanding shares of common stock, or changes in any way the rights and privileges of such shares, by means of the payment of a stock dividend or the making of any other distribution on such shares payable in its common stock, or through a stock split or subdivision of shares, or a consolidation or combination of shares, or through a reclassification or recapitalization involving its common stock, the numbers, rights and privileges of the shares of common stock included in the Option shall be in-creased, decreased or changed in like manner as if such shares had been issued and outstanding, fully paid and nonassessable at the time of such occurrence and the Option Price shall be correspondingly decreased, increased or otherwise changed. Whenever the number or kind of shares comprising the Option Shares or the Option Price is adjusted, the Company shall promptly give written notice to each holder of record of the outstanding Options, stating that such an adjustment has been effected and setting forth the number and kind of shares purchasable and the amount of the then-current Option Price, and stating in reasonable detail the facts requiring such adjustment and the calculation of such adjustment.

9. Reorganization And Reclassification. In case of any capital reorganization or any reclassification of the capital stock of the Company while the Options remain outstanding, the holder of the Options shall thereafter be entitled to purchase pursuant to the Options (in lieu of the kind and number of shares of Common Stock comprising Option Shares that such holder would have been entitled to purchase or acquire immediately before such reorganization or reclassification) the kind and number of shares of stock of any class or classes or other securities or property for or into which such shares of Common Stock would have been exchanged, converted, or reclassified if the Option Shares had been purchased immediately before such reorganization or reclassification. In case of any such reorganization or reclassification, appropriate provision (as determined by resolutions of the Board of Directors of the Company) shall be made with respect to the rights and interest thereafter of the holder of the Options, to the end that all the provisions of this Option Agreement (including adjustment provisions) shall thereafter be applicable, as nearly as reasonably practicable, in relation to such stock or other securities or property.

10. Registration Rights. Optionee shall have no registration rights unless otherwise agreed by the Company.

11. Common Stock To Be Received Upon Exercise. Optionee understands that (a) the Company is under no obligation to register the issuance of the Option Shares, and (b) in the absence of any such registration, the Option Shares cannot be sold unless they are sold pursuant to an exemption from registration under the 1933 Act. The Company is under no obligation to comply, or to assist the Optionee in complying, with any exemption from the registration requirement of the 1933 Act, including supplying the Optionee with any information necessary to permit routine sales of the Common Stock under Rule 144 of the Securities and Exchange Commission. Optionee also understands that routine sales of securities made in reliance upon Rule 144 can be made only in limited amounts in accordance with the terms and conditions of the Rule, and that in cases in which the Rule is inapplicable, compliance with another exemption under the 1933 Act will be required. Thus, the Option Shares will have to be held indefinitely in the absence of registration under the 1933 Act or an exemption from registration.

Furthermore, the Optionee fully understands that issuance of the Option Shares will not be registered under the 1933 Act and that, because the issuance of the Option Shares will not be registered, the Option Shares will be issued in reliance upon an exemption which is available only if Optionee acquires such shares for investment and not with a view to distribution. Optionee is familiar with the phrase “acquired for investment and not with a view to distribution” as it relates to the 1933 Act and the special meaning given to such term in various releases of the Securities and Exchange Commission.

12. Privilege Of Ownership. Optionee shall not have any of the rights of a stockholder with respect to the shares covered by the Option except to the extent that one or more certificates for those shares shall be delivered to him upon exercise of the Option.

13. Relationship To Employment. Nothing contained in this Agreement (i) shall confer upon the Optionee any right with respect to continuance of Optionee’s employment by, or affiliation with, or relationship to, the Company, or (ii) shall interfere in any way with the right of the Company at any time to terminate the Optionee’s employment by, position or affiliation with, or relationship to, the Company.

14. Notices. All notices, requests, demands, directions and other communications (“Notices”) concerning this Agreement shall be in writing and shall be mailed or delivered personally or sent by telecopier or facsimile to the applicable party at the address of such party set forth below in this Section 13. When mailed, each such Notice shall be sent by first class, certified mail, return receipt requested, enclosed in a postage prepaid wrapper, and shall be effective on the fifth business day after it has been deposited in the mail. When delivered personal-ly, each such Notice shall be effective when delivered to the address for the respective party set forth in this Section 13, provided that it is delivered on a business day and further provided that it is delivered prior to 5:00 p.m., local time of the party to whom the notice is being delivered, on that business day; otherwise, each such Notice shall be effective on the first business day occurring after the date on which the Notice is delivered. When sent by telecopier or facsimile, each such Notice shall be effective on the day on which it is sent provided that it is sent on a business day and further provided that it is sent prior to 5:00 p.m., local time of the party to whom the Notice is being sent, on that business day; otherwise, each such Notice shall be effective on the first business day occurring after the date on which the Notice is sent. Each Notice shall be addressed to the party to be notified as shown below:

(a) if to the Company: Chembio Diagnostics, Inc.
3661 Horseblock Road
Medford, New York, 11763
Facsimile No. (631) 924-6033
Attention: Larry Siebert

(b) if to the Optionee: _____

Either party may change its respective address for purposes of this Section 13 by giving the other party Notice of the new address in the manner set forth above.

15.General Provisions. This instrument (a) contains the entire agreement between the parties, (b) may not be amended nor may any rights hereunder be waived except by an instrument in writing signed by the party sought to be charged with such amendment or waiver, (c) shall be construed in accordance with, and governed by the laws of New York, and (d) shall be binding upon and shall inure to the benefit of the parties and their respective personal representatives and assigns, except as above set forth. All pronouns contained herein and any variations thereof shall be deemed to refer to the masculine, feminine or neuter, singular or plural as the identity of the parties hereto may require.

IN WITNESS WHEREOF, the parties have executed this Agreement on the dates set forth below to be effective on the date set forth in the first paragraph of this Agreement.

CHEMBIO DIAGNOSTICS, INC.

Date: _____

By: _____

Name and Title

OPTIONEE

Date: _____

Signature

Name and Title

Address

City, State and Zip Code

EXHIBIT A
(To Chembio Diagnostics, Inc.
Stock Option Agreement)

CHEMBIO DIAGNOSTICS, INC.

NOTICE AND AGREEMENT OF EXERCISE OF OPTION

The undersigned, _____ (the "Optionee"), hereby exercises the Optionee's Option pursuant to the Stock Option Agreement (the "Option Agreement") dated as of _____ between Optionee and Chembio Diagnostics, Inc. (the "Company") as to _____ shares of the \$.01 par value common stock (the "Option Shares") of the Company at a purchase price of \$_____ per share. The total exercise price for these Option Shares is \$_____.

Enclosed is the payment specified in Section 4 of the Option Agreement.

The Optionee understands that no Option Shares will be issued unless and until, in the opinion of the Company, there has been full compliance with, or an exemption from, any applicable registration requirements of the Securities Act of 1933, as amended (the "1933 Act"), any applicable listing requirements of any securities exchange on which stock of the same class is then listed, and any other requirements of law or any regulatory bodies having jurisdiction over such issuance and delivery. The undersigned Optionee hereby acknowledges represents warrants and agrees to and with the Company as follows:

- (a) The Optionee is acquiring the Option Shares for investment purposes only and the Option Shares that Optionee is acquiring will be held by Optionee without sale, transfer or other disposition for an indefinite period unless the transfer of those securities is subsequently registered under the federal securities laws or unless exemptions from registration are available;
 - (b) Optionee's overall commitment to investments that are not readily marketable is not disproportionate to Optionee's net worth and Optionee's investment in the Option Shares will not cause such overall commitments to become excessive;
 - (c) Optionee's financial condition is such that Optionee is under no present or contemplated future need to dispose of any portion of the Option Shares to satisfy any existing or contemplated undertaking, need or indebtedness;
 - (d) Optionee has sufficient knowledge and experience in business and financial matters to evaluate, and Optionee has evaluated, the merits and risks of an investment in the Option Shares;
 - (e) The address set forth on the signature page of this Notice is Optionee's true and correct residence, and Optionee has no present intention of becoming a resident of any other state or jurisdiction;
 - (f) Optionee confirms that all documents, records and books pertaining to an investment in the Option Shares that have been requested by Optionee have been made available or delivered to Optionee. Without limiting the foregoing, Optionee has received and reviewed the Company's periodic reports as filed with the Securities and Exchange Commission, and Optionee has had the opportunity to discuss the acquisition of the Option and the Option Shares with the Company, and Optionee has obtained or been given access to all information concerning the Company that Optionee has requested;
-

(g) Optionee has had the opportunity to ask questions of, and receive the answers from, the Company concerning the terms of the investment in the Option Shares and to receive additional information necessary to verify the accuracy of the information delivered to Optionee, to the extent that the Company possesses such information or can acquire it without unreasonable effort or expense;

(h) Optionee understands that the Options have not been, and the Option Shares issuable upon exercise of the Options will not be, registered under the 1933 Act or any state securities laws in reliance on an exemption for private offerings, and no federal or state agency has made any finding or determination as to the fairness of this investment or any recommendation or endorsement of the sale of the Option Shares;

(i) The Option Shares that Optionee is acquiring will be solely for Optionee's own account, for investment, and are not being purchased with a view to or for the resale, distribution, subdivision or fractionalization thereof. Optionee has no agreement or arrangement for any such resale, distribution, subdivision or fractionalization thereof;

(j) Optionee acknowledges and is aware of the following:

(i) The Company has a history of losses. The Option Shares constitute a speculative investment and involve a high degree of risk of loss by Optionee of Optionee's total investment in the Option Shares.

(ii) There are substantial restrictions on the transferability of the Option Shares. The Option Shares cannot be transferred, pledged, hypothecated, sold or otherwise disposed of unless they are registered under the 1933 Act or an exemption from such registration is available and established to the satisfaction of the Company; investors in the Company have no rights to require that the Option Shares be registered; there is no right of presentment of the Option Shares and there is no obligation by the Company to repurchase any of the Option Shares; and, accordingly, Optionee may have to hold the Option Shares indefinitely and it may not be possible for Optionee to liquidate Optionee's investment in the Company.

(iii) Unless the issuance of the Option Shares is registered, each certificate issued representing the Option Shares shall be imprinted with a legend that sets forth a description of the restrictions on transferability of those securities, which legend will read substantially as follows:

"THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "1933 ACT"), AND ARE 'RESTRICTED SECURITIES' AS THAT TERM IS DEFINED IN RULE 144 UNDER THE 1933 ACT. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD OR OTHERWISE TRANSFERRED EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE 1933 ACT, OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE 1933 ACT."

(k) The Optionee shall report all sales of Option Shares to the Company in writing on a form prescribed by the Company;

(l) The Optionee will not sell or dispose of Optionee's Option Shares in violation of the 1933 Act, or of any other applicable federal or state securities laws; and

(m) The Optionee agrees that the Company may, without liability for its good faith actions, place legend restrictions upon Optionee's Option Shares and issue "stop transfer" instructions requiring compliance with applicable securities laws and the terms of the Option Agreement.

(n) If and so long as Optionee is subject to reporting requirements under Section 16(a) of the Securities Exchange Act of 1934, as amended (the "1934 Act"), Optionee recognizes that any sale by Optionee or Optionee's immediate family of the Company's \$.01 par value common stock may create liability for Optionee under Section 16(b) of the 1934 Act ("Section 16(b)"). Therefore, Optionee has consulted with Optionee's counsel regarding the application of Section 16(b) to this exercise of Optionee's Option.

(o) Optionee will consult with Optionee's counsel regarding the application of Section 16(b) before Optionee can make any sale of the Company's \$.01 par value common stock, including the Option Shares, and Optionee will furnish the Company with a copy of each Form 4 filed by Optionee and will timely file all reports that Optionee may be required to file under the federal securities laws.

The number of Option Shares specified above are to be issued in the name or names set forth below in the left-hand column.

(Print Your Name)

Signature of Optionee

(Optionee - Print Name of Spouse
if you wish joint registration)

Address

City, State and Zip Code

Chembio Reports Fourth Quarter and Full-Year 2005 Results

Friday March 31, 8:30 am ET

MEDFORD, N.Y.--(BUSINESS WIRE)--March 31, 2006--Chembio Diagnostics, Inc. (OTCBB:[CEMI](#) - [News](#)) reported fourth-quarter and full-year financial results for 2005.

2005 revenues were \$3.94 million, a 19% increase compared to 2004 revenues of \$3.31 million. For 2005, the net loss attributable to common stockholders was \$6.77 million or \$0.88 per share compared to a net loss attributable to common stockholders of \$5.04 million or \$0.85 per share for 2004. The net loss attributable to common stockholders for 2005 and 2004 includes \$3.52 million and \$1.94 million, respectively in non-cash dividends to preferred stockholders.

Revenues for the fourth quarter of 2005 were \$1.36 million, a 17% increase compared to fourth quarter 2004 revenues of \$1.16 million. The fourth quarter 2005 net loss attributable to common stockholders was \$1.14 million or \$.14 per share compared to a net loss attributable to common stockholders of \$1.47 million or \$.22 per share for the fourth quarter of 2004. The net loss attributable to common stockholders for the fourth quarters of 2005 and 2004 include \$.22 million and \$.58 million, respectively in non-cash dividends to preferred stockholders.

The fourth quarter and full-year revenue growth was attributable to increased sales of the Company's rapid HIV tests. Rapid HIV test revenue for 2005 increased approximately 93% to \$2.40 million as compared to \$1.24 million in 2004. The fourth quarter rapid HIV test revenue increased approximately 63% to \$1.22 million compared to \$.75 million reported for the fourth quarter of 2004. The increases in rapid HIV test revenue well outpaced decreased revenue of approximately \$.44 million (year 2005 compared to 2004) and \$.09 million (fourth quarter 2005 compared to fourth quarter 2004) from the Company's pregnancy tests, which Chembio began de-emphasizing in 2004.

Financial Outlook

The Company believes that sales of its HIV products will continue to increase in 2006 as a result of both the international marketing strategies that were implemented in 2005 and sales to the United States market after anticipated approval from the U.S. Food and Drug Administration (FDA). The Company also expects to generate additional revenues in 2006 from its Chagas STAT-PAK(TM) rapid test. Furthermore, with the commercial release in late 2006 of the PrimaTB STAT-PAK(TM) rapid test, the Company expects to begin generating revenues from that product in early 2007.

On March 30, 2006, the Company sold \$1 million of additional Series B preferred stock to a Series B Preferred shareholder pursuant to provisions of the January 2005 Series B 9% Preferred Stock financing agreements. Such provisions were exclusive to that shareholder. The Company is continuing to pursue additional financing opportunities in order to provide for its longer term financing needs.

Company Highlights

Chembio:

- Was one of four companies selected by the Clinton Foundation HIV/AIDS Initiative (CHAI), to make available rapid HIV tests to be used to detect the infection easily and cost effectively. The CHAI Procurement Consortium is comprised of 50 countries in Africa, Asia, Eastern Europe, Latin America and the Caribbean. The HIV-infected populations in these countries account for three-quarters of the global need for anti-retroviral treatment. It is estimated that, to reach CHAI treatment targets, at least 200 million HIV tests will be necessary over the next four years.
- Applied for FDA approval of SURE CHECK(TM) HIV and HIV 1/2 STAT-PAK(TM) in February of 2005. A pre-approval inspection of the Company's facility was conducted by the FDA in September 2005.
- Established offices in Nigeria and Tanzania in order to further its goal of becoming part of the national HIV testing protocols in many countries in Africa.
- Had its HIV 1/2 STAT-PAK(TM) designated as the confirmatory test in all of the national rapid HIV testing protocols in the Republic of Uganda and designated in four of the eight parallel testing algorithms adopted by the Nigerian Ministry of Health.
- Received and shipped purchase orders for 704,000 units from the Brazilian government for the Company's rapid HIV tests. The orders were part of a 13-year technology transfer, supply and license agreement.
- Received its first significant order for the Chagas STAT-PAK(TM) rapid test, in the amount of \$1.2 million, which is expected to ship in the first half of 2006.

"We expect 2006 to be a landmark year for Chembio Diagnostics," said Lawrence Siebert, President and CEO. "We have made substantial progress toward FDA approval of our SURE CHECK HIV and HIV 1/2 STAT-PAK products and we believe that we have met the requirements of a Pre-Marketing Approval (PMA) application. Such an approval will allow us to enter the U.S. market and also begin market studies for the over-the-counter market, which may become available in the U.S. as a result of recent recommendations for regulatory changes. The White House's 2007 budget requested \$90 million to test an additional three million Americans using rapid HIV tests. Internationally, total market demand for several hundred million tests is expected over the next several years as funding increases continue from the United States and various other programs that are aimed at combating AIDS."

Mr. Siebert further stated, "We also would like to thank both our shareholders for the confidence that they have expressed in Chembio during this past year and our employees for their dedication and hard work."

Chembio Diagnostics, Inc.**Summary of Results of Operations**

	For the Year 2005	For the Year 2004	Fourth Quarter 2005	Fourth Quarter 2004
Total Revenues	\$ 3,940,730	\$ 3,305,932	\$ 1,358,443	\$ 1,159,309
Gross Profit	1,332,146	704,085	520,607	415,864
Operating Loss	(3,297,987)	(3,103,362)	(947,170)	(851,533)
Net Loss	(3,252,000)	3,098,891	(923,366)	(893,273)
Preferred Dividends	3,517,022	1,943,073	217,826	578,089
Net Loss Attributable to Common Stockholders	\$ (6,769,022)	\$ (5,041,964)	\$ (1,141,192)	\$ (1,471,362)
Loss per share	\$ (0.88)	\$ (0.85)	\$ (0.14)	\$ (0.22)

ABOUT CHEMBIO

Chembio Diagnostics, Inc. possesses expertise in the development and manufacturing of rapid diagnostic tests for various infectious diseases. Chembio is participating in the frontlines of the global battle against the devastating AIDS pandemic. This battle, to which the United States alone has pledged \$15 billion in international aid, is the impetus behind Chembio's rapid HIV tests. Because rapid tests can detect HIV antibodies within minutes, the massive prevention and treatment programs that are now scaling up can be much more effective. The Company also manufactures additional rapid tests that it has developed for other deadly diseases, including human and veterinary Tuberculosis and Chagas Disease. References to Chembio Diagnostics, Inc. may actually refer to Chembio Diagnostic Systems, Inc., the wholly owned subsidiary of Chembio Diagnostics, Inc. Chembio is located at 3661 Horseblock Road, Medford, NY 11763. For additional information please visit www.chembio.com.

FORWARD-LOOKING STATEMENTS

Statements contained herein that are not historical facts may be forward-looking statements within the meaning of the Securities Act of 1933, as amended. Forward-looking statements include statements regarding the intent, belief or current expectations of the Company and its management. Such statements are estimates only, as the Company has not completed the preparation of its financial statements for those periods, nor has its auditor completed the audit of those results. Actual revenue may differ materially from those anticipated in this press release. Such statements reflect management's current views, are based on certain assumptions and involve risks and uncertainties. Actual results, events, or performance may differ materially from the above forward-looking statements due to a number of important factors, and will be dependent upon a variety of factors, including, but not limited to Chembio's ability to obtain additional financing, to obtain regulatory approvals in a timely manner, and the demand for Chembio's products. Chembio undertakes no obligation to publicly update these forward-looking statements to reflect events or circumstances that occur after the date hereof or to reflect any change in Chembio's expectations with regard to these forward-looking statements or the occurrence of unanticipated events. Factors that may impact Chembio's success are more fully disclosed in Chembio's most recent public filings with the U.S. Securities and Exchange Commission.

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Chembio Appoints Distributor and Receives Approval for its Rapid HIV Tests in Kenya

Monday March 27, 9:30 am ET

MEDFORD, N.Y.--(BUSINESS WIRE)--March 27, 2006--Chembio Diagnostics, Inc.'s (OTCBB:[CEMI](#) - [News](#)) HIV 1/2 STAT-PAK(TM) and HIV 1/2 STAT-PAK(TM) Dipstick tests have been evaluated and recommended for use in Kenya. Both tests were evaluated by the National AIDS/STD Control Programme of the Kenyan Ministry of Health and met their sensitivity and specificity requirements. The approval allows Chembio to begin selling its products in the country.

Kenya has a population of approximately 34 million of which an estimated 1.2 million are infected with HIV. Under the President's \$15 billion Emergency Plan for AIDS Relief (PEPFAR), the U.S. government plans to provide Kenya with \$208 million in 2006 to support Kenya's fight against HIV/AIDS. This will include a significant scale-up of rapid testing programs.

Chembio has also appointed SAI Pharmaceuticals Ltd. to distribute its rapid HIV tests in Kenya. SAI is a pharmaceutical and diagnostic marketing company located in Nairobi, Kenya. The company is registered with the Kenyan Ministry of Health to import, market and distribute medical products. SAI has independent marketing teams of well-trained managers and medical representatives involved in promotion of its broad range of products throughout the country. SAI directly supplies most of the hospitals and institutions throughout Kenya including the Kenyan government. For additional information please visit www.saipharm.com.

Kenya is one of 50 countries worldwide that is part of the Clinton HIV/AIDS Initiative Procurement Consortium. Chembio was recently selected by the Clinton HIV/AIDS Initiative (CHAI) as one of four recommended global suppliers of rapid HIV tests to these countries pursuant to the Memoranda of Understanding (MOU) CHAI has with them. For additional information please visit www.clintonfoundation.org.

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